United States General Accounting Office

GAO

Report to the Chairman, Subcommittee on Housing and Community Opportunity, Committee on Banking and Financial Services, House of Representatives

August 1997

HOUSING AND URBAN DEVELOPMENT

Use and Oversight of the Economic Development Loan Fund

GAO

United States
General Accounting Office
Washington, D.C. 20548

Resources, Community, and
Economic Development Division

B-276545

August 20, 1997

The Honorable Rick Lazio
Chairman, Subcommittee on Housing
and Community Opportunity
Committee on Banking and Financial Services
House of Representatives

Dear Mr. Chairman:

The Department of Housing and Urban Development's (HUD) Economic Development Loan Fund, formerly known as the Section 108 Loan Guarantee Program, was established by the Congress in 1974 as a component of the Community Development Block Grant (CDBG) Program. Under the loan fund, communities may borrow up to 5 times their current year's CDBG allotment using their current and future CDBG grants as the principal collateral. Initially, only CDBG entitlement communities—large metropolitan areas and urban counties that receive CDBG grants directly—were eligible for the loan fund; in 1990, nonentitlement communities—small cities and rural areas that receive CDBG grants through their states—became eligible for the fund.

Loan proceeds may be used, for the most part, for the same activities as CDBG grants; but because the loan amount can be substantially larger than the annual CDBG grant, communities may use the loan proceeds to finance much larger community development efforts. HUD approves loan commitments but does not directly fund the loan program. Rather, the loans are financed through periodic public offerings of pooled loans on the private sector-capital market and are guaranteed by the full faith and credit of the U.S. government. To encourage communities to make greater use of the loan program, the Congress substantially increased the amount of funds available for the program in 1993. In 1994, it established Economic Development Initiative (EDI) grants, which communities may use to help fund projects or to pay for some of the costs associated with borrowing under the loan program.

Concerned about how these changes had affected the loan program, you asked us to examine (1) the extent to which communities are using the loan fund, (2) factors affecting communities' willingness to use the fund, (3) the types of projects being financed with loan proceeds, and (4) HUD's procedures for overseeing the program. This report is based on HUD's data over the life of the program and a representative sample of 100 loans made in fiscal years 1990 through 1996 that had funding advances. The loan sample was designed to allow us to estimate the types of activities that have been financed by communities and states for those years.

Results in Brief

From the loan program's inception through fiscal year 1996, the Department of Housing and Urban Development made 930 loan commitments totaling $4.4 billion. About 38 percent of the Community Development Block Grant entitlement communities have received one or more loan commitments; 16 states, on behalf of their nonentitlement communities, have also received loans. Although communities' and states' use of the loan program has fluctuated— generally, 50 or fewer loans were approved each year—program activity increased sharply in fiscal years 1994 through 1996, when the Department approved about 400 loans and nearly 60 percent of the dollars loaned since the program's inception. The program experienced its greatest activity in fiscal year 1995, with 218 loans totaling $1.8 billion. However, the level of loan commitments has often been well below the level approved by the Congress. For example, although the Department approved $2.6 billion in loans in fiscal years 1994 through 1996, the appropriated level would have supported about $5.6 billion in loans.

According to the Department of Housing and Urban Development and associations representing community development officials, the key factor responsible for communities' and states' increased willingness to use the loan program has been the availability of Economic Development Initiative grants to loan recipients. Program activity appears to support this view. In 1994, when the Department provided $19 million in grants, loan activity doubled—88 loans compared with 43 the previous year; in 1995, when the Department awarded $350 million in grants, the number of loans jumped to 218; however, in 1996, when no Economic Development Initiative grants were awarded, the number of loans dropped to 89. The officials attributed any unwillingness to use the loan program to communities' concerns over collateral requirements and their reluctance to pledge future Community Development Block Grants as collateral for loans. The Department does not know the extent to which communities have used Community Development Block Grant funds for loan payments when other intended payment sources did not materialize because it does not track this information.

