



# Maximizing the HUD Section 108 Loan Program

**Thank you**

for joining the  
conversation today.

Send us your  
questions and  
comments!

## Welcome

The Broadcast will begin at 1:00 PM (Eastern)



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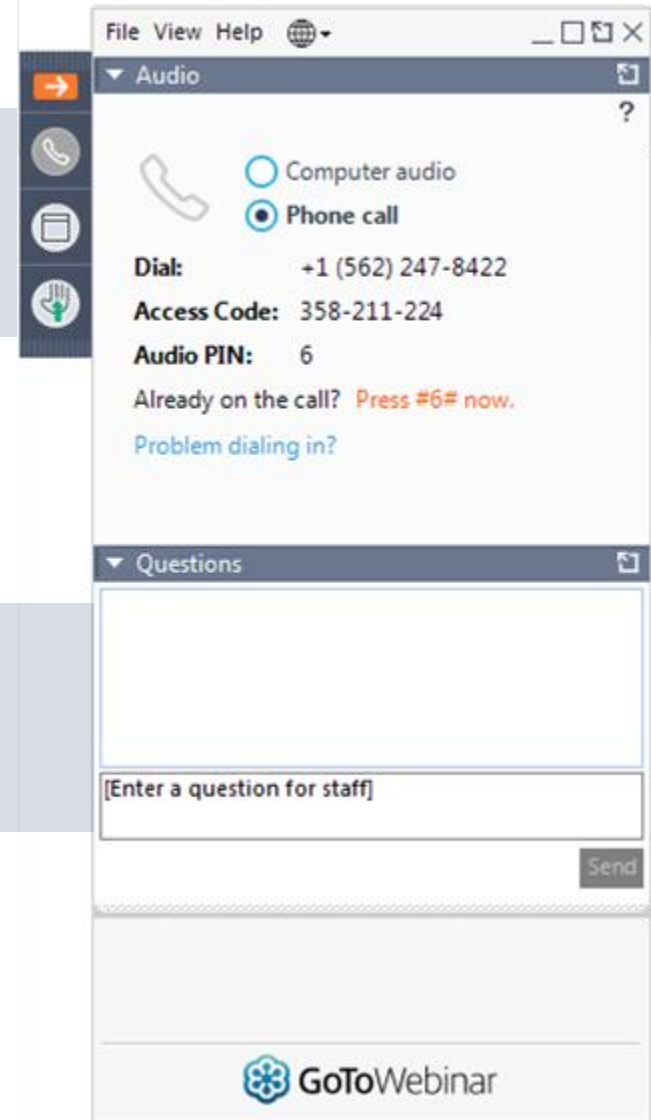
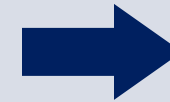
**Tim Fisher**

Legislative & Federal Affairs Coordinator  
Council of Development Finance Agencies  
Columbus, OH



# Maximizing the HUD Section 108 Loan Program

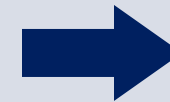
Using your telephone will give you better audio quality.



**Thank you**

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Submit your questions to the panelists here.





# Maximizing the HUD Section 108 Loan Program

## Panelists

### **Bennett Hilley**

Assistant Director for Credit Review  
U.S. Department of Housing & Urban Development  
Washington, DC

### **Carey Whitehead**

Attorney, Office of General Counsel  
U.S. Department of Housing & Urban Development  
Washington, DC

### **Cory Schwartz**

Financial Management Analyst  
U.S. Department of Housing & Urban Development  
Washington, DC

### **David Orr**

Director of Planning & Community Development  
City of Texarkana  
Texarkana, TX

### **Wanda Speight**

Senior Vice President, Financial Services  
Philadelphia Industrial Development Corporation  
Philadelphia, PA

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# Maximizing the HUD Section 108 Loan Program

## Now Speaking



### **Bennett Hilley**

Assistant Director for Credit Review  
U.S. Department of Housing & Urban Development  
Washington, DC

### **Carey Whitehead**

Attorney, Office of General Counsel  
U.S. Department of Housing & Urban Development  
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# Overview of Section 108 Loan Guarantee Program

CDFA Webinar – September 21, 2017

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# Section 108 Loan Guarantee Program

- Provides *loan guarantees*, not grants
- Offers recipients (states, cities and counties, and insular areas) a means of accessing the capital markets
- Low-cost, non-competitive money available on a rolling-basis



# Section 108 Loan Guarantee Program



- Employs the framework of the Community Development Block Grant (CDBG) Program
- Keep in mind program goals primarily focused on helping low- and moderate-income individuals
- Three primary uses include economic development, housing, and infrastructure





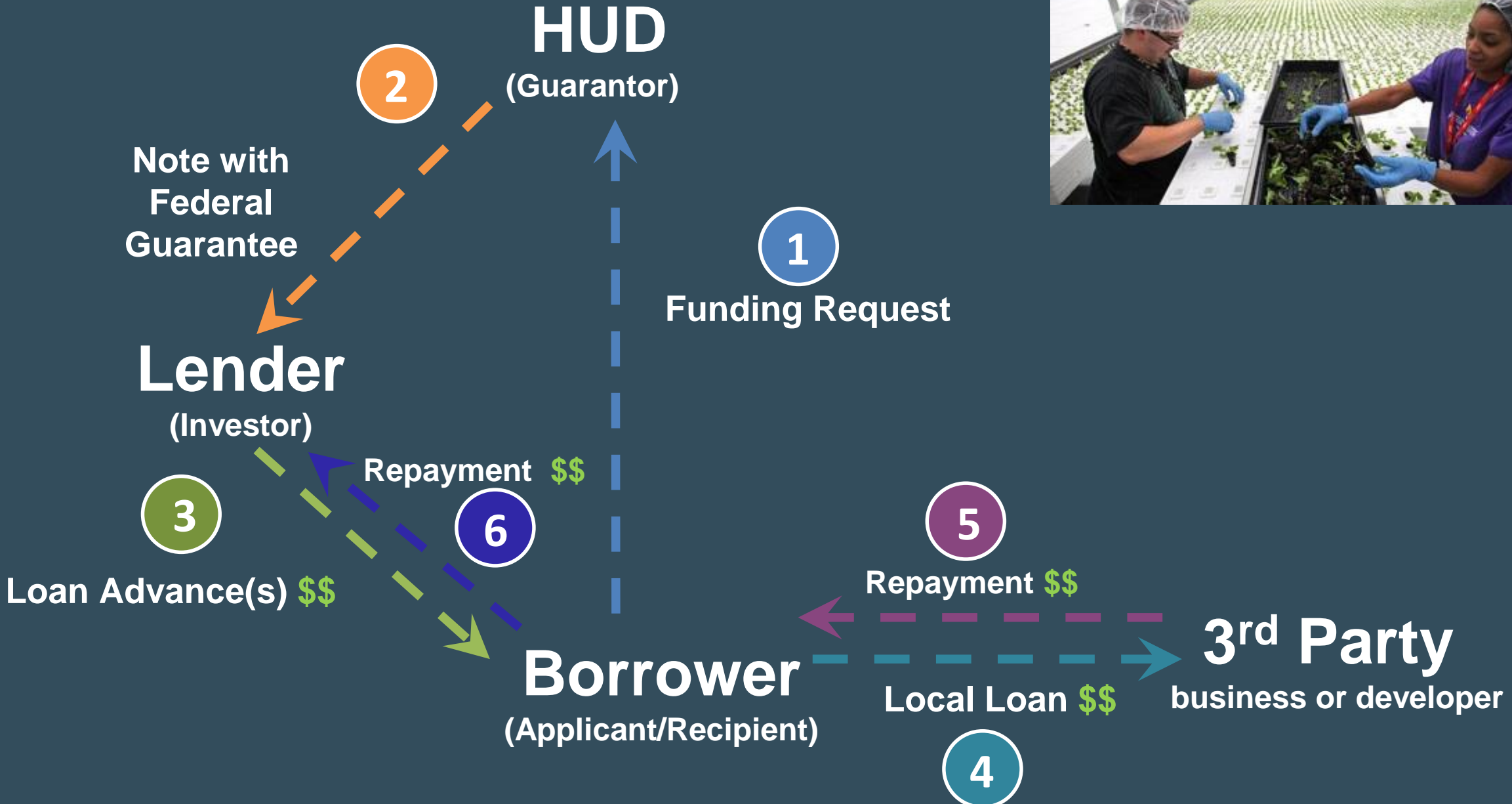
# Section 108 as a tool for needs communities are facing today



