

Resources and assistance to support HUD's community partners



HUD EXCHANGE

Section 108 Loan Guarantee Program

The Section 108 Loan Guarantee Program (Section 108) provides Community Development Block Grant (CDBG) recipients with the ability to leverage their annual grant allocation to access low-cost, flexible financing for economic development, housing, public facility, and infrastructure projects.

[Learn about Section 108](#)

About the Section 108 Loan Guarantee Program

Use this page to learn about the Section 108 Loan Guarantee Program.

Section 108 Loan Guarantee Program Overview

The Section 108 Loan Guarantee Program (Section 108) provides communities with a source of low-cost, long-term financing for economic and community development projects. Section 108 financing provides an avenue for communities to undertake larger, more costly projects, where they may have limited resources to invest in upfront.

Section 108 can fund economic development, housing, public facilities, infrastructure, and other physical development projects, including improvements to increase their resilience against natural disasters. This flexibility of uses makes it one of the most potent and important public investment tools that HUD offers to states and local governments.

Section 108 assistance can be deployed in two ways:

- Directly by the community or its governmental or non-profit partner to carry out an eligible project, or
- Indirectly with a community or its partner re-lending (or, in limited circumstances, granting) the funds to a developer or business to undertake an eligible project

The program is authorized under Section 108 of the Housing and Community Development Act of 1974 as the loan guarantee component of the [Community Development Block Grant \(CDBG\) Program](#). The specific regulations governing the Section 108 Program may be found at [24 CFR 570](#), Subpart M, Loan Guarantees.

Purpose of the Section 108 Program

The program allows local governments to leverage portions of their CDBG funds into federally guaranteed loans large enough to pursue physical and economic revitalization projects capable of redeveloping entire neighborhoods. Such public investment is often needed to inspire private economic activity, providing the initial resources or simply the confidence that private firms and individuals may need to invest in distressed areas. Local governments borrowing funds guaranteed by HUD through the Section 108 Program must pledge their current and future CDBG allocations as security for the loan, however, the goal of the program is for projects to have sufficient cash flow to repay the loan without any need for current or future CDBG contributions.

The [2018-2022 HUD Strategic Plan](#) goals target the Section 108 Program to implement two very important goals:

Goal 2B: Meet the Need for Quality Affordable Rental Homes: Expand the supply of affordable rental homes where they are most needed

Goal 4A: Build Inclusive and Sustainable Communities Free From Discrimination: Catalyze economic development and job creation, while enhancing and preserving community assets

How the Section 108 Program Works

Local urban or state governments have direct access to the Section 108 Program. Smaller units of local government can get access through the state. The Section 108 Program is typically used to fill a gap in the financing for larger development projects. Section 108 also often provides the security necessary to catalyze investment from private lenders.

Depending on the type of project, the borrower has two basic options for using the loan funds:

- Re-loan the funds to a third party business or developer, known as third party loans
- Directly, or through a sub-recipient partner, expend the funds on the project. Subrecipient partners can be non-profits or public agencies who help design and manage the project on behalf of the local government

The borrower will be required to secure the loan by pledging current and future CDBG allocations to repay and secure the loan. In addition, the borrower will be required to pledge additional security for the loan. Additional security may include property liens, tax increment revenue, or other collateral. HUD is flexible and will work with local governments to identify proper collateral, including accepting a subordinated position behind the primary lender.

Section 108 Eligibility Requirements

Eligible Applicants (24 CFR 570.702)

Eligible applicants include the following public entities:

- States
- Metropolitan cities and urban counties (i.e., CDBG entitlement recipients)
- Non-entitlement communities that are assisted in the submission of applications by States that administer the CDBG Program
- Non-entitlement communities eligible to receive CDBG funds under the HUD-Administered Small Cities CDBG Program (Hawaii). The public entity may be the borrower or it may designate a public agency partner as the borrower

Eligible Section 108 Projects (24 CFR 570.703)

For purposes of determining eligibility, the CDBG rules and requirements also apply. All projects and activities must either principally benefit low- and moderate-income persons, aid in the elimination or prevention of slums and blight, or meet urgent needs of the community.

