

*Targeted Community Reinvestment:
HUD's Section 108 Loan Guarantee Program as a Financing Tool*

Program Design & Application Process Part 2 of 2

June, 2016



Panelists

- Hugh Allen, Deputy Director
- Bennett Hilley, Assistant Director
- Shahidat Abbas, CPD Specialist
- Jorge Morales, CPD Specialist
- Tracey Nichols, City of Cleveland
- Ed Basch, State of Iowa



A dark, atmospheric photograph of the Cleveland skyline at night, featuring prominent skyscrapers like the Terminal Tower. The image is dimly lit, with the city lights providing a subtle glow against the dark sky.

Case Study – City of Cleveland

Tracey Nichols
Director, Department of Economic Development

The City of Cleveland

Department of Economic Development

Using HUD 108 for Job Creation and Economic Inclusion

January 2016



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Setting up a HUD 108 Program



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- If you already originate loans—nothing to add
- If this is new to you, you'll need
 - Staff to underwrite loans—finance background
 - Underwriting Guidelines for staff
 - A Lawyer to complete documents between you and HUD and you and the Borrower
 - A Loan Committee (volunteers—bankers, business persons, accountants)
 - Staff to bill for the loans & wire payments to HUD

Setting Up A HUD 108 Program



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- Your HUD office should be able to connect you with a Community with a successful program
- Borrow their documents, get their Loan Committee makeup, pick their brains!
- Once you have a strategy & guidelines
 - Talk to your elected officials about what these funds could do to help your community
 - Explain how you will make sure they can be paid back with no impact to CDBG

City NRSA Strategy



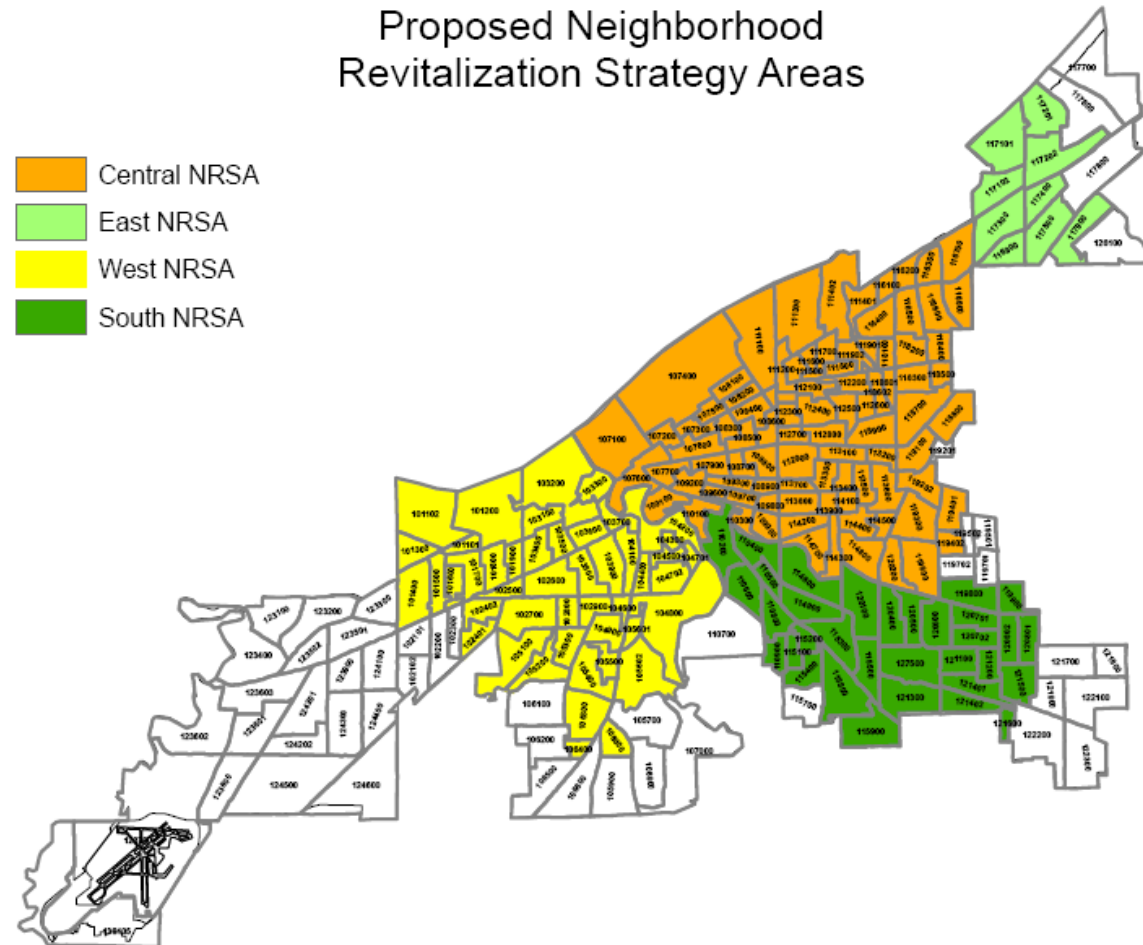
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- Three Prong HUD NRSA Strategy:
 - Evergreen Cooperatives
 - Working with non-profit partner, Cleveland Foundation
 - Addresses socio-economic benefit for the most distressed areas and populations (ex-felons)
 - Supporting Existing Small Businesses with Storefront and Economic Development Lending
 - Health-Tech Corridor Attraction
 - Public Private Partnership of Universities, Hospitals, Businesses, Community Development Corporations and Philanthropy
 - Working together to bring in businesses
 - Multiple Success Stories
 - Now formally branded, marketed and staffed