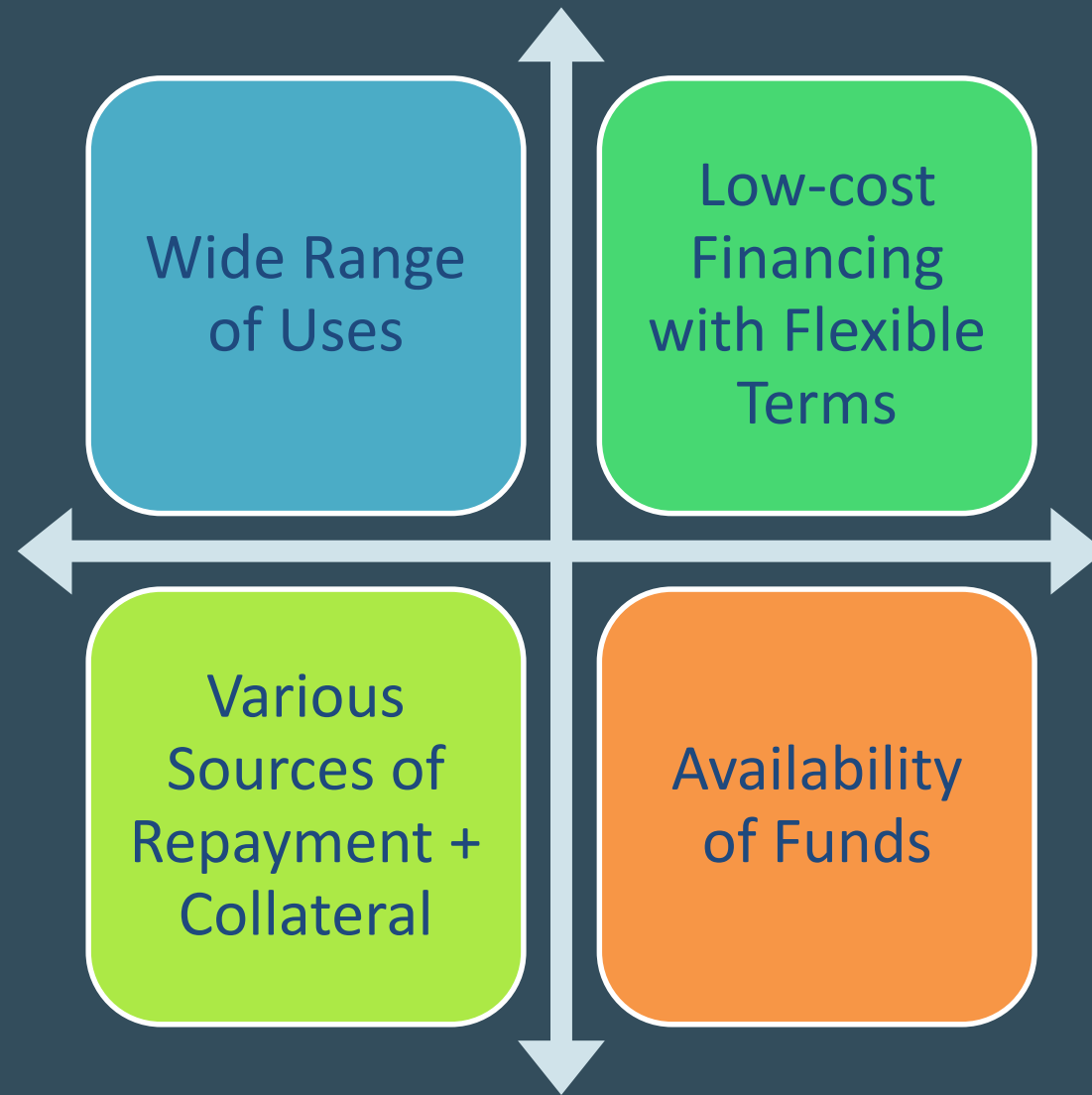
- **Front-end infrastructure costs: tackle needs/provide benefits now; long-term repayment**
- **Fund disaster recovery & resilience efforts**
- **Develop affordable housing:**
  - **Single family rehab**
  - **Multifamily housing through adaptive reuse/within mixed-use development**