Activities eligible under Section 108 include:

- Acquisition of real property
- Rehabilitation of publicly owned real property
- Housing rehabilitation eligible under CDBG
- Construction, reconstruction, or installation of public facilities (including street, sidewalk, and other site improvements)
- Related relocation, clearance, and site improvements
- Loan to for-profit businesses for economic development purposes
- Payment of interest on the guaranteed loan and issuance costs of public offerings
- Debt service reserves
- Finance fees
- Public works and site improvements in colonias
- In limited circumstances, affordable housing construction

Financing Infrastructure with Section 108 Loans

Section 108 loans may be used to finance the construction, reconstruction, or installation of public facilities including street, sidewalk, and other site improvements that are part of the overall project. The funds can also be used for related relocation, clearance or site improvements.

Disaster Recovery or Resilience

Section 108 loans are generally used for economic and community development projects but may be used for long-term recovery or to prevent future damage from natural disasters. Example

resilience projects with Section 108 funds include waterfront fortification, green infrastructure improvements, rehabilitation, etc. Borrowers should note that Section 108 financing cannot be used to duplicate funding available from the Federal Emergency Management Agency (FEMA), the Small Business Administration, and U.S. Army Corps of Engineers (USACE). However, Section 108 loans can be used to match FEMA grants to rebuild for recovery or future resilience.

Administration of Section 108 Loans

The borrower's cost of administering a Section 108 loan can be allocated to the CDBG administration cap of 20 percent, or the costs can be included as an activity delivery cost in carrying out the project. For example, if a borrower's employees underwrite economic development loans that are to be made with Section 108 funds, the portion of their salaries spent on this function can be treated as costs of carrying out the activity. This is important because these costs are not subject to the limitation on the use of CDBG funds to pay planning and administrative costs.

Projects NOT eligible for 108 Loans (24 CFR 570.207(a))

Projects funded with Section 108 loans must meet basic CDBG Program criteria, including meeting a national objective and public benefits standards. Projects are also subject to compliance with all other local, state, or federal regulations including crosscutting regulations.

There are some activities eligible under CDBG that are not eligible for Section 108, such as public services.

Projects that are not CDBG eligible and are thus not eligible for Section 108 loans include the following:

- Projects where the public benefits standards have been triggered (often for economic development projects) and where a sufficient level of public benefit is not achieved are ineligible.
- Buildings used for the conduct of government are also ineligible even if they are to be funded as a commercial enterprise. For example, even though office buildings may be eligible in general as an economic development activity, an office building that will house a City Hall is not acceptable.
- Projects that do not meet a national objective are not eligible. It is important to remember that while development of a high tech manufacturing facility may be an eligible special economic development activity, it cannot be funded unless it also meets a national objective.
- All other projects deemed ineligible under 24 CFR 570.207(a) cannot be undertaken as a large-scale development project.

Micro Enterprises (24 CFR 570.201(o))

The formation and operation of small businesses, including incubators and micro enterprises are not eligible for funding with Section 108 loans. However, a small business, incubator, or micro enterprise may apply for guaranteed loan funds for eligible projects.

Source of Section 108 Loans

Section 108 obligations are financed through underwritten public offerings. Financing between public offerings is provided through an interim lending facility established by HUD.

Public Offerings

When HUD schedules a Section 108 public offering, state and local government borrowers may request to participate and receive long-term, fixed rate financing for approved community and economic development projects. Section 108 borrowers with interim loans will be able to convert variable rate financing to permanent fixed rate financing. In addition, borrowers that participated in prior public offerings may refinance their loans.