Neighborhood Revitalization Strategy Areas



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Projects



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- It's harder to get banks to invest in these neighborhoods
- Strong public-private partnership supports City efforts
- HUD 108, New Markets Tax Credits help overcome obstacles to financing
- Take advantage of vacant & underutilized land in close proximity to Anchor Institutions
- Creation of "post-incubator" space to retain and attract emerging companies

Using HUD 108 in the NRSA Strategy



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- HUD 108 MUST be paid back to the Federal Government
- Needs to be highly secured
 - Debt Reserve using HUD 108
 - Guaranty of high net worth individual
 - Positive Arbitrage (Charge more interest than you owe to HUD)
 - Use a TIF Debt Reserve
- Doing several low-risk projects allows us to take more risk on a few economic inclusion projects



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Strong Projects

- Personal Guaranties from High Net Worth Individuals
- Strong Collateral
- TIF Debt Reserves
- Positive Arbitrage on interest rates
- Accumulates a Reserve Fund that allows us to do economic inclusion projects with higher risk, ie start-ups, cooperatives, etc

Dunham Square LLC dba Midtown Technology Center



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Dunham Square LLC dba Midtown Technology Center



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- Funded in 2009
- 128,000 sq ft Flex space to support 7 Incubators at capacity
- 150 New Jobs to be created—Currently at 245 jobs!
- Part of the Health-Tech Corridor
- HUD 108 Leveraged NMTC
- No bank financing available—City and State only

Dunham Square LLC dba Midtown Technology Center



\$10,700,000 HUD 108 (EZ)

\$ 240,000 City of Cleveland Vacant
Property Forgivable Loan

\$ 4,153,500 New Market Tax Credit Equity

\$ 1,600,000 Equity

\$16,693,500 Total Project

- Debt reserve funded by HUD 108 for HUD 108 is \$321,000
- TIF Debt reserve is estimated at \$154,000 per year (cumulative)
- Personal Guaranty of Developer
- City charging .2% additional interest

Economic Inclusion Projects



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- Finding funding to address issues such as jobs for the formerly incarcerated & that provide a path to prosperity
- Helping keep companies in a neighborhood, rather than chasing the next incentive
- Often these projects are higher risk and HUD 108 can only fund with a strong reserve fund
- Still use a HUD 108 Debt Reserve, TIF Debt Reserve & Interest Rate Arbitrage to create a growing reserve