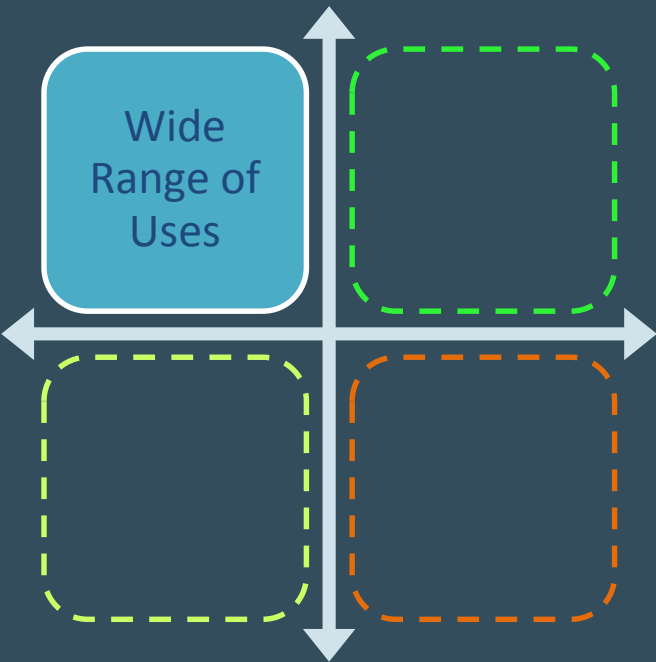
# Flow of Funds



# What makes Section 108 an attractive financing tool?



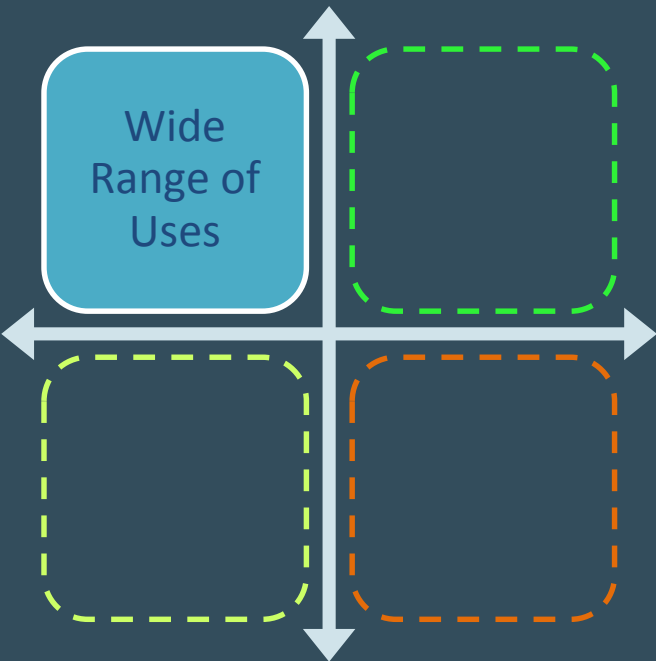
# Wide Range of Uses



- Higher risk project components such as pre-development costs)
- Projects in distressed areas where conventional lenders might not lend, or as gap financing
- At a regional scale (through consortium model or State-supported effort)