Communities and states reported to the Department of Housing and Urban Development that they have used about 73 percent of their loans to finance economic development activities. Other eligible Community Development Block Grant activities for which loans were reported to be used included acquisition of real property, housing rehabilitation, and public property rehabilitation. Within the category of economic development, communities and states reported that loans were used for activities such as constructing shopping centers, creating revolving loan funds, and rehabilitating hotels and restaurants. Overall, communities reported that about 88 percent of the loans were to benefit people from households earning less than 80 percent of a local area's median income. The Department requires an annual review of grantees to determine, among other things, whether the activities funded by Community Development Block Grants are being carried out in a timely manner and in accordance with Department-approved plans. However, according to officials in 5 of the 30 field offices responsible for the loans in our sample, they did not routinely include the loans in their annual reviews because they (1) did not believe they had guidance on how to monitor the program, (2) did not believe they had a responsibility to monitor the loans, (3) had other priorities, or (4) lacked loan-specific information. These five offices oversee about 26 percent of all loans. In addition, in 7 of the 30 field offices in our sample, Department personnel responsible for reviewing block grants told us that they did not have enough information on loans to carry out their loan monitoring responsibilities.

Background

The loan program provides communities and states with a way of leveraging their CDBG awards to obtain additional resources for financing larger community revitalization projects without waiting for the actual CDBG award. The loans can have repayment terms of up to 20 years.

In the loan program, as in the CDBG program, communities and states must use their loan proceeds only for activities that meet one or more of three national objectives: (1) benefit low- and moderate-income people—that is, households earning less than 80 percent of the local area's median income; (2) aid in the prevention and elimination of slums or blight; or (3) meet other urgent community development needs. In addition, the loan proceeds must be used to help finance one or more of the activities cited in section 108 of the 1974 act. These activities include, among others, the acquisition of real property; the rehabilitation of real property, either publicly owned or acquired; housing rehabilitation and preservation; and economic development.

Although current and future CDBG grants are the principal collateral for loans, since 1995, communities have had to provide additional collateral. To meet this requirement, HUD has generally approved loans only for those activities expected to generate a cash flow that would allow the community to repay the guaranteed loan. A 1994 amendment to the program expanded the list of eligible activities to include the acquisition and restoration of public facilities, which would generally not produce a cash flow to repay the debt. In addition to revenue generated from the project, communities and states may designate tax revenues or other revenue sources as the additional collateral. The Treasury has never had to use public funds to fulfill the federal guarantee, according to HUD's 1996 Consolidated Annual Report to Congress.

Eligible applicants include the CDBG grantees: (1) entitlement communities—generally cities designated as central cities of metropolitan statistical areas, other cities with populations of at least 50,000, and qualified urban counties—that are directly responsible for administering their grants and (2) nonentitlement communities—smaller communities, including many rural communities whose CDBG programs are administered by the state.[1] Nonentitlement communities became eligible for the loan program through the Cranston-Gonzalez National Affordable Housing Act of 1990.

Both HUD headquarters and field offices play a role in managing the loan program. Generally, headquarters provides final approval; negotiates loan terms with applicants; and, through HUD's fiscal agent, arranges for the sale of the loans. The fiscal agent acts as a trustee under contract to HUD and, among other duties, collects loan payments from the communities and notifies HUD to take funds from communities' CDBG allotment when payments are not received. Field offices assist communities and states in preparing applications, make recommendations to headquarters to approve or deny loans, and monitor funded activities.

HUD has financial monitoring procedures to safeguard against communities' or states' defaulting on their loans. HUD's fiscal agent must receive the loan payment 5 days before it is due. Payments are due either semiannually or quarterly. If the payment is not received, the fiscal agent notifies the HUD headquarters program office, which contacts the cognizant community or state. If the fiscal agent does not receive payment within 72 hours of the payment's due date, HUD will make the loan payment