Evergreen Cooperative Laundry-

Funded 8-12-09



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- Leveraged:
 - \$1,500,000 HUD 108
 - \$750,000 Shorebank
 - \$1,326,500 Evergreen Fund
- New Market Tax Credits:
 - \$1,753,500 Equity
- Non-Leveraged:
 - \$250,000 Commonwealth RLF Fund
 - \$200,000 EDA Title IX Working Capital
 - \$173,500 Shorebank Enterprises



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Evergreen Cooperative Laundry

- 29 Jobs Created
- 90 % Minority
- 44 % Empowerment Zone
- 62 % Formerly Incarcerated
- Section 3 over 60%
- "Green" - Environmentally friendly laundry



HUD 108



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- HUD 108 has helped us to stimulate investment
- HUD 108 leverages private investment—we need less HUD 108 per project since the recession
- Processing time is longer than most loans & you must educate the borrower on 106 review, Section 3 and Federal Prevailing Wages
- Sell HUD 108 with its flexibility and low interest rate Example—you could provide subordinated debt with 3 years interest only, which could help a developer complete a project
- Used with an NRSA cuts down on paperwork

City of Cleveland

Tracey Nichols

Director

Dept. of Economic Development

(216) 664-3611

tnichols2@city.cleveland.oh.us



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A wide-angle, high-angle shot of a large industrial factory floor. In the foreground, a worker in a blue uniform is pushing a metal cart loaded with components. The floor is marked with green lines. In the background, several workers are seated at workstations with computers. A sign on the wall reads "SMT P2 Siemens". The overall scene depicts a busy manufacturing environment.

Loan Fund – Application Process

Remember our considerations for the individual project applications...

1. Community Strategy—*What are the community's needs?*
2. Organizational Arrangements—*Who is responsible?*
3. Approach to Using 108—*At what scale?*
 - *Project Specific*
 - *Loan Fund*



What you should consider before launching a loan fund with Section 108

4. Marketing and Outreach—*What's the strategy?*

5. Selection and Evaluation—*What's the process?*

6. Fund Management—*What's the plan? (short-term and long-term) How are you going to ensure compliance?*



Marketing and Outreach

Loan Fund Marketing Considerations:

- How are you going to market to potential borrowers? How will you get the word out about the fund?
- Will you need to release a Request for Proposals or Request for Applications?
- Identify existing community efforts that could benefit from Section 108 financing or other partnership opportunities



Selection and Evaluation

- How will projects be screened and by whom?
- What selection criteria will be used?
 - *Meet community priorities*
 - *Overall project feasibility—e.g. are all financing sources committed?*
 - *Ability to repay*
 - *Compliance with HUD requirements*
- What underwriting standards will be used? Who will conduct the underwriting?



Fund Management

- Have you developed policies and procedures yet to administer the fund?
- Do you have a long-term management plan for tracking your loan portfolio, ensuring timely payments, reporting outcomes, and monitoring for compliance?

Remember: Program requirements extend beyond initial financing of the project/program



Fund Management

Policies and Procedures:

- Internal application process
- Project selection criteria and approval
- Underwriting process and criteria
- Financial management
- Risk assessment and monitoring
- Reporting (IDIS)



Fund Management

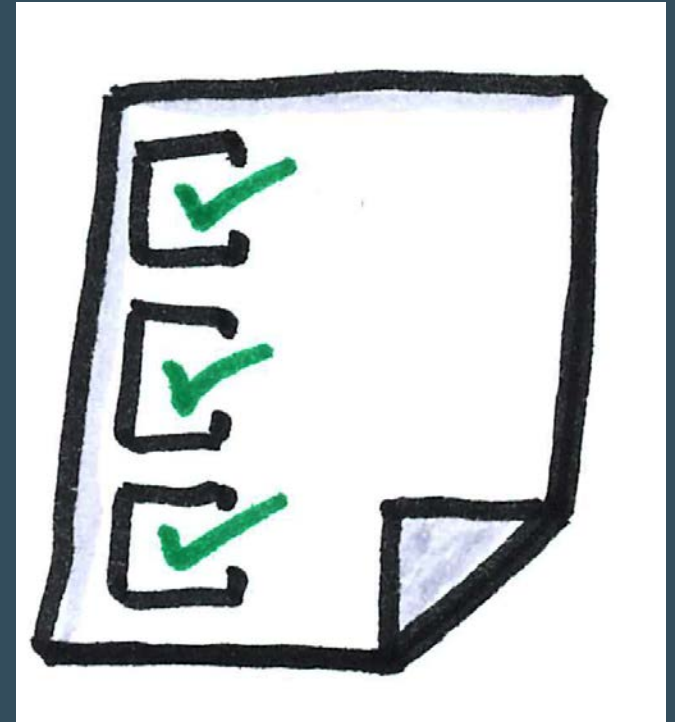
What Tools and Templates will you need?