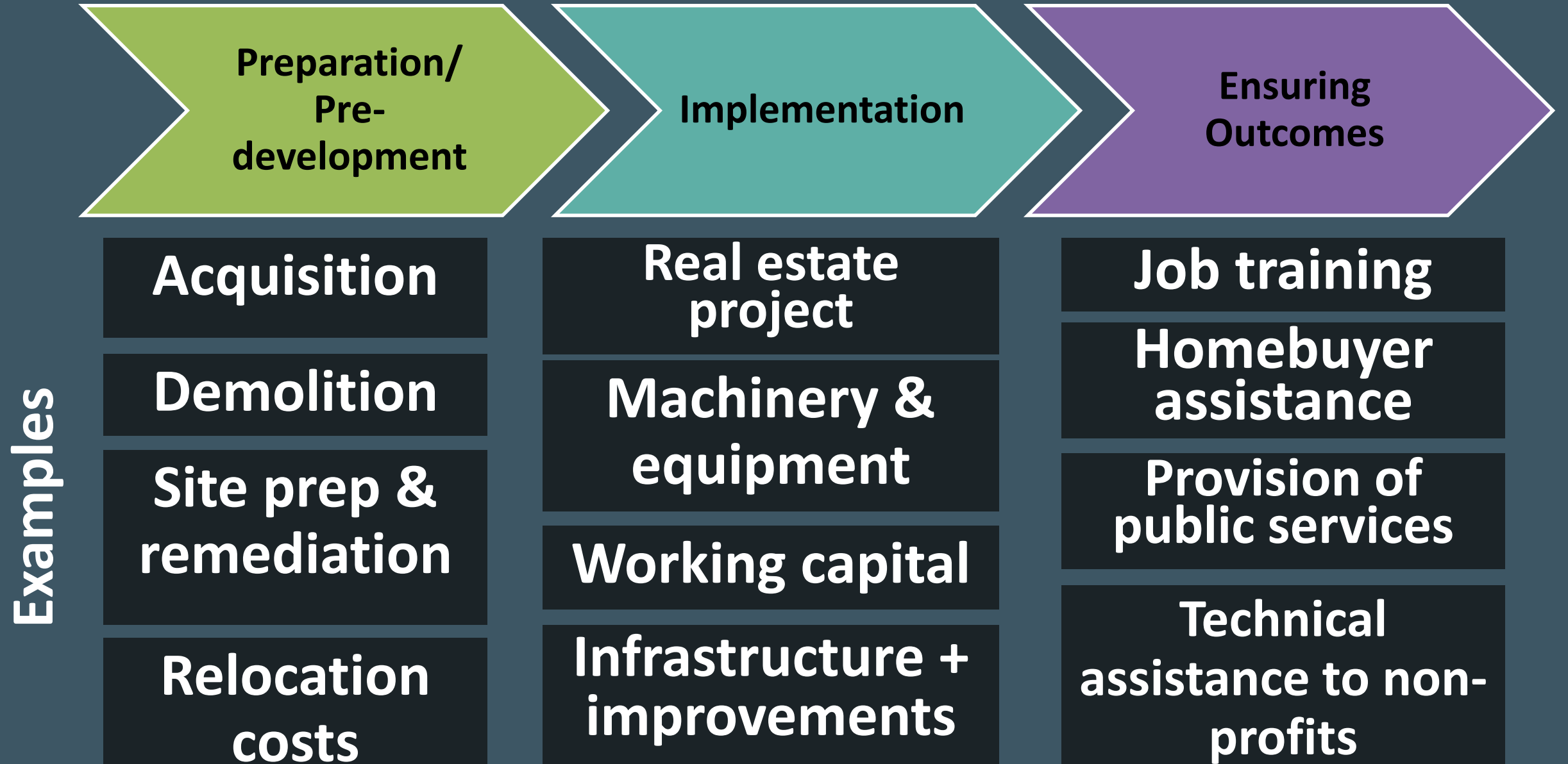
# Wide Range of Uses

## Economic Development / Housing / Infrastructure

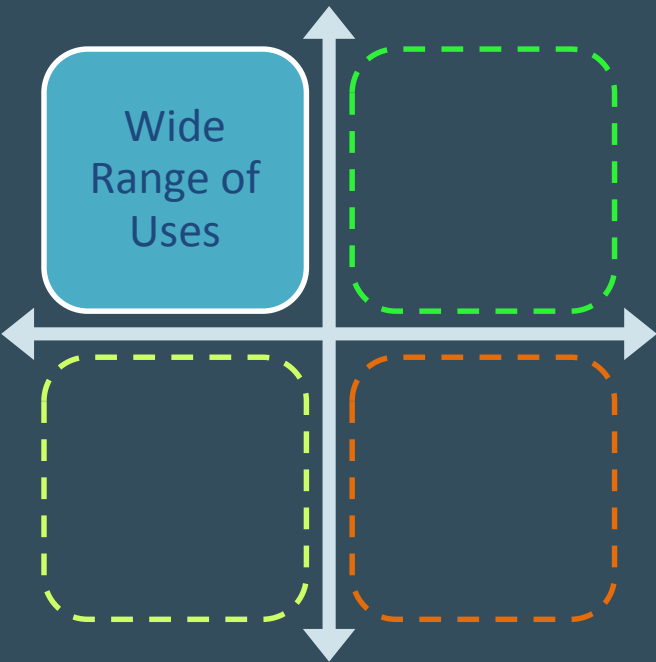
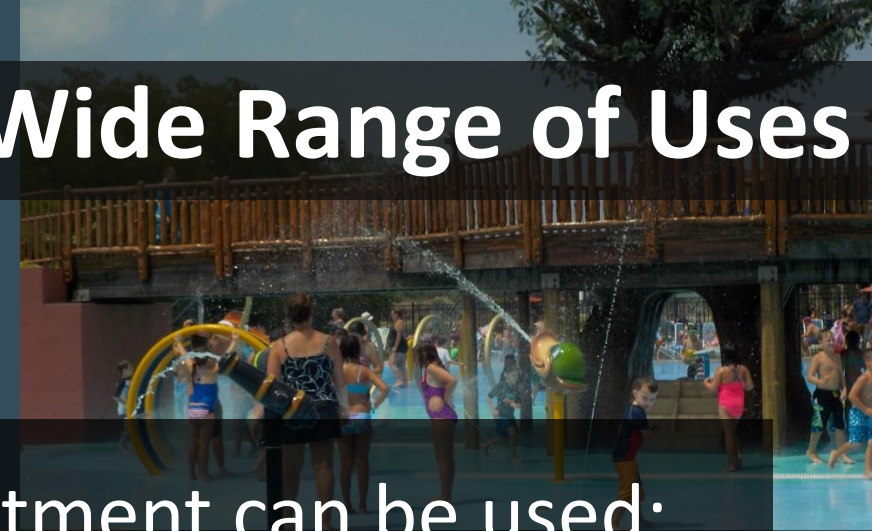


<b>Rehab of a historic hotel</b>	<b>Business incubator space</b>	<b>Industrial expansion</b>	
<b>Microenterprise assistance</b>	<b>Fresh food retailer</b>	<b>Business loan fund</b>	<b>Adaptive reuse/mixed-use</b>
<b>Multi-family, mixed-income development</b>	<b>Single family rehab &amp; infill program</b>		
	<b>Supportive housing construction</b>	<b>Home energy efficiency improvements</b>	
<b>Flood mitigation</b>	<b>Street improvements</b>		
<b>Water + Sewer</b>	<b>Broadband access</b>		<b>Healthcare facility</b>

# Stages in which CDBG & Section 108 funding can be deployed

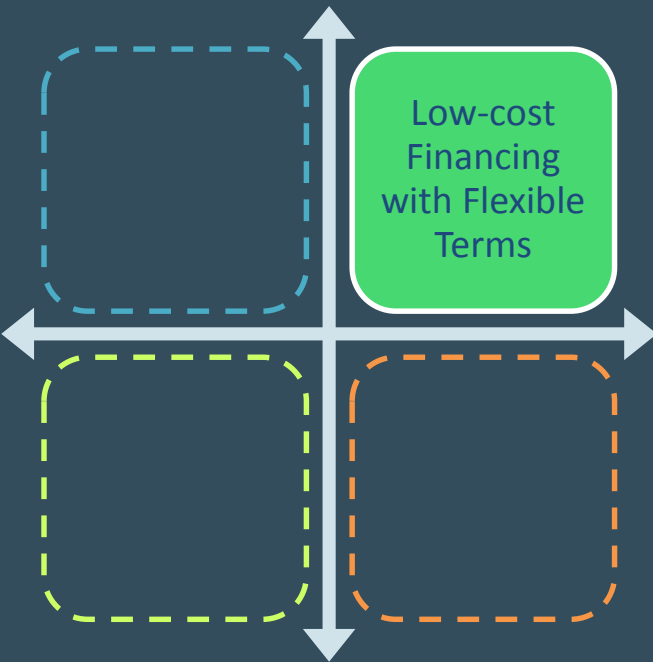


# Wide Range of Uses



- One loan guarantee commitment can be used:
  - To fund several project components (infrastructure, housing rehab, and commercial development) OR
  - To finance several project phases over several years OR
  - To finance a loan fund targeting specific neighborhoods, communities (for States), or certain types of activities

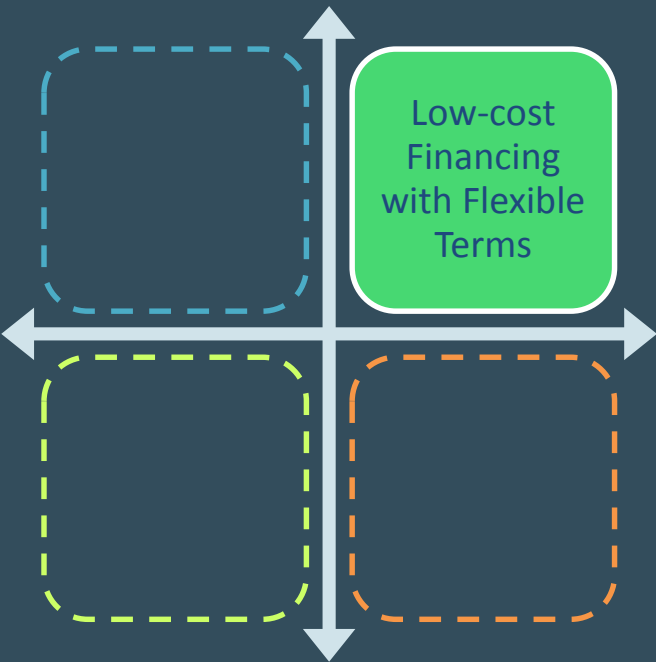
# Low-cost Financing with Flexible Terms



- Gives States and local governments access to the capital market while also:
  - Providing a Federal loan guarantee to attract long-term (up to 20 years), reasonably-priced debt
  - Saving them the transaction costs (e.g. administrative costs) associated with going to the market directly
  - Eliminating the need for a general obligation debt that could affect their bond rating
  - Enabling them to structure their repayment terms to meet project-specific needs (e.g. delaying principal repayments until Year 3 when the project will begin to generate revenue or front-loading cost of essential project to be repaid over extended term with annual grant funds)