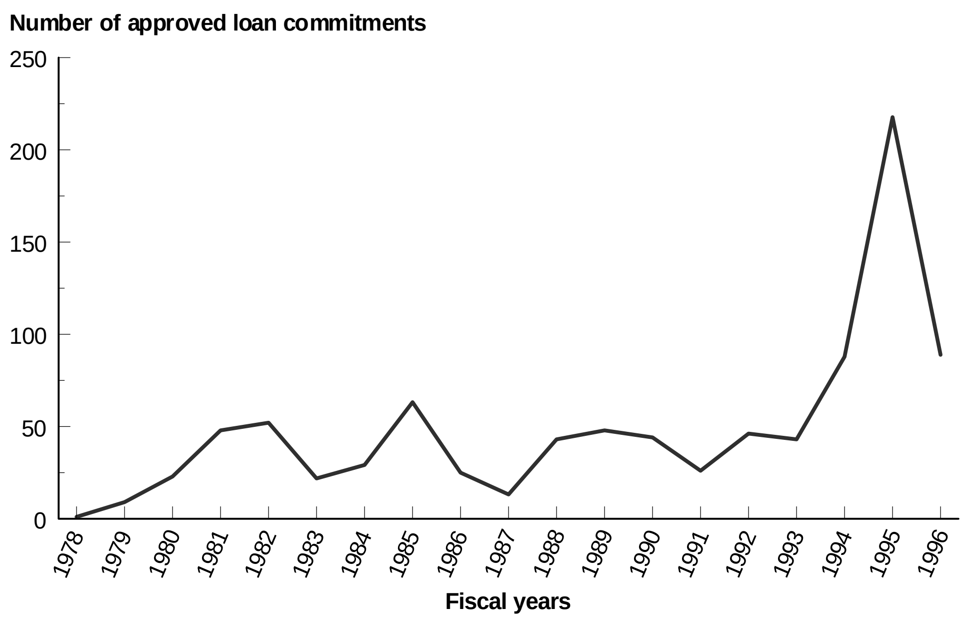
[1]HUD administers the nonentitlement programs in New York State and Hawaii and refers to these programs as its Small Cities Program. For the purposes of this report, nonentitlement communities include state-administered programs and the HUD-administered Small Cities Program.

using funds from the community's or state's CDBG allocation. When payments are made late, HUD will credit the community's or state's CDBG allocation.

Loan Program Recently Experienced Significant Growth

Between fiscal years 1994 and 1996, communities and states used the loan program in far greater numbers than ever before. Over this period, HUD approved nearly 60 percent of all the funds loaned, for a total of $2.63 billion. From the program's inception through September 1996, HUD made 930 commitments to guarantee loans totaling $4.4 billion.[2] Figure 1 shows the number of approved loan commitments from 1978—when the first loan application was approved—through September 1996.

Figure 1: Number of Approved Loan Commitments, Fiscal Years 1978-96

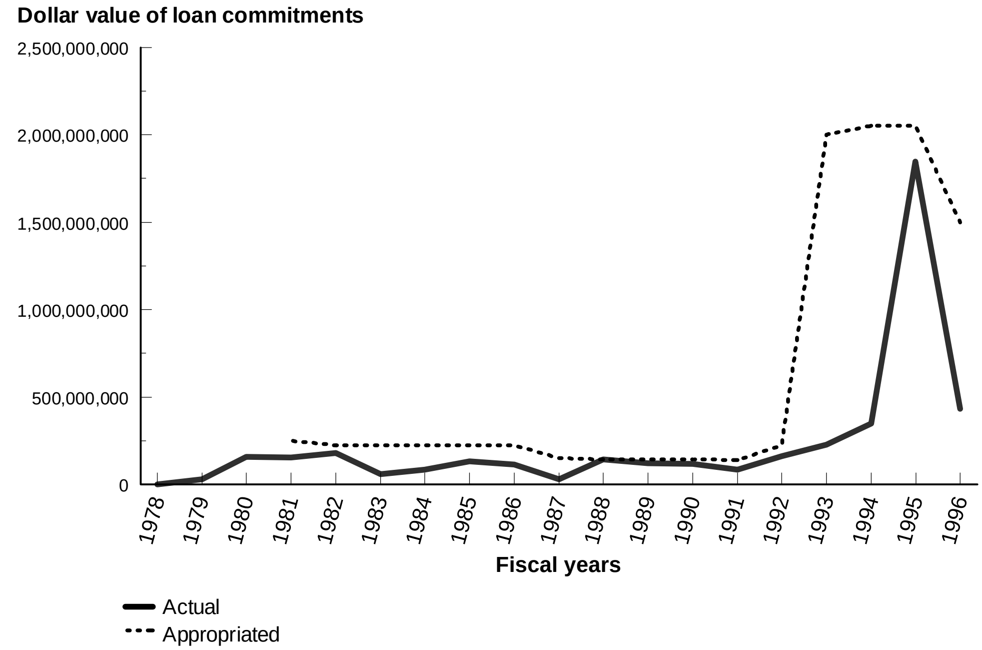


Source: GAO's analysis of HUD's data.

[2]In 1996 dollars, HUD's commitments totaled $5.2 billion from the program's inception through September 1996. When adjusted for inflation, commitments from 1994 through 1996 represent 52 percent of all commitments.