Section 108 Loan Requirements and Underwriting (24 CFR 570.704-705)

Maximum commitment amounts

Section 108 loan commitments are limited as follows:

- **Entitlement public entities.** An entitlement public entity may apply for up to five times its latest approved CDBG entitlement amount, minus any outstanding Section 108 commitments and/or principal balances on Section 108 loans.
- **State-assisted public entities.** A non-entitlement public entity may apply for up to five times the latest approved CDBG amount received by its state, minus any outstanding Section 108 commitments and/or principal balances on Section 108 loans for which the state has pledged its CDBG funds as security.
- **Non-entitlement public entities eligible under the HUD administered Small Cities Program.** Generally, the maximum commitment amount is up to five times the latest approved CDBG amount received by the state, minus any outstanding Section 108 commitments and/or principal balances on Section 108 loans for which the state has pledged its CDBG funds as security.

Section 108 Loan Security

The principal security for the loan guarantee is a pledge by the applicant public entity or the state (in the case of a non-entitlement public entity) of its current and future CDBG funds. Additional security is required to secure the guaranteed obligations if CDBG funds are unavailable. HUD accepts many forms of collateral including (but not limited to) liens on real and personal property, personal/corporate guaranties, pledges of revenues, tax increments and non-tax

revenues. HUD will work with the borrower to identify an appropriate form of additional collateral.

Section 108 Loan Guarantee Program Underwriting Requirements

Section 108 loans are evaluated on several levels. Once it is determined that the project meets programmatic requirements, including compliance with national objectives criteria and other applicable federal requirements, there are two further levels of underwriting. First, economic development projects must demonstrate a sufficient public benefit in return for the CDBG investment and, in some cases, must comply with the underwriting guidelines in Appendix A to 24 CFR part 570. Second, where Section 108 funds are used to make loans to third parties, HUD must approve credit underwriting criteria to determine if the loan meets HUD's credit risk requirements.

Public Benefits Standards

HUD regulations require that economic development projects must demonstrate a sufficient benefit in return for the Section 108 investment. There are established guidelines to demonstrate sufficient benefit that calculate the number of jobs that should be created for the amount of Section 108 financing in the project. HUD does allow for alternative demonstrations of public benefit on a case by case basis.

Public Funds Underwriting Guidelines

The underwriting process for public funds evaluates the suitability of using public funds in a specific way for a specific project. The process ensures that public funds are not substituting for other financing sources and that the project is not being overly subsidized. HUD has provided underwriting guidance in 24 CFR Appendix A to Part 570. The objectives of the underwriting guidelines are to ensure:

- Project costs are reasonable;
- All financing is committed – public funds will not be wasted on a project not implemented;
- The Section 108 funds are essential to the project – not substituting for private financing;
- The project is financially feasible – the anticipated public benefits will materialize;
- Return on equity is reasonable – the minimum amount of public funds is being invested; and
- Section 108 funds are disbursed on a pro rata basis – not before other financing sources.

[See 24 CFR Appendix A to Part 570 - Guidelines and Objectives for Evaluating Project Costs and Financial Requirements](#)

Third Party Loan Underwriting Guidelines

HUD provides [third party underwriting guidelines](#) to assist Section 108 applicants in deciding if a proposed third party loan is an acceptable credit risk and if the proposed collateral meets HUD's security requirements. The Underwriting Guidelines address two types of loans:

- Economic Development Loans Secured by Real Estate
- Business Credit Loans Secured by Machinery, Equipment, Receivables or Inventory

The third party loan underwriting process seeks to answer the following questions for both types of loans:

- Is there a market demand for the goods or services to be provided by the project?
- Is the project ready to proceed? For example, is the land, zoning, and financing in place?
- Is there sufficient committed financing for the proposed project?
- Does the borrower have the capacity to operate and manage the project?
- Will the project generate sufficient revenue to repay the loan?
- Is there sufficient collateral to secure the loan?

Section 108 Loan Term

The maximum repayment period for a Section 108 loan is 20 years. HUD has the ability to structure the principal amortization to match the needs of the project and borrower including periods of interest-only payments.