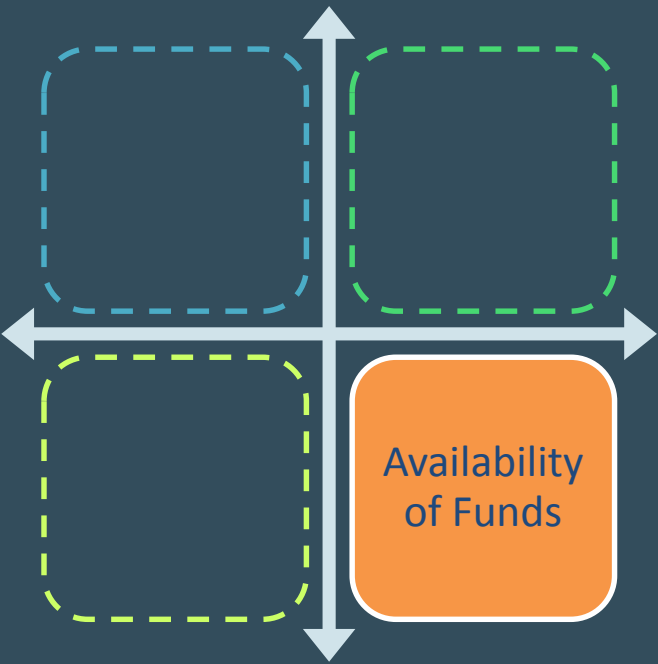


# Low-cost Financing with Flexible Terms



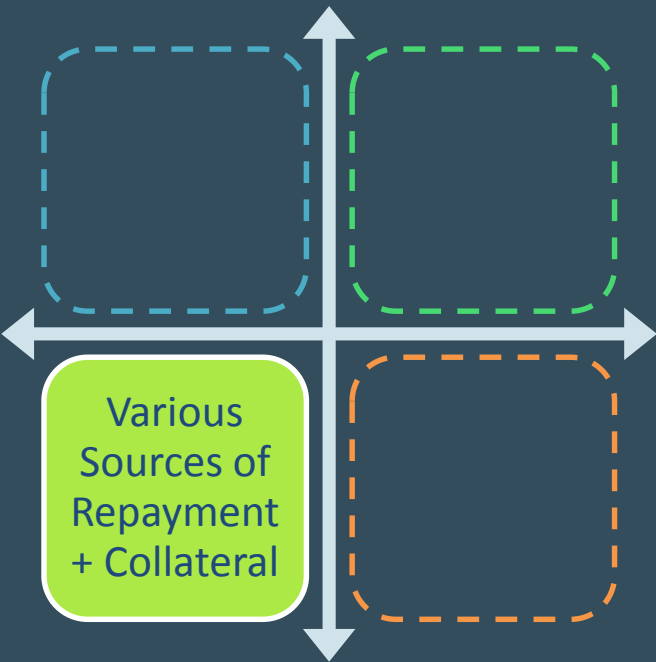
- Interim financing is available at 3-month LIBOR + 20 basis points
  - Current: Based on 9/19/17 LIBOR,  $1.33 + 0.2 = 1.53\%$  interest rate
- Permanent rates are determined through public offering
  - Typically occurs every 2 years
  - For most recent public offering (May 2015), all-in interest rate for a 20-year loan with equal installments was 2.85%
- Option exists to pre-pay/defeas and refinance loan (with certain restrictions)

# Availability of Funds



- Non-competitive
- Rolling application process
- Funds can be accessed based on project or program needs
  - Advances can occur on a weekly basis
  - Unlike grant funds, there are no restrictions on drawing down funds in advance of need
- Conserves limited grant funds, to ensure that those funds will be available for non-revenue generating uses (e.g. public services)

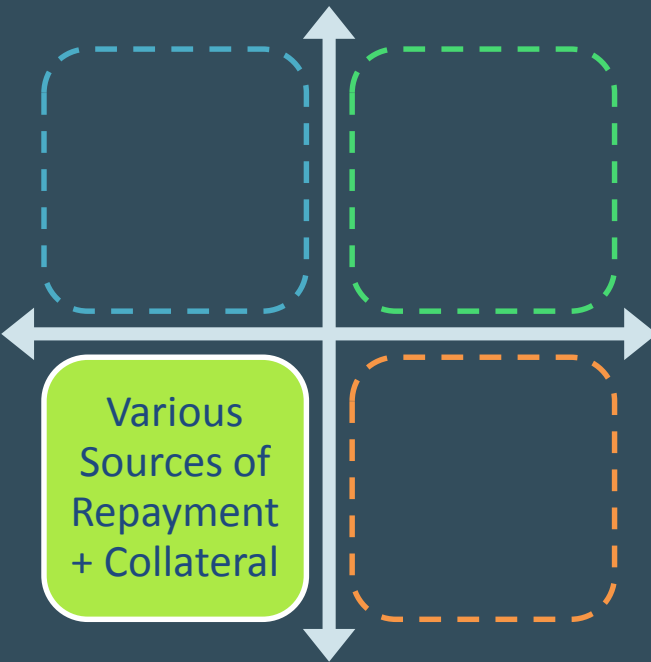
# Various Sources of Repayment + Collateral



- Applicants can elect to repay the loan with CDBG funds, project revenues, or with other sources
- HUD can accept less conventional sources of repayment and collateral
- Current and future CDBG funds are required to be pledged as collateral



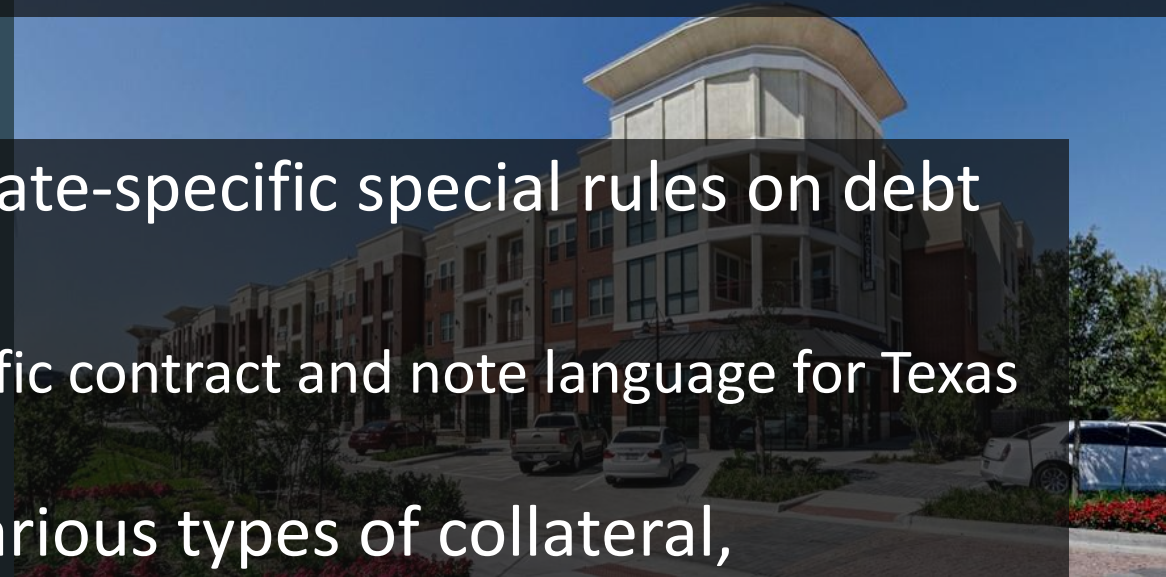
# Various Sources of Repayment + Collateral



