

HUD  
Irrevocable Letter of Credit  
Issue



COMMUNITY DEVELOPMENT  
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MICHAEL H. ADOLFAE  
DIRECTOR

February 7, 1995

Duane M. Swinton  
Witherspoon, Kelley, Davenport & Toole  
428 W. Riverside  
1100 Old National Building  
Spokane, WA 99201-0390

Dear Mr. Swinton:

RE: SECTION 108 LOAN

Enclosed is a copy of the HUD regulations for Section 108 loans, Subpart M-Loan Guarantees, and the Community Development Block Grant Program Economic Development Guidelines for evaluating Section 108 loans.

Under the Economic Development Guidelines Sections 570.208, Criteria for National Objectives, and 570.209, Guidelines for Evaluating and Selecting Economic Development Projects, are two important sections relative to Section 108 loan projects.

Please call if I may be of further assistance.

Sincerely,

Michael H. Adolfae  
Director

MHA:jc

Enclosure



EQUAL HOUSING  
OPPORTUNITY

The following chart summarizes specific policies of the Section 108 program.

<u>Issue</u>	<u>Policy</u>
Eligible Applicant	Entitlement Public Entities Nonentitlement Public Entities with support of State
Eligible Uses	Acquisition of Real Property Rehabilitation of Property Related Relocation Activities Related Clearance, Demolition, and Removal Interest Payments Financing Costs Housing Rehabilitation Housing Construction Under Limited Circumstances
Terms of a Loan	Up to 20 years but consistent with economic life of asset being financed
Maximum Loan Amount	Five times annual CDBG grant
Security	Unconditional, irrevocable letter of credit
Interest Rates	Section 108 notes, varies, rates are determined at public offering. In general, rates are approximately 12.5 to 60 basis points higher than comparable Treasury notes  Interim financing, floating rate is based on London Interbank Offering Rate (LIBOR)  Third party loans, negotiated rate is determined between the locality and third party depending on ability to repay and public policy objectives
Repayment Options	Varying or level P&I installments paid over term of loan  Partial payments of principal with regular payment of interest followed by balloon  Interest only payments followed by balloon payment of all principal
Loan to Value Ratio	No requirements for loans less than 10 years but usually 80 percent for those 10 years or more
Defeasance	Premium (a cost paid to Fiscal Agent in order to defease notes) during period of falling interest rate  Discount (a higher return that is earned on purchased obligations than is paid on Section 108 notes) during period of rising interest rates
Financing Fees	Up-front fees to underwriters and Fiscal Agent  No annual fees
Timing	Development of application by locality, 3-4 months (develop project, publish public notice, hold hearing, etc.)  Review by field office, 15 to 30 days Execution of funding approval document (Form HUD-7082)