Entitlement communities used the program significantly more than nonentitlement communities. About 38 percent of entitlement communities have received 884 loan guarantees totaling $4.2 billion. Nonentitlement communities in 16 states have received 46 loan guarantees totaling $235 million. Even though the program has recently experienced significant growth, the level of loan commitments has always been below the level approved by the Congress. For example, in fiscal year 1995—the program's most active year—HUD approved $1.8 billion in commitments, while the Congress had appropriated $2.1 billion in commitments for that fiscal year. Figure 2 shows the level of commitments approved by the Congress and actual loan commitment levels through September 1996.

Figure 2: Actual Loan Dollars and Amount Approved by the Congress, Fiscal Years 1978-96



Source: GAO's analysis of HUD's data.

EDI Grants Spurred Program Growth, but Concerns About Collateral Remain

According to HUD and associations representing community development officials, EDI grants encouraged communities to make greater use of the loan program. HUD provided $369 million in EDI grants from fiscal year 1994 through September 1996. However, according to these officials, the program continues to be underutilized because (1) many communities and states are reluctant to pledge their future CDBG funds as collateral for the loans, as the 1974 act, as amended, requires, and (2) collateral requirements imposed in 1995 and new procedural guidelines are likely to make communities even more reluctant to use the program.

EDI Grants Encouraged Increased Loan Program Use

Recent growth in the use of the loan program was primarily stimulated by the introduction of EDI grants in fiscal year 1994, according to HUD and associations representing community development officials. HUD provided EDI grants for 123 out of the 395 loan commitments made between fiscal years 1994 and 1995. These EDI grants totaled $369 million. (App.1 provides detailed information on EDI grants approved during fiscal years 1994 through 1995.)

The EDI grants enhance the program's use because the communities and states can use the grant funds in a number of ways to cover the costs of administering the program, such as creating a loss reserve and writing down loan rates to businesses financing projects within the program. By helping to finance some of the projects' costs, the grant money also strengthens the economic feasibility of the assisted projects.

According to one CDBG entitlement community, the ability to receive an EDI grant along with a loan commitment from the loan fund was the key factor making it possible for the community to take out the loan. If not for the EDI grant, this community would have sought funds from alternative lending sources or issued bonds itself.

Communities may use their EDI grants in different ways. For example, in 1994, Los Angeles was awarded a $300 million loan commitment—the largest single loan amount granted under this program—to establish and assist in funding a community development bank. The bank's mission is to stimulate economic development that will create and/or retain jobs for Los Angeles' low- and moderate-income families. In addition to the loan commitment, the city was awarded a $100 million EDI grant, bringing the bank's total reserves to $400 million. The bank will provide loans, loan guarantees, venture capital investments, grants, and technical assistance to area businesses. In another instance, Kingston, New York, was awarded a $3.7 million loan to establish two revolving loan funds, one to rehabilitate housing and one to assist small businesses that are locating or expanding at a former IBM facility. In addition to the loan commitment, the city was awarded a $555,000 EDI grant to establish a revolving loan fund offering below-market interest rates for small businesses and a loan loss reserve.

Collateral Requirements May Discourage Use of the Loan Program

Even though communities and states generally view the loan program favorably, they have concerns about the current collateral requirements and the proposed guidance to communities on the collateral to be used when providing third-party loans. As the law requires, communities and states must pledge current and future CDBG grants as the principal collateral for their loan. According to officials from five of six associations that represent community development officials, the collateral requirements are a concern for their members. For example, one association representative told us that while many of the association's members who used the program viewed it positively, the overall membership was slow to use the program because of the requirement to pledge future CDBG grants.

Beginning in February 1995, HUD required all communities and states to pledge collateral beyond their CDBG grant. Previously, only communities and states that had loan repayment terms for 10 years or longer and, in some cases, loans with shorter repayment periods (such as those with "balloon" payments), had to pledge additional collateral. HUD's new requirement was in response to the Credit Reform Act of 1990 and resulting directives from the Office of Management and Budget (OMB). The 1990 act required agencies to calculate subsidy costs for loan guarantee programs. This cost is the amount of appropriation an agency must have in order to cover anticipated losses in the program. In calculating this cost, OMB told HUD that it cannot use future CDBG grants as the only source of collateral for the loan. If additional collateral were not required, the subsidy cost on the loan program would be prohibitively high. According to HUD's requirements, for loans that financed some type of tangible item, such as a building or equipment, the items themselves can serve as additional collateral. For public infrastructure activities, additional collateral will generally come from income related to CDBG activities, such as interest from repayments of housing rehabilitation loans. As a final option, communities can pledge revenues from future tax collections.