- While additional collateral is also required, HUD will work closely with applicant to determine and underwrite potential sources
- HUD can accept many sources of repayment and collateral:
  - Unlike most conventional lenders, HUD can accept a subordinate position
  - Revenues generated by special taxing districts (e.g. TIFs and single purpose districts)
  - Repayment of 3<sup>rd</sup> party loans financed with Section 108 loan (or other loan portfolios)
  - Liens on other types of revenue available (e.g. parking or casino revenues), including those unconnected to project being financed

# Special Rules

- Contract flexibility can accommodate state-specific special rules on debt issuance
  - Program has adopted standard state-specific contract and note language for Texas and Alabama
- Program flexibility can accommodate various types of collateral, depending on state and local law
  - Full Faith and Credit and Moral Obligation
  - Liens on public property
  - Pledging future appropriations



# Limitations -Tax-Exempt Financing



- HUD is subject to government-wide rules (OMB Circular A-129)
  - Prohibits direct and indirect subsidy of tax-exempt bonds
  - Affects repayment streams and collateral
- Our office can assist with structuring projects to avoid conflicts (e.g. identifying strategies around timing or potential exceptions)

# Combining with Low-Income Housing Tax Credit (LIHTC)

- Financing sources work well together, but recipients must comply with rules of both programs
  - Section 108 can accommodate deferred principal payments
  - LIHTC projects satisfy program objective to benefit LMI households
  - Potential Section 108 limitations on acquisition as well as on new housing construction (adaptive reuse of existing building is acceptable)



# Combining with New Markets Tax Credits (NMTC)

- Like LIHTC, rules of both programs apply & potential to defer principal
- Direct Loan to QALICB (the business/developer) OR
- Frequently part of “Leveraged Loan Structure” (increased equity investment in CDE → increased tax credits)
  - All entities in the structure that ‘touch’ 108 funds must agree to 108 requirements
  - Typically requires assignment of membership interest in CDE and a collateral agency agreement
  - Section 108 collateral requirements can accommodate NMTC considerations (7-yr. compliance period, adjustment of collateral after unwind)
  - HUD & Section 108 recipient work through unwind together



# Approach to using Section 108

## Project Specific:

- Approach used by majority of borrowers
- Application is for a specific project; requires detail & specificity
- After HUD approval, guaranteed loan would be used by the recipient or re-lent to a 3<sup>rd</sup> party borrower

## Loan Fund:

- Better fit for when a pipeline of projects exists or community is targeting resources within a specific geographic area or with specific objective in mind
- Enables grantee to weight a portfolio of loans so there is a balance of large, solid loans and smaller loans designed for entrepreneurs and/or projects that are higher risk but have a high social impact value
- Streamlines Headquarters' underwriting process for each individual project (Field Office must first make a determination of program compliance)



# Philadelphia, PA



- Philadelphia has received more than \$291 million in Section 108 guaranteed loan commitments since 1988
- Philadelphia Industrial Development Corporation has deployed the majority of these funds through loan pools between 1995- today
- Loans have ranged from \$35K to \$31 million each
- National Objective: Benefit to low- and moderate-income persons, mainly through job creation
- Eligible Activity: Economic development assistance
- Terms of Guaranteed Loan: 20-year terms, level repayments
- Uses loan funds similar to a revolving loan fund/line of credit



# Texarkana, TX



- Projects: Hotel Grim Lofts (mixed-use housing and commercial redevelopment of historic building)
- Section 108 Assistance: \$1.429 million
- Approved in January 2017
- National Objective: Benefit to low- and moderate-income persons through providing housing
- Eligible Activity: Housing rehabilitation
- Terms of Guaranteed Loan: 20-year term, principal deferred until year six



# Want more information?

Email: [Section108@hud.gov](mailto:Section108@hud.gov)

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# Maximizing the HUD Section 108 Loan Program

## Now Speaking

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**David Orr**

Director of Planning & Community Development  
City of Texarkana  
Texarkana, TX

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CITY OF

**TEXARKANA**  
TEXAS

# The Hotel Grim Lofts

**CDEFA HUD 108 Webinar  
September 2017**

# Hotel Grim-1940's











# Hotel Grim Lofts Stakeholders

Jim Sari – Development team representative

Billy Harrell – Ownership representative

City of Texarkana, Texas

Main Street Texarkana

Texarkana Chamber of Commerce

Hotel Grim Citizen Work Team

Texarkana Arts & Historic District

Texas Historic Commission

HUD & EPA

Downtown property owners with recent investments



# How did we get here?

- Vacant Property for 30+ years
- 20+ years of failed attempts at redevelopment
- CDFIA technical assistance; City, HUD & EPA financial assistance for +20% of project costs



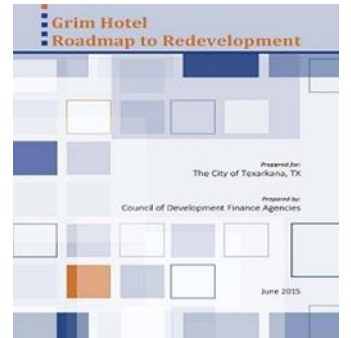
# Lessons Learned

1. Financially capable investors/developers that will share information
2. Local public investment needed upfront
  - Historic National Register Nomination, EPA Phase I & II, 108 Federal Funding Application
3. Aggressive public engagement & participation
  - Citizen Steering Committee, RLF Review Committees, Public Open House, Social Media, Website.



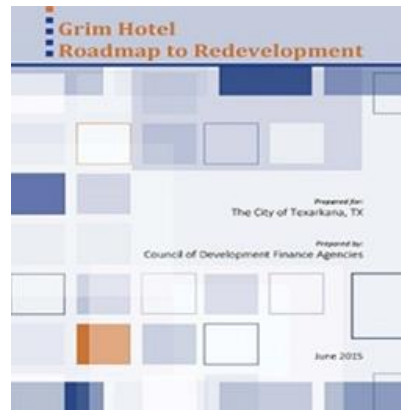
# Hotel Grim Lofts 108 Loan

- Be patient and flexible
- 24 month process (Initial email to HUD Regional Office October 2015)
- Request HUD waivers if needed. HUD staff will work with you to make sure your projects meets the regs. Examples from other cities.
- Allow for time to meet HUD's conditions. The process to to meet our conditions took approximately 6 months.



