

# COUNTY COUNCIL OF PRINCE GEORGE'S COUNTY, MARYLAND

## 1999 Legislative Session

Resolution No. CR-42-1999

Proposed by The Chairman (by request - County Executive)

Introduced by Council Members Scott and Bailey

Co-Sponsors \_\_\_\_\_

Date of Introduction September 21, 1999

### RESOLUTION

1 A RESOLUTION concerning  
2 Section 108 Loan Guarantee Application to establish a Commercial Building Loan Fund (CBLF)  
3 For the purpose of approving an application to the United States Department of Housing and  
4 Urban Development (HUD) for a \$10,000,000 loan pursuant to Section 108 of the Housing and  
5 Community Development Act of 1974, as amended, to help finance commercial revitalization  
6 through a Commercial Building Loan Fund to be administered by the Prince George's County  
7 Economic Development Corporation.

8 WHEREAS, certain commercial areas are in need of physical revitalization so that they  
9 may better serve the community; and

10 WHEREAS, Prince George's County, Maryland, is an urban county eligible to apply for a  
11 Section 108 Loan Guarantee under the Housing and Community Development Act of 1974, as  
12 amended; and

13 WHEREAS, the County's Economic Development Initiative (EDI) grant application to  
14 HUD for \$1,000,000 to support this CBLF was awarded and the associated application for a  
15 \$10,000,000 Section 108 Loan is due to HUD; and

16 WHEREAS, the proceeds of the loan borrowed by the County that is guaranteed under  
17 Section 108 will be used for commercial revitalization that is an eligible activity under the  
18 Housing and Community Development Act of 1974, as amended.

19 NOW, THEREFORE, BE IT RESOLVED by the County Council of Prince George's  
20 County, Maryland, that the "Section 108 Loan Guarantee Application to establish a Commercial  
21 Building Loan Fund for economic development activities," as submitted by the County  
22 Executive, a summary of which is attached hereto, is hereby approved.

1 BE IT FURTHER RESOLVED that no County funds, other than future Community  
2 Development Block Grant (CDBG) entitlement funds, shall be pledged for the repayment of said  
3 Section 108 Guaranteed Loan, with the intent being that the revitalization projects will repay the  
4 County the entire amount of principal, interest and any other costs paid by the County for the  
5 Section 108 Loan.

6 BE IT FURTHER RESOLVED that the County's Chief Administrative Officer or Deputy  
7 Chief Administrative Officer is hereby authorized and empowered as the official representative  
8 of Prince George's County to submit the Section 108 Loan Guarantee Application and any  
9 amendments thereto to HUD with all understandings and assurances contained therein, and to  
10 provide such additional information to HUD as may be required.

Adopted this 12th day of October, 1999.

COUNTY COUNCIL OF PRINCE  
GEORGE'S COUNTY, MARYLAND

BY: \_\_\_\_\_  
M. H. Jim Estepp  
Chairman

ATTEST:

\_\_\_\_\_  
Joyce T. Sweeney  
Clerk of the Council

## ATTACHMENT

### SUMMARY OF SECTION 108 LOAN GUARANTEE APPLICATION

Within sixty days of approval of the County's Economic Development Initiative (EDI) grant application, the County will submit an application for a \$10 million Section 108 Loan Guarantee with a twenty-year repayment period. It is estimated that the Section 108 loan will have a 6 percent interest rate. With the proceeds of the Section 108 loan, the County will establish a loan pool for the Commercial Building Loan Fund (CBLF). CBLF loans will have an estimated interest rate of two points below market. They may be as low as 6 percent, depending on the project and have an amortization schedule up to twenty years, depending on the remainder of time the County has to pay back its loan to HUD. Some qualifying loans, however, may be amortized up to twenty years with a ten-year balloon amortization schedule. The balloon payment will be due before the County's final payment is made to HUD. Only the strongest loan requests will qualify for the balloon payment terms. Commitments for balloon payments (buyouts) must be in place at the time of the CBLF loan closing.

The Section 108 loan will be over-collateralized because funds from the EDI grant, EDI program income and Section 108 program income will cover the interest rate spread. On each CBLF loan, the County will require full recourse liability of the borrower. The County also will seek to secure a second position on the borrower's real and personal property. However, a third position may be all that is available for some loans. CBLF loans will be fully secured and will include personal or corporate guarantees from all borrowers.

The CBLF program will provide a vital infusion of capital to inner Beltway and low and moderate communities. CBLF loans will finance the gap between the total cost of a commercial development project and the amount of conventional and other government-assisted financing available. The terms for conventional commercial loans secured by a first trust are typically far more stringent than those proposed for CBLF loans. Conventional first trust loans currently have a 9 to 11 percent interest rate, a ten-year balloon payment and a twenty-five year amortization schedule. Second trust financing for commercial properties is usually only available with nearly usurious loan terms.

CBLF loan funds will be available based on the type of project being considered. Each project will be evaluated based on the following underwriting criteria:

*Eligible Use of Proceeds:* Renovation, rehabilitation, maintenance and construction costs as outlined in the four sub-programs of CBLF. Certain soft costs, not to exceed 15 percent of the total project costs, will also be covered. These include appraisal, environmental, architectural and legal fees.

*Maximum Loan to Value:* Loan to Value will not exceed 90 percent. Value will be determined on the basis of the appraisal. Each business owner will be required to make a minimum cash contribution of 10 percent of the total project cost. In most instances this cash will be required at settlement and should be the initial cash utilized in the project.

*Personal Guarantees:* Each owner with a 20 percent or more stake in the project will be required to guarantee the loan. This requirement will be part of the approval process. Exceptions will include a requirement for corporate guarantees. Corporate guarantees will only be acceptable for larger established corporations with the financial ability to commit the buyout financing needed to satisfy loan payoffs.