In addition to concerns about collateral, association officials questioned the proposed more stringent guidelines on third-party loans, such as loans that communities make to businesses. HUD plans to issue draft guidance for review and comment on the procedures that communities and states may follow in granting loans from the loan program to third parties. The proposed guidelines would seek to minimize third-party default rates by using commercial lending practices as the benchmark for the communities' own loan activities. HUD's program manager recognized that the new guidance may make communities more reluctant to use the program and acknowledged that HUD will have to find ways to help communities adapt to the new guidelines. HUD stated that it is proposing this guidance in response to the 1990 credit reform act, and we identified five instances in which third parties had defaulted on the loans they had received from the community that had secured the loan with its CDBG allotment. Nevertheless, several associations questioned this guidance because it moves the loan program toward more stringent commercial lending practices. They believed the use of more conservative lending practices as a benchmark for any public benefit program is unrealistic and inappropriate because such projects by their nature are riskier and would be unable to qualify in a conservative lending environment.

In a letter commenting on a draft of this report, HUD stressed that the underwriting guidelines will not be issued as regulations and their use will not be mandatory. HUD noted that the guidelines are not intended to be used in connection with improvements to public facilities and other activities that do not generate revenue, and that communities will still be able to use CDBG funds to repay loans used to finance activities that do not generate revenue. HUD also noted, however, that communities will have to furnish alternative security to protect the federal financial interest in the event that future appropriations are not made for the CDBG program.

According to one CDBG participant, that state chose not to participate in the loan program for its nonentitlement communities because pledging the state's future CDBG funds would put other nonentitlement communities at risk of losing their CDBG funds if the community receiving the funds were to default. This official added that while the benefits of leveraging future CDBG grants are tempting, the risk posed by the loan on future CDBG awards is too great because of the impact on countless low- and moderate-income persons around the state who depend on CDBG-funded activities.

HUD Does Not Track Communities' Use of CDBG Funds to Make Loan Payments

According to the director of HUD's loan program, communities intend, in most instances, to repay loans with revenues generated by the funded project or from another revenue source identified by the community or state in its loan application. The director emphasized that identifying a viable source of revenue other than the CDBG for loan payments was a critical consideration in HUD's review of a loan application. However, HUD was not able to provide information on communities' actual use of CDBG funds to cover shortfalls when the intended revenue sources for loan payments do not materialize because it has not been tracking these payments. The director agreed that this is important information that HUD should be tracking to improve its oversight of the program.

Communities Used Loans Primarily for Economic Development Activities

On the basis of our sample of 100 loans approved in fiscal years 1990 through 1996 that had funding advances, we estimated the types of activities reported as funded by the program for these years. Our analysis relied on the information that the communities and states reported to HUD. (App. II provides detailed information on loans approved in fiscal years 1990 through 1996 that had funding advances, and app. III provides detailed information, estimates, and sampling errors for the data presented in this report.)

By an overwhelming margin, both entitlement and nonentitlement borrowers reported that they used their loan funds to finance economic development activities. However, nonentitlement communities were more likely than entitlement communities to report that they used their funds for economic development. Table 1 shows our estimates of the types of activities funded overall and by entitlement and nonentitlement communities.

Table 1: Proportion of Loans Used to Fund Eligible Activities, as Reported by Entitlement and Nonentitlement Communities

Eligible activities	Overall (percent)	Entitlement communities (percent)	Nonentitlement communities (percent)
Economic development	73.2	72.1	87
Acquisition of real property[a]	12.3	11.9	17.4
Housing rehabilitation[b]	10.4	10.8	4.3
Public real property rehabilitation[c]	8.5	9.2	0
Relocation costs	5.2	5.2	4.3

Note: Because all nonentitlement communities were included in our sample, the percentages for these communities are actual and not estimates. The economic development activity is the only category in which we found a statistical difference between entitlement and nonentitlement communities. Percentages do not add up to 100 because, in reporting to HUD, communities and states could indicate more than one eligible activity.

[a]Projects such as the purchase of a commercial office property or property to house a local shopping center.

[b]Projects such as the rehabilitation of a school to convert the facility to housing units for the elderly.