# Hotel Grim Lofts 108 Loan

- CDFA Brownfields Marketplace expert team and “Roadmap to Redevelopment.”
- 15mm project with multiple Sources of funding. 108, EPA funding, State and fed historic tax credits, affordable tax credits. All with different timelines and reqs.
- Be prepared to comply with additional state requirements.



# Grim Redevelopment Project Timeline

## Updated June 2016



Sari and Company approached the City regarding a market rate housing and office/retail development concept for the Grim. The project would use New Market Tax Credits and Federal and State Historic Tax Credits and would require City/Public assistance in the form of commitment of CDBG funds for federal loan guarantees and private contributions.

Developer working to secure HUD CDBG 108 Loan and EPA Clean-Up Loan

4th Quarter Purchase of the property is planned

Construction to begin in December.

**November 2016** - The Hotel Grim Lofts project team presented at the Council of Development Finance Agencies National Development Summit in New Orleans, Louisiana, November 2-4. The session was titled "Hotel Revitalization in the Heartland" and featured the Texarkana project along with another historic hotel project in Green Bay, Wisconsin.

**Fall 2014** - State & Federal Historic Tax Credits (Developer) Texas Historic Preservation Tax Credit Program goes into effect on January 1, 2015.

Jim Sari (Landmark Development) applied for mixed-use affordable housing tax credits to develop. City loan of \$500,000 repaid at closing. Tax credit application did not score well as City committed to Rose Hill HATT developments.

2009

2014

2016

2013

2015

2017

Sari and Company applied for mixed-use affordable housing tax credits. City loan of \$500,000 repaid at closing. Could not score in the Tax Credit competition due to changes in the scoring criteria established by Texas Department of Housing and Community Development, despite lobbying efforts to make allowances for downtown redevelopment projects.

**Summer 2014** - CDBG 108 Loan (City) Council approved to apply (Resolution 2014-044, 4/28/2014)

EPA Brownfields RLF (City) Phase 1 completed Phase 2 underway

Application for National Historic Registry submitted by Dr. Beverly Rowe on July 29th

Texas Historic Preservation Tax Credit Program went into effect on January 1, 2015.

National Historic Registry designation approved - May

No allocation committed for New Market Tax Credit funding

Federal Historic Tax Credits obtained - May

EPA Brownfields Phase II Completed for EPA Revolving Loan Fund eligibility - June

Council of Development Finance Agencies visit- June

**July 2016** - The Grim Lofts, LLC was officially formed by developer Jim Sari and an EPA Brownfields Revolving Loan Fund Application was submitted for cleanup funds.

Construction estimated for completion in December.

**March 13, 2017** - After a 30-day public comment period, Texarkana, Texas City Council approves acceptance of HUD 108 Loan in the amount of \$1,429,000 for the Hotel Grim Lofts Project and approves substantial amendment to the City's Consolidated Plan for the project.

**January 30, 2017** - The City of Texarkana, Texas recently received approval from the U.S. Department of Housing and Urban Development for Section 108 loan guarantee assistance in the amount of \$1,429,000 for the Hotel Grim Lofts Project.

**May 24, 2017** - The development team for the Hotel Grim Lofts announced plans to purchase additional properties for redevelopment in downtown Texarkana. The new properties will add additional market rate apartment units and office space. The plan includes purchasing property at 301 Pine St. that will include approximately 20 market rate residential apartments and purchasing property at 317 North State Line Ave. for conversion to renovated office space.





## Contact Information

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Economic Development Director

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# Maximizing the HUD Section 108 Loan Program

## Now Speaking

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**Wanda Speight**

Senior Vice President, Financial Services  
Philadelphia Industrial Development Corporation  
Philadelphia, PA

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# MAXIMIZING USE OF THE HUD 108 PROGRAM

9/21/2017

# PIDC OVERVIEW

Our mission is to **spur investments, support business growth, and foster developments to create jobs, revitalize neighborhoods, and drive growth** to every corner of Philadelphia.

To achieve our mission we **attract, manage, and invest** public and private resources in the clients, communities, and markets that energize Philadelphia's economy.

We offer **flexible financing tools**, a targeted portfolio of **industrial and commercial real estate** and decades of Philadelphia based knowledge to help our clients, invest, develop and grow.

Over the past 59 years, PIDC has settled over 6,900 transactions – including nearly \$15 billion of financing and more than 3,100 acres of land sales – which have leveraged over \$26 billion in total investment and assisted in retaining and creating hundreds of thousands of jobs in Philadelphia.

# PIDC OVERVIEW

## REAL ESTATE

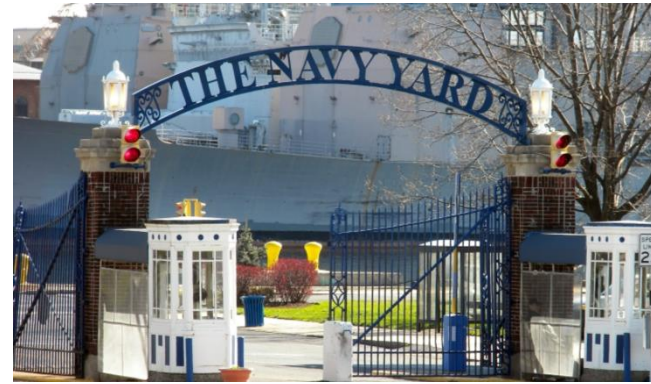
PIDC acquires, improves, plans, manages, leases, and sells real estate to support the next wave of industrial and commercial activity in Philadelphia.

## FINANCING

PIDC offers a wide range of loans, tax-exempt financing, and technical assistance to businesses, developers, and non-profits of all shapes and sizes.

## KNOWLEDGE & NETWORKS

PIDC brings together the public and private sectors in order to energize growth. We build relationships with clients and partners who are dedicated to Philadelphia's success.



# WHAT IS SECTION 108?

- A financing tool that allows the City of Philadelphia, through PIDC to expand its CDBG Programs (as much as 5 times their annual CDBG allocations)
- PIDC administers this program, on behalf of the City of Philadelphia, to fill funding gaps in targeted projects which will create or retain jobs, spur investment in underserved areas, and/or improve building energy efficiency
- If Borrower activities meet CDBG requirements (National Objective), and the loan meets PIDC Section 108 underwriting criteria, PIDC can issue notes on behalf of the City for HUD's guarantee



# SECTION 108 FINANCING

PIDC use Section 108 as a source for its Subordinated Term Loan product to provide financing to experienced developers of commercial and industrial projects of all sizes throughout Philadelphia.