- **Program Management**

- Examples:
 - Application for 3rd party borrowers
 - Commitment letters
 - Loan closing documentation

- **Recordkeeping**

- Examples:
 - File checklists (to ensure compliance)
 - Monitoring checklists



Fund Management

Financial Management

- Internal tracking systems such as:
 - Servicing system for your loan portfolio
 - System for tracking payment of property taxes on 3rd party assets, as applicable

What resource guidance exists that you can use for your loan fund?

- Other Grantees/Borrowers with existing community and economic development programs
- HUD field office staff and HQ staff
- HUD Exchange Website
- Partners with lending experience



Loan Fund Application Process

- ✓ Step 1: Determine the purpose/focus of the fund based on community strategy
- ✓ Step 2: Identify eligible activities and target areas
- ✓ Step 3: Complete citizen participation process and local reviews
- ✓ Step 4: Application submission & HUD approval
- ✓ Step 5: Complete citizen participation process and receive HUD Eligibility Determination for each individual transaction



Loan Fund Application Contents

- Loan Fund Description (including the funding amount and community development objectives)
- Eligible Activities (including citation)
- CDBG National Objective(s) (including citation)
- If applicable, Public Benefit Standard information
- Administrative Capacity/Identification of Partners
- Description of Underwriting Process and Criteria
- Loan Terms
- Pipeline of Potential Projects (highly encouraged)
- Collateral for Section 108 financing
- Repayment Schedule
- Certifications



Eligibility Determination Process

Submit the following information to your field office about each individual transaction under the Loan Fund:

- Project Description
- Eligible Activity or activities
- National Objective
- If applicable, Public Benefit Standard information



A nighttime photograph of a city skyline, likely Iowa City, featuring several illuminated skyscrapers and a prominent bridge structure in the foreground. The sky is dark, and the city lights are visible through the building windows and streetlights.

Case Study – State of Iowa

HUD Section 108 Loan Guarantee Program
**Iowa Community Revitalization
and
Economic Enhancement (R&E)
Loan Fund**

Section 108: The Community Revitalization & Economic Enhancement Program

- » \$40M available in lending capacity over the next 5 years; annual CDBG allotment of about \$21,500,000
- » Applicants must be a unit of general local government (municipality or county)
- » For small cities & non-urban counties only (entitlement communities are not eligible)
- » Facilitates capital for larger and more comprehensive, impactful projects
- » Addresses unmet community needs that existing resources are not, especially housing



Section 108: The Community Revitalization & Economic Enhancement Program

- » 2012 statewide housing study identified an increased need for affordable housing
- » Iowa's aging housing stock is a major contributor to the affordable housing shortage
- » Resulted in R&E program's primary focus on housing rehabilitation and adaptive reuse



Section 108: The Community Revitalization & Economic Enhancement Program

R & E Programs	Est. of Financing	% of Loan
Adaptive Conversion or Reuse of Presently Vacant or Underutilized Commercial or Industrial Buildings	\$20,000,000	50%
Rehabilitation/Reconstruction/Conversion of Buildings to Provide Mixed Use Residential Units	\$10,000,000	25%
Gut Rehabilitation of Vacant and Unoccupiable Single Family Residential Units and/or Demolition of Blighted, Vacant Single Family Residential Units	\$2,400,000	6%
Economic Development Resulting in Substantial Private Investment and Job Creation/Retention	\$7,600,000	19%
	\$40,000,000	100%