[c]Projects such as engineering and design work associated with the development and construction of three public schools.

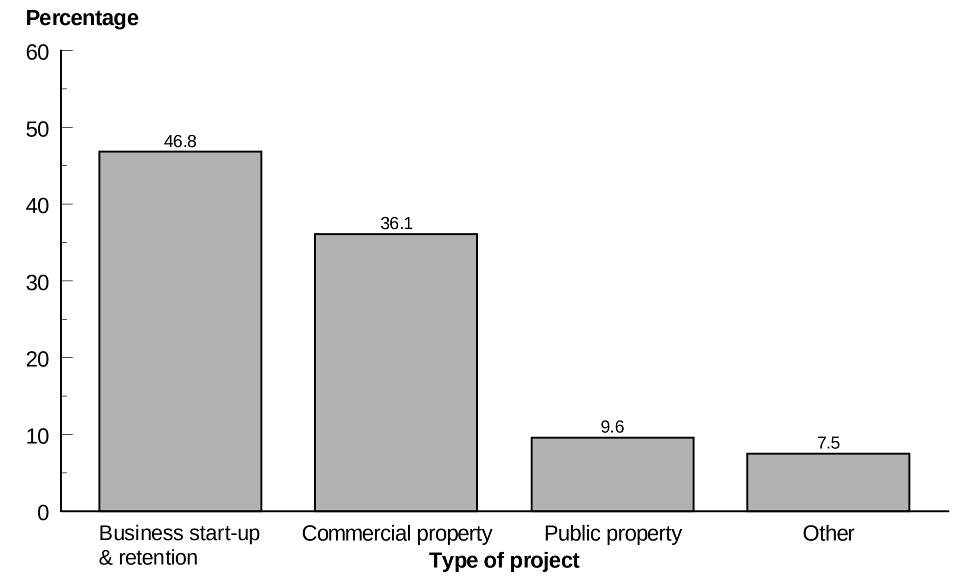
Source: GAO's analysis of HUD's data.

Loans for economic development were made for activities such as constructing shopping centers, creating revolving loan funds,[3] and rehabilitating hotels and restaurants. On the basis of the information provided to HUD by communities and states, we estimate that at least $1.3 billion was used to finance an economic development activity. This estimate is conservative and includes only instances in which the community reported funds being used for only one purpose. As noted earlier, in reporting to HUD, communities and states could indicate more than one eligible activity for the loan commitment.

Figure 3 shows our estimates of the type of economic development activities funded. As the figure shows, 46 percent of the loans went to support for-profit, start-up businesses or to retain for-profit businesses.

[3]Revolving loan funds provide an on-going stream of funding to small businesses by providing loans below the market rate.

Figure 3: Estimates of the Types of Economic Development Activity Funded



Establishing revolving loan funds is one method that communities use to make even greater use of CDBG funds by providing funding for businesses that might otherwise not qualify for commercial lending opportunities. While we estimate that only 6 percent of the loans were used to establish or enhance such funds, about half of the entitlement communities with the largest loans reported using loan commitments to finance a revolving loan fund. Only one nonentitlement community reported using loan proceeds for this purpose.

These revolving loan funds are used to finance a variety of businesses. For example, Philadelphia, Pennsylvania, reported using $20 million in loan proceeds to establish a revolving loan fund for small and mid-sized inner-city businesses. The program's goal is to foster the retention and expansion of inner-city businesses. Eligible businesses will receive long-term, fixed-rate loans that conventional banks have been unwilling to provide. Businesses that have received assistance from the fund include an insurance company, a wholesale food distributor, a smelting and refining company, an apparel warehouser and distributor, and a card and gift warehouser and distributor.

On the basis of the information in the loan files, we also estimate that communities and states used about 88 percent of their loans to finance activities that benefited low- and moderate-income people from households earning less than 80 percent of the local area's median income. For example, Greene County, Alabama, reported to HUD that it planned to use $9 million in loan proceeds to finance the construction of a 85,000-square-foot facility to house a tire and wheel assembly plant. The county estimates that the plant will create at least 180 new jobs, 51 percent of which will be for low- and moderate- income persons. Cheboygan, Michigan, reported using $3 million in loan proceeds to help a start-up, for-profit business purchase a vacant paper plant and industrial equipment. The plant will benefit the community by creating 100 jobs for low- to moderate-income persons, according to a state community development official.

