

Large Enterprise Business Case Study: 84 Lumber



Exterior view of 84 Lumber.

Location: Eighty Four, Pennsylvania

Year of Section 108 Guaranteed Loan Closing: 2011

Key Numbers

\$20 million in Section 108 guaranteed loans

\$45 million in refinanced debt

422 jobs retained or created

Partners

84 Lumber: Assisted business

Commonwealth of Pennsylvania: Borrower of \$15 million in Section 108 guaranteed funds on behalf of Fayette County

Fayette County: Provided the Section 108 assistance to 84 Lumber

Washington County: Borrower of \$5 million in Section 108 funds and provided 108 Loan to 84 Lumber

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Project Description

Pennsylvania and Fayette County provided \$15 million in Section 108 guaranteed loan funds to 84 Lumber, a large building materials and services supplier with locations spanning the United States. Coupled with an additional \$5 million Section 108 guaranteed loan from Washington County, the loan proceeds helped 84 Lumber pay off high-cost debt that was crippling the company's ability to recover from the recession.

Founded in 1956 in Eighty Four, Pennsylvania, 84 Lumber rapidly expanded across the country, transforming from a no-frills "cash and carry" lumberyard to upgraded stores offering a multitude of building materials and professional services. The company boasted 10,000 jobs at its height in 2006. As the housing market crashed in 2009, the company struggled to survive by selling off real estate, closing 200 of its original 319 stores, and eliminating nearly two-thirds of its workforce. To survive the economic downturn, 84 Lumber took out a \$195 million loan from Cerberus Capital Management, which it paid down to \$45 million by closing stores and selling land. With an interest rate of 18% and a covenant that prohibited the company from using proceeds from real estate sales for working capital, 84 Lumber lacked the necessary cash flow to invest in operations to climb out of the recession. 84 Lumber turned to Washington County and the Pennsylvania in a last-attempt effort to stay in business. The Section 108 program's flexibility and low interest rates helped 84 Lumber pay off its high-interest debt and begin to recover. The remainder of the outstanding debt was paid off with a private loan that was contingent on the Section 108 loan approval and private equity. Finally, 84 Lumber could cease closing stores and begin to grow again, providing quality jobs and supplies to help Pennsylvania, and the rest of the country, rebuild.

Loan Features

As a rural area, Fayette County does not receive its own allocation of Community Development Block Grant (CDBG) funds. Instead, Fayette County had to seek funding through Pennsylvania, which provided \$15 million to the County to make the loan to a new ownership entity set up by 84 Lumber to receive the Section 108 funds. Washington County, a CDBG Entitlement Urban County (receives an annual allocation), directly lent the company an additional \$5 million in Section 108 funds.

Both loans have a 17-year loan term, with two years of interest-only payments. The interest rate is based on the three-month London Interbank Offering Rate (LIBOR). The loans were fully collateralized by first lien security interests in properties with appraised values totaling over \$30,000,000. The Commonwealth's loan to 84 Lumber included a 2% spread and the company paid a \$112,500 loan commitment fee. Half of the 2% spread will be returned to 84 Lumber Company after the entire loan has been paid off. The company makes semi-annual loan payments.

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Sources and Uses

SOURCES:		USES:	
HUD 108: Pennsylvania & Fayette County	\$15,000,000	Refinance Existing Debt	\$35,000,000
HUD 108: Washington County	5,000,000	Working Capital	10,000,000
Private Loan	20,000,000		
Private Equity	5,000,000		
TOTAL	\$45,000,000	TOTAL	\$45,000,000

Community Benefit

84 Lumber will retain and create jobs in both urban and rural areas throughout Pennsylvania. Per Department of Housing and Urban Development (HUD) regulations, the company documented that at least 51% of the jobs were available to and held by low- and moderate-income (LMI) persons. To ensure this, at the time of loan approval, 84 Lumber entered into a First Source Contract with the Pennsylvania Department of Labor.

For the Washington County portion of the loan, 84 Lumber committed to retain 157 jobs specifically in Washington County, and as of a job report from 2014 had successfully achieved this number. For Pennsylvania's portion, the company committed to retain 184 jobs and create 81 new jobs in urban and rural Pennsylvania (within the Commonwealth's non-entitlement areas). In 2013, 84 Lumber had retained 184 jobs and created 84 jobs in the non-entitlement areas. Along with job creation and retention in Pennsylvania, the project brought financial stability to 84 Lumber, enabling the company to grow and provide jobs in communities across the country.

Why 108?

In 2010, the year that 84 Lumber applied for Section 108 funds, frozen credit markets hindered the company's ability to restructure their debt in the private market. As a result, the company turned to the Section 108 program because of the program's low interest rates and flexible repayment terms, including allowing for periods of interest-only payments. This enabled the company to transition into profitability as the housing market improved and sales subsequently grew. Pennsylvania, Fayette County, and Washington County each saw 84 Lumber as an important player in their local economies, a high-quality employer, and as a provider of materials and services that was needed for growing the region's housing supply.

Lessons Learned: Key Takeaways

- Collaboration and frequent communication between the Pennsylvania, Fayette County, Washington County, and the private lender was integral to the project's success.
- The Commonwealth's willingness to provide a large loan to a small, rural community was key to the turnaround of the company.

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Learn More

[Section 108 Guaranteed Loan Program Overview](#)

HUD Section 108 Eligibility:

National Objective: Activities benefiting low- and moderate-income persons, through job creation or retention activities under [24 CFR 570.208\(a\)\(4\)\(ii\)\(B\)](#).

Eligible Activity: Provision of assistance to a for-profit business under [24 CFR 570.703\(i\)\(1\)](#), pursuant to [24 CFR 570.203\(b\)](#).

Public Benefit Standard: Meets the one job per \$50,000 requirement by creating or retaining 422 full time jobs for \$20,000,000 in 108 Funds.