Section 108 Loan Guarantee Program's Rates and Fees

Variable Interest Rate

Effective May 1, 2021, interest rates charged on variable (interim) borrowing is priced at the three-month Treasury Auction Bill rate plus 35 basis points (0.35). View the current 13-week (three-month) [Treasury Auction Bill Rates](#).

Fixed Interest Rate

Fixed (permanent) financing is linked to yields on Treasury obligations of similar maturity to the principal amount. A small additional basis point spread, depending on maturity, will be added to the Treasury yield to determine the actual rate. Fixed-rate Financing Rates are set through a Public Offering of Section 108 obligations.

The most recent Offering Circular can be found here: [2019](#).

Loan Guarantee Fee

The loan guarantee fee covers the long-term cost to the Federal Government of a Section 108 loan guarantee. The amount of the fee will be determined annually in the appropriations process. The fee charged to Section 108 borrowers will be a percentage of the Section 108 loan amount. The fee may be paid with Community Development Block Grant (CDBG) funds, Section 108 Loan Guarantee proceeds or other funds. The fee is paid upon disbursement of the loan proceeds. Fees that are paid with CDBG funds must be identified in the Consolidated Plan as part of project costs. This one-time, upfront Credit Subsidy Cost (CSC) Fee is payable when loans are disbursed (and can be financed). The fee is adjusted every fiscal year.

[View the FAQ regarding the CSC fee.](#)

[View the current Credit Subsidy Cost for the fiscal year.](#)

Advance Fee

The fiscal agent charges \$70 per advance. The fee covers all reasonable expenses and disbursements made by the fiscal agent. The fee is automatically deducted from any every advance.

Apply for the Section 108 Program

Pre-Application

Public entities wishing to apply for Section 108 loan guarantee assistance are advised to contact HUD in advance for guidance on preparing an application. Note that there are citizen participation requirements that must be followed before the submission of a Section 108 application. Public entities should contact the Section 108 office in Washington, DC at section108@hud.gov.

See application guidance Section 108 regulations at [24 CFR 570.704: Application Requirements](#).

Overview of Application Process

The following is a summary of the process required for submitting an application for Section 108 funds. The Section 108 team has also put together a [descriptive infographic that outlines the application and financing process](#). For detailed requirements see [24 CFR 570.704: Application Requirements](#).

Pre-submission and Citizen Participation Requirements

- Describe proposed project/activities in sufficient detail
- Define the national objective that will be met by the project/activities
- Indicate which activities are expected to generate program income

- Explain citizen participation opportunities
- Publish the proposed application community wide and solicit comments
- Amend consolidated plan or annual action plan to include Section 108 if it doesn't already

Final Application Submission Requirements

For more complete guidance on what information must be included in an application for Section 108 Loan Guarantee Assistance consult the [Section 108 Loan Guarantee Program Application Tool](#).

Applications for Section 108 Loan Guarantee Assistance should also include:

- Description of compliance with CDBG national objectives and eligible activities pledge of CDBG funds and other security
- Description of how the loan guarantee fee will be paid or financed (with loan proceeds is recommended)
- A schedule for principal repayment
- HUD required certifications ([single certification document](#))

Process After Application Submittal

After consultation with the [local HUD office](#), the [Section 108 office at headquarters](#), and the preparation of the final application, the local field office and the Section 108 office will conduct a programmatic and financial review of the application. HUD will check to ensure compliance with the above process, as well as verify national objectives, eligible activities, certifications and financial viability of the proposed project/activities. Additionally, security will be evaluated along with the rest of the project's finances.

Upon completion of the review, a Project Review Panel (consisting of headquarters staff and the local HUD office representative) will examine the application, suggest ways to resolve any issues, request additional information, or recommend the application be approved/disapproved. Once an application has received an approval recommendation, it is forwarded to the Director of the Office of Block Grant Assistance (OBGA) for final approval and release.

Timeframe. The length of time the application approval process takes depends on the individual application but typically application review to approval takes 45 days.