About 23 percent of the loans funded activities that supported the national objective of aiding in the elimination of slums and blight. However, none of the loans funded activities that supported the national objective of addressing an urgent community development need. Percentages do not add up to 100 because, in reporting to HUD, communities and states could indicate more than one national objective.

Some Field Offices Are Not Including the Loan Program in CDBG Monitoring

According to its regulations, the Department must conduct an annual performance review of CDBG communities and states to determine whether CDBG-funded activities are being carried out (1) in a timely manner, (2) in accordance with approved plans, and (3) in compliance with primary and national objectives.[4]

Because the loan program is a component of the CDBG program, loan commitments should be included in annual reviews of CDBG recipients. However, in 5 of the 30 field offices we contacted, these loan commitments were not reviewed. These five offices accounted for about 26 percent of all loan commitments. The five offices that did not include loan fund activities said that they did not do so because they (1) did not believe they had guidance on how to monitor the program, (2) did not believe they had a responsibility to monitor the loans, (3) had other priorities, or (4) lacked loan-specific information. Another two field offices did not monitor these loans because one had recently opened and one had

[4]An annual review may consist of the field office's conducting (1) an on-site review during which a team of specialists reviews various aspects of a community's or state's activities to determine compliance with CDBG program requirements or (2) an in-house assessment during which HUD identifies areas in which communities are doing well and those in which they need improvement.

its records destroyed. The remaining 23 field offices included the loan fund activities in their review.

Even when the field offices include loan activities in the annual CDBG review, their task is made more difficult by poor communication between HUD headquarters and its field offices. According to officials in 7 of the 30 field offices we contacted, HUD representatives did not have enough information on loans to fully carry out their monitoring responsibilities. According to the HUD headquarters program director, field offices may not routinely receive copies of all loan documentation, but he was surprised to learn that some offices may not be receiving documentation containing sufficient information for monitoring purposes.

Conclusions

Communities and states have made greater use of the loan program since the EDI grants were instituted. Nonetheless, the total amount of money loaned has remained less than the amount that congressional appropriations would support. This may be due in part to communities' and states' reluctance to risk having to use future CDBG funds to repay loans. However, because HUD does not track the use of CDBG funds for loan payments, it does not know the extent to which CDBG funds have been used in this manner.

Furthermore, some HUD field offices have not been routinely including loan commitments in their oversight of CDBG communities and states. Seven different field offices were not getting information from headquarters on final loan terms, which affected their ability to monitor loan activities; and five field offices were not including loans in their monitoring of CDBG communities. With the increased growth in the loan program, the need to ensure that funds are being spent as reported is of even greater importance.

Recommendations

To determine the extent to which communities and states are using CDBG allotments to repay loans, the Secretary of Housing and Urban Development should implement procedures for tracking loan payments made from communities' or states' CDBG allocations.

To ensure that HUD's field offices have accurate and timely information for monitoring loan fund activities and that loan fund activities are routinely reviewed, the Secretary of Housing and Urban Development should

- develop procedures to ensure that the information necessary to monitor program performance and compliance with program requirements is promptly provided to the cognizant field offices and
- direct field offices to include a review of loan fund activities when they review CDBG communities and states.

Agency Comments

We provided a draft of this report to HUD for its review and comment. We obtained comments in a meeting with the Deputy Assistant Secretary for Grant Programs and other HUD officials and subsequently received written comments. In our meeting, the Deputy Assistant Secretary stated that HUD generally agreed with the information in our report and with our recommendations. He stressed HUD's commitment to making sure that it effectively oversees the loan program. The Deputy Assistant Secretary and the other officials provided suggestions for clarifying the report, which we incorporated as appropriate.

In its letter, HUD noted that it views the growth in the loan program as positive and encourages communities to use the program to create jobs and revitalize distressed neighborhoods. At the same time, HUD stated, it is mindful of its stewardship responsibilities and therefore considers our report as constructive and generally agrees with our recommendations. HUD raised several points about collateral requirements that, while consistent with our report, provided details of HUD's intent. HUD emphasized that the underwriting guidelines will not be issued as regulations and their use is not mandatory; rather, HUD views them as a tool for communities to underwrite revenue-generating projects financed with the loan fund. These guidelines will assist communities in protecting their CDBG programs and in providing adequate security for the loan guarantees. HUD also noted that the guidelines were not intended to be used for loans used to finance public facilities or other activities that do not generate income. Although HUD points out that the guidelines will not be mandatory, it was clear during our work that associations representing communities perceive the guidelines as requirements. Accordingly, we believe that the program may benefit from HUD's opening and maintaining a dialogue with communities as it develops these guidelines to ensure that they are understood and not viewed as an obstacle to using the program.