*Credit History:* Dunn & Brad Street reports will be obtained on all corporate entities and personal credit reports will be required on all individuals. These reports will be analyzed to insure that borrowers have an acceptable credit history.

### **Financial Information Required:**

- Three years of financial statements and copies of tax returns on the borrower
- Interim financial statements dated within 90 days of the application on the borrower
- Cash flow projections for a minimum of two years
- Copies of three years of personal tax returns for each guarantor
- IRS forms 4506 signed by each provider of tax returns
- Personal financial statements on each guarantor dated within 90 days of application
- Articles of Incorporation and By-Laws; or Partnership Agreement; or Articles of Organization and Operating Agreement, depending on the borrower's type of legal entity
- Detailed budget listing the sources and uses of the total project cost
- A proposed draw schedule based upon the budget, debt schedule for the borrower
- Copy of the current Use and Occupancy Permit

### **Debt Service Coverage:**

A minimum Debt Service Coverage (DSC) ratio of 1.25:1 will be required. Recognizing the fact that many of the properties eligible under these programs may not meet this criterion, projections may be used to qualify these loans. Projections must contain assumptions of rental income and expenses that are consistent with the area in which the project is located. The underwriter will validate assumptions.

The CBLF Program has four component loan programs for the renovation and construction of business buildings:

### **Shopping Center Rehabilitation Program**

The Shopping Center Rehabilitation Program (SCRCP) provides funding to an owner of an older shopping center to rehabilitate the center's buildings, grounds and equipment. The SCRCP will provide up to 25 percent of required funding with a maximum loan amount of \$2.5 million.

### **Commercial Area Revitalization Effort Program**

The Commercial Area Revitalization Effort (CARE) Program promotes the economic vitality of commercial areas in the older neighborhoods of Prince George's County. CARE loans can provide up to 50 percent of the required financing with a \$300,000 maximum loan amount.

### **Building Re-Use Loan Program**

The Building Re-Use Loan Program (BRLP) encourages the reuse of vacant or underutilized buildings. The BRLP will provide up to 25 percent, but no more than \$1 million, of the financing to convert a property into another viable business use.

### **New Building Loan Program**

The New Building Loan Program (NBLP) encourages new retail, commercial and industrial development in an inner Beltway community where a market study shows a new facility can be supported. The NBLP will provide up to 50 percent, but no more than \$2 million, of project costs.

### **Program Objectives and Standards**

The objectives of the Commercial Building Loan Program are to:

1. Increase employment and business opportunities for the County's low and moderate income residents and communities.
2. Revitalize older, inner Beltway neighborhoods throughout the County.
3. Increase the level and quality of goods and services available to the residents of the County's low and moderate-income neighborhoods.
4. Stimulate and leverage private reinvestment in inner Beltway and low and moderate income neighborhoods.

All CBLF projects will meet the national objectives of the Community Development Block Grant (CDBG) Program at 24 CFR 570.208 by addressing slums and blight on a spot basis, by principally benefiting low and moderate-income neighborhoods, by creating or retaining jobs for low and moderate-income persons. Loan proceeds will fund activities eligible under the criteria at 24 CFR 570.203 or 24 CFR 570.703. These activities include acquisition, construction, rehabilitation and installation of commercial or industrial buildings, structures and improvements. All CBLF loan applications will be evaluated according to HUD guidelines at 24 CFR 570.209 for evaluating project costs and standards for evaluating public benefit.

### **Loan Originations and Section 108 Loan Repayments**

CBLF loans will be originated over a two-year period. The projected rate of origination is \$1.5 million per quarter, beginning with the second operating quarter of the CBLF. During the first two years of the Section 108 loan repayment period, interest-only payments will be required. This will assure the smaller income stream generated during the two-year origination period will

be adequate for loan repayments due. Proceeds of the Section 108 loan, along with those of the EDI grant, will be invested in a *fully flexible* and *collateralized* investment agreement which meets the standards of the HUD Contract for Loan Guarantee Assistance and Prince George's County public funds investment rules and regulations. Earning from this investment, together with approximately \$162,000 of EDI grant funds, will be used to make the interest-only payments during the first two years of the Section 108 loan term. At origination, a CBLF loan will be assigned repayment terms identical to those of the Section 108 loan. For example, loans made in the first quarter following settlement on the Section 108 loan will have 1.75 years of interest-only payments and an eighteen-year amortization schedule. Loans made at the end of the two-year origination period will have no interest-only period, but rather an eighteen-year amortization schedule.

Beginning in the third year, the Section 108 loan will be repaid from CBLF loan repayments and from earnings on the remaining balances of the EDI grant and the CBLF loan repayments. Following 24 CFR 705(b), all Section 108 program income, debt service reserves, liens on real and personal property, increases in tax receipts attributable to the Section 108 loan and the County's CDBG entitlement will be pledged as collateral for the Section 108 loan. The sources and uses of both the Section 108 loan and the EDI grant are shown on the "Sources and Uses Statement," page 22 in the Rating Factors section of this document. The "Sources and Uses Statement" also show the Section 108 loan repayment schedule.

The Section 108 loan is proposed as payable at par value any time after the tenth anniversary of the fixed rate term. CBLF loans are proposed as callable at the end of the ten years, assuming twenty-year terms. This will provide the County with the option in years ten to twelve to either prepay the Section 108 loan or renegotiate and extend the terms of the CBLF loans. HUD does not generally allow program income to be lent again before repayment of a Section 108 loan. However, at the end of the ten-year Section 108 loan period, the County will ask HUD to re-evaluate this policy. Lending the proceeds of paid off CBLF loans again for another ten-year term would maximize leveraging of the Section 108 loan.