Disbursement, Reporting, and Repayment of Section 108 Loans

Disbursement and Reporting

The tracking of Section 108 Loan Guarantee funds is administered through the [Integrated Disbursement and Information System \(IDIS\)](#). Approved loans are added to a borrower's IDIS portfolio online. The borrower can view details of the loans, such as approval date, cancellation

date, committed, and drawn amounts. The borrower adds IDIS projects to group all Section 108 related activities in the program year loan approval was received. The Section 108 activities entered into IDIS track expenditures and program outcomes similar to other CDBG activities.

View additional IDIS guidance:

- [IDIS for CDBG Training and Tutorials](#)
- [IDIS Online for Entitlement Communities Manual and Slides](#)
- [IDIS for CDBG Entitlement Manual Chapter 8 108 Loans](#)
- [IDIS Online for States Manual and Appendices](#)
- [IDIS for States CDBG Manual Chapter 8 108 Loans](#)

Project Income and Repayments

The borrower draws funds by creating drawdown vouchers and submitting a request for an advance to the HUD Section 108 office as needed. Once HUD approves the draw, funds are wire-transferred to the borrower's bank account on the following Wednesday from when the advance request was received. The borrower records Section 108-generated income with receipts. Section 108-generated income and repayments from borrowers are not considered CDBG program income. The borrower sets up activities in IDIS and records repayments as draws, similar to activities funded with program income.

Section 108 Loan Defaults

To date, there has not been a default under Section 108 resulting in a repayment by HUD. In the event of default requiring a payment, HUD would continue to make payments on the loan in accordance with its terms. The source of payments by HUD pursuant to its guarantee would almost always be pledged CDBG funds. However, HUD does charge a financing fee to cover defaults under its loan portfolio.

Section 108 Loans: States

Participating states adhere to guidelines that have been customized for their use.

States may directly borrow Section 108 funds on behalf of local governments in non-entitlement areas. In its application to HUD, the state must identify the local governments that will be eligible to be assisted by the state with the Section 108 guaranteed funds. States can:

- List the specific UGLG (unit of general local government) that is eligible for the funds; or
- Describe that all or a specific subset or type of UGLG are eligible for the funds. For example, the state could dictate that only UGLG with a poverty rate of 20 percent are eligible for assistance.

The activities undertaken by the state must be eligible under the existing Section 108 regulations at 570.703 Subpart M. The state can directly use Section 108 proceeds to: pay for interest on the

guaranteed obligation; pay for issuance, underwriting, servicing, trust administration and other costs allowed under 570.703(g); and for debt service reserves as allowed under 570.703(k). These costs are allowed be directly paid by the state because they are related to financing the UGLG Section 108 activities.

If the state wishes to participate in the Section 108 Program, it must describe its planned approach and the eligible UGLG in its Consolidated Plan method of distribution (MOD).

State applications for Section 108 assistance may either directly identify eligible projects in a selected UGLG or may describe the types of projects and indicate how it will determine the eligibility and national objective of these projects. If the second, more general type of application is submitted, the state has to get HUD eligibility approval on any specific project that is later chosen.

State Section 108 projects are subject to all applicable CDBG Program requirements and other federal rules.

View additional resources for State Borrowers:

[24 CFR Subpart M 700.710-711](#)

[CDBG for States Guides, Tools, and Webinars](#)

[Basically CDBG for States Chapter 8 Economic Development and Section 108](#)

Section 108 Loans and CDBG Requirements

Meeting National Objectives

For purposes of determining eligibility, the CDBG rules and requirements apply to Section 108 projects. As with the CDBG Program, all projects and activities must meet one of the CDBG Program's three national objectives:

- Benefit low- and moderate-income persons (various ways as described below)
- Aid in the elimination or prevention of slums or blight
- Meet urgent needs of the community

The primary objective of the CDBG Program is to develop viable urban and rural communities, by expanding economic opportunities and improving the quality of life, principally for persons of low- and moderate-income.