Section 108: The Community Revitalization & Economic Enhancement Program

- » 81% of the R&E Program financing is expected to serve affordable housing projects
- » 19% of the R&E financing will serve economic development projects (expected to create at least 380 new jobs)

R&E Program Objectives

- » Relatively large dollar and large impact projects aimed at economic development through a business location or expansion and job creation
- » Larger scale adaptive reuse or conversion of vacant or underutilized buildings for residential purposes
- » Consolidated rehabilitation of groups of upper story residential units in a single market encouraging mixed-use or upper story development
- » Availability of affordable single-family housing units and/or remediation of blighted, vacant single family housing units



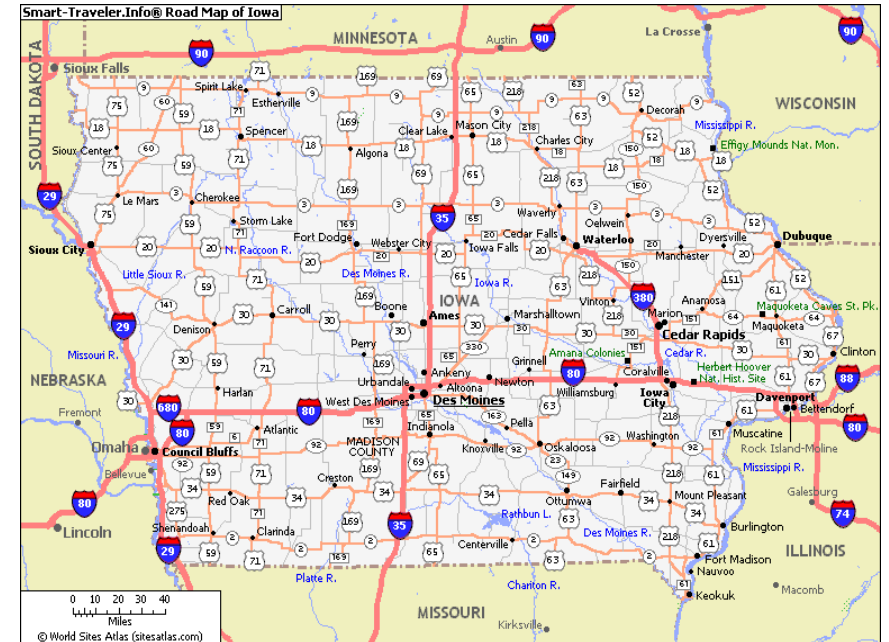
R&E Activities



- » Direct Business Loans Targeted for larger scale / larger impact industrial or commercial uses
- » Adaptive Reuse or Conversion Projects (For Residential Purposes)
- » Upper Story Residential Rehabilitation in Mixed-Use structures
- » Rehabilitation and/or demolition of vacant single-family residential units

R&E Application Process

- » Applications will be reviewed on a first-come, first-serve basis
- » Awards will be made until all funds are committed
- » All funds will be distributed within 5 years
- » Loan terms intended to be 7 to 15 years, depending upon program component chosen



R&E Application Process

- » A meeting is required between the UGLG and IEDA prior to submitting an application
- » IEDA review team will complete the underwriting and present the project recommendations to the HUD for eligibility determination



Contacts

Ms. Leslie Leager

Division Coordinator Manager
IEDA

leslie.leager@iowa.gov

Ms. Nichole Hansen

Comm. Inv. Team Leader
IEDA

nichole.hansen@iowa.gov

Mr. Ed Basch

Project Manager
IEDA

ed.basch@iowa.gov



A hand holding a pen over a document, with a blurred background of a person's head.

Wrap-Up & Next Steps

Next Steps: Upcoming Trainings/Tools

- **Check out the 1st & 3rd webinars in this series:**
 - Section 108 Program Overview
 - Overview of New Underwriting Manuals
- **Look out for our new Section 108 Credit Underwriting Documents**
 - Real Estate Projects
 - Business Loans
- **Contact us by email at:** section108loanguarantee@hud.gov
- **Go to our website for tons of other materials, including profiles of recently funded projects:**
<https://www.hudexchange.info/programs/section-108/>