PIDC has contracted as the designated public agency borrower and administers this program, on behalf of the City of Philadelphia, to fill funding gaps in targeted projects which will create or retain jobs, spur investment in underserved areas, and/or improve building energy efficiency

## USES

- Property Acquisition
- Construction or Building Renovation
- Machinery and Equipment Purchases

## FINANCING

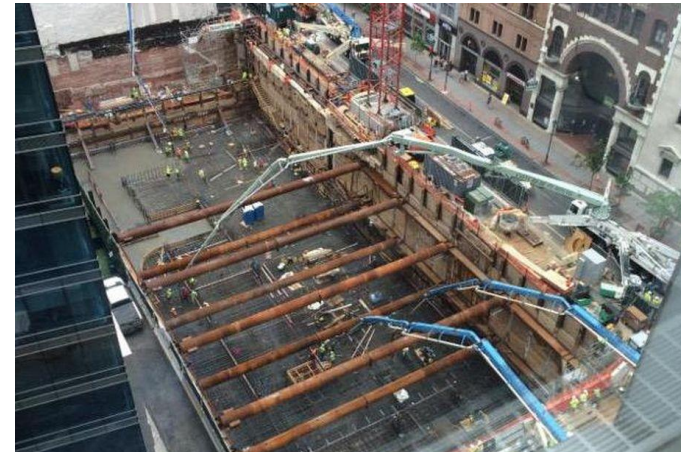
- Loan amounts range from \$750,000 to \$5,000,000, subject to \$35,000 per FTE
- Interest Rates range from 2.75% to 7.00%
- Loan Terms up to 20 years

## FEATURES

- Can be used with New Markets Tax Credit (NMTC)
- Can be used in mixed-use projects

# HOW WE UNDERWRITE

- Identify funding gap
- Confirm Project meets Section 108 eligibility requirements
- Determine Project Feasibility and Readiness
- Detailed review of Project Sources and Uses
- Examine Project Development Proforma Income Statement and Cash Flow
- Review Independent third party estimate of collateral value; Max LTV 80 %
- Perform Credit Analysis of borrowers and guarantors
- Summarize Key Risks and Mitigants





# HUD 108 HISTORY

- Since the initial PILOT program in 1982, PIDC has managed nine loan pools and four “stand-alone” projects for a total of over \$260 million.
- PIDC has placed 74 loans for \$258 million and created or retained approximately 3,970 jobs for low-moderate income persons.
- PIDC’s current portfolio consists of 26 loans representing \$ 54 million outstanding principal.
- The portfolio carries a historic loss/default rate of 2 – 3 %.



# HUD 108 LOCATIONS



# AKER SHIPYARD

NAVY YARD • 2100 KITTY HAWK AVE

Philadelphia Shipyard Redevelopment Corp.'s adaptive reuse of 115 acres at the west end of the Navy Yard with a 670,000 SF industrial complex comprising five buildings, two dry docks, and machinery and equipment.

## BUDGET:

- \$ 162 MM Construction Costs
- \$ 88 MM Equipment
- \$ 52 MM Soft Costs
- \$302 MM Total Project Costs

## FINANCING

- \$ 182 MM Capital Grant
- \$ 20 MM PIDA Loan
- \$ 40 MM HUD 108 Loan
- \$ 60 MM Developer Equity
- \$302 MM Total Financing Sources

## COMMUNITY BENEFITS

- Retains 500 FTEs
- Removed Blight



# BAKERS CENTRE

## 3413 FOX STREET

Metro Development Company's adaptive reuse of the 30-acre, 460,000 SF Tasty Baking Company factory to a 220,00 SF retail center anchored by a 71,000 SF hop Rite.

### BUDGET:

- \$ 6.8MM Acquisition
- \$13.2MM Site Work
- \$27.4MM Construction Costs
- \$ 7.9MM Soft Costs
- \$55.3MM Total Project Costs

### FINANCING

- \$31.5MM Sr. Loan – Fulton/Webster Banks
- \$12.0MM RACP Grant
- \$ 3.0MM HUD 108 Loan
- \$ 3.0MM BEDI Grant
- \$ 5.8MM Developer Equity
- \$55.3MM Total Financing Sources

### COMMUNITY BENEFITS

- Created 400 construction jobs and created 300 FTEs
- Removed Blight



# SPECTRUM COMMUNITY HEALTH CENTER

## 5201 HAVERFORD AVE

Construction of a 36,000 s.f. community health center, to include 34 examination rooms, a dental suite, pharmacy and space for behavioral health and social services

### BUDGET:

- \$ 0.6 MM Acquisition
- \$ 8.5 MM Construction
- \$ 2.4 MM Financing & Legal Costs
- \$ 1.4 MM Furniture, Fixtures & Equipment
- \$ 1.8 MM Soft Costs
- \$14.8 MM Total Project Costs

### FINANCING

- \$2.0 MM - HUD 108 Loan
- \$3.2 MM - New Markets Tax Credits
- \$ .4 MM - CDBG Loan
- \$2.0 MM- BEDI Grant
- \$1.7MM- PA RACP Grant
- \$3.6 MM - Private Financing
- \$1.9 MM – Equity
- \$14.8 MM - Total Financing Sources

### COMMUNITY BENEFITS

- 76 permanent jobs created
- Increase primary care facility features
- Expanded behavioral health service



# HOMWOOD SUITES UNIVERSITY CITY

4109 WALNUT ST

Homewood Suites is the ground-up construction of an 108,000 square foot, 136-suite extended stay Hilton Homewood Suites hotel located on an 11,000 square foot vacant parcel. The 10-story LEED Silver certified hotel provides a much needed affordable amenity for patients and users of the hospital and university institutions in the surrounding neighborhood.

## FINANCING

- \$22.0 MM Senior Bank Loan
- \$ 1. 0 MM - HUD 108 Loan
- \$ 7.5 MM - New Markets Tax Credits
- \$ 6.3 MM – Developer Equity
- \$ 6.6 MM – Various other sources
- \$ 1.6 MM - Energy Loan
- \$45.0 MM – Total Financing Sources

## COMMUNITY BENEFITS

- 34 jobs created/retained
- 51% of jobs made available to local, low and moderate income individuals





Driving growth to every corner of Philadelphia

[PIDCphila.com](http://PIDCphila.com)

 @PIDCphila

 /PIDCphila



# Maximizing the HUD Section 108 Loan Program

## Audience Questions

**Thank you**

for joining the conversation today.

Send us your questions and comments!

**NATIONAL DEVELOPMENT FINANCE SUMMIT**

*November 15-17, 2017 • Atlanta, Georgia*

**REGISTER TODAY**





# Maximizing the HUD Section 108 Loan Program

## Upcoming Events

### **CDFA – Frost Brown Todd Infrastructure Finance Webcast Series**

September 26 – 29 | Daily: 1:00 PM Eastern

### **CDFA // BNY Mellon Webcast Series: Housing Finance 101**

October 17, 2017 | 1:00 PM Eastern

### **CDFA National Development Finance Summit**

November 15 – 17, 2017 | Atlanta, GA

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# Maximizing the HUD Section 108 Loan Program



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