To achieve this objective, at least 70 percent of CDBG funds, including Section 108 loans, must be utilized to benefit low- and moderate-income persons (LMI). The following subcategories meet the LMI national objective:

- **Low/Mod Area Benefit (LMA)** - Activity will benefit all residents in a particular area, where at least 51 percent of the residents are LMI persons
- **Low/Mod Limited Clientele (LMC)** - At least 51 percent of the beneficiaries of the activity have to be LMI persons
- **Low/Mod Job Creation/Retention (LMJ)** - Activity will create or retain permanent jobs, at least 51 percent of which (computed on a full-time equivalent basis) will be made available to or held by LMI persons

The HUD CPD Map Tool may be used to identify low-income census tracts along with other demographic information. [Access the map tool.](#)

Section 108 and the Consolidated Planning Process

The local Consolidated Plan (including annual Action Plans) contain Section 108 projects including an estimate of the amount of CDBG funds that will be used to make payments on Section 108 loans as well as fees. The proposed and final Consolidated Plan must include the following:

- Activities to be undertaken with the guaranteed loan funds
- The national objective to be met by each Section 108 activity
- The amount of program income expected to be received during the year
- The amount of guaranteed loan funds to be used

The plan must include a description of the pledge of grants as required under 570.705(b)(2), and the use of grant funds used to pay for any fees required under 570.705(g).

Visit the [Consolidated Plan Process, Grant Programs, and Related HUD Programs page](#) for more information.

Section 108 and the Annual Action Plan

The Annual Action Plan must include project accomplishments funded by Section 108 loans as well as amounts expended on the loan payments, issuance, underwriting, servicing, or other costs.

Section 108 and CAPER

Section 108 accomplishments must be included in the Consolidated Annual Performance and Evaluation Report (CAPER). This includes the loan amount, amount advanced, total CDBG investment, number of jobs estimated in the loan application, the number of jobs created or retained, the number of housing units assisted, the number of housing units occupied by LMI households, or slum or blight designated areas assisted.

States report Section 108 accomplishments in the State Performance and Evaluation Report (PER).

Section 108 Job Training and Job Placement Requirements

One of the best uses of the Section 108 Program is to provide gap financing for projects that promote business growth and create jobs. Many Section 108 projects meet the national objective, **Low/Mod Job Creation/Retention (LMJ)** by creating or retaining permanent jobs, at least 51 percent of which (computed on a full-time equivalent basis) must be made available to or held by LMI persons.

Crosscutting Federal Regulations

Section 108 projects must comply with all CDBG rules and regulations, including cross-cutting federal regulations. These include environmental review, labor standards, acquisition and relocation, and fair housing and civil rights. For more information on CDBG cross-cutting regulations, view the [CDBG Crosscutting Regulations Toolkit](#).

Section 108 Technical Assistance

The Financial Management Division (FMD) and HUD Section 108 staff provide in-depth, tailored technical assistance in the form of extended communication or long-term assistance to CPD grantees and partner agencies. Potential or current borrowers may contact the [Section 108 office](#) to request assistance with any project cycle stage, including: proposed projects, layered financing, application process, program requirements, and more. After contacting the Section 108 office you will be matched with a Section 108 expert to provide general or specific Section 108 technical assistance.

| <div><div>Section 108</div><div>Technical Assistance at All Stages</div></div> | |
|--|---|
| Conceptualization | <ul style="list-style-type: none">• Walk-through eligibility requirements• Offer suggestions and share examples of similar projects |
| Application Prep | <ul style="list-style-type: none">• Provide joint technical assistance with field offices• Identify appropriate sequencing and deal structure |
| Application Process | <ul style="list-style-type: none">• Help to clarify outstanding issues related to underwriting• Share guidance and best practices on documentation |
| Financing | <ul style="list-style-type: none">• Identify additional collateral• Advise on loan proceeds and disbursements |
| Implementation | <ul style="list-style-type: none">• Ongoing guidance on compliance and reporting• Dynamic ability to amend terms to meet borrower's needs |