In connection with our recommendations, HUD agreed to implement procedures to require reporting of unplanned use of CDBG funds to make loan payments. However, our first recommendation goes beyond a reporting requirement. We believe that routine tracking of these data will provide HUD and communities with useful information on, among other things, the likelihood that communities may need to use future CDBG funds to repay loans when other intended revenue sources fail to materialize. In connection with our second recommendation, HUD noted that the distribution of oversight information needed by the field offices must be comprehensive and that while HUD has improved in this area in recent years, the current system is inadequate for accomplishing that result. HUD plans to implement our recommendation to correct this problem through a design change to its integrated disbursement and information system —a computer-based information system. HUD noted that it will consult with its field offices to ensure that they are receiving the information needed for monitoring. HUD also agreed to develop procedures to ensure that loan information is provided promptly to field offices and to direct field offices to include loan activities in their monitoring of CDBG recipients, as we recommend. HUD's written comments and our response appear in appendix VI.

We performed our review from November 1996 through July 1997 in accordance with generally accepted government auditing standards. As arranged with your office, unless you announce its contents earlier, we plan no further distribution of this report until 7 days after the date of this letter. At that time, we will send copies to appropriate congressional committees, the Secretary of Housing and Urban Development, and the Director of the Office of Management and Budget. We will also make copies available to others upon request.

Please call me on (202) 512-7631 if you or your staff have any questions. Major contributors to this report are listed in appendix VII.

Sincerely yours,

Judy England-Joseph

Judy A. England-Joseph
Director, Housing and Community
Development Issues

Contents

Abbreviations

CDBG	Community Development Block Grant
EDI	Economic Development Initiative
FMD	Financial Management Division
HUD	Department of Housing and Urban Development
OMB	Office of Mangement and Budget

EDI Grants and Economic Development Loan Fund Loans, Fiscal Years 1994 and 1995

This appendix presents information on Economic Development Initiative (EDI) grants and corresponding loans from the Economic Development Loan Fund for fiscal years 1994 and 1995.

Table I.1: Economic Development Initiative Grants and Economic Development Loan Fund Loans, Fiscal Year 1994

Community	Grant amount	Loan amount
Selma, Alabama	$330,000	$2,200,000
San Francisco, California	600,000	6,000,000
San Diego, California	720,000	7,200,000
Compton, California	500,000	5,000,000
Los Angeles County, California	1,000,000	10,000,000
Inglewood, California	500,000	5,000,000
San Bernadino, California	344,000	2,295,000
Lakewood, Colorado	45,000	450,000
Washington, D.C.	1,000,000	11,500,000
Miami Beach, Florida	1,000,000	12,670,000
Miami, Florida	300,000	2,000,000
Atlanta, Georgia	185,017	1,850,170
Atlanta, Georgia	617,000	6,170,000
Athens/Clarke County, Georgia	500,000	5,000,000
Atlanta, Georgia	197,983	1,979,830
Chicago, Illinois	1,000,000	10,000,000
Gary, Indiana	380,000	2,550,000
Indianapolis, Indiana	450,000	3,000,000
Louisville, Kentucky	700,000	7,000,000
Boston, Massachusetts	300,000	2,000,000
Lowell, Massachusetts	500,000	5,000,000
Worcester, Massachusetts	500,000	5,000,000
Prince George’s County, Maryland	600,000	6,000,00
Jackson, Michigan	315,000	2,110,000
Detroit, Michigan	243,000	1,626,521
Detroit, Michigan	90,000	600,000
Wilmington, North Carolina	150,000	1,000,000
Newark, New Jersey	129,000	1,290,000
Atlantic City, New Jersey	300,000	3,000,000
Syracuse, New York	129,000	1,290,000
Buffalo, New York	500,000	5,000,000
Babylon, New York	90,000	600,000
Buffalo, New York	129,000	1,290,000
Utica, New York	600,000	6,000,000

(continued)

Community	Grant amount	Loan amount
Rochester, New York	700,000	7,000,000
Cleveland, Ohio	306,000	2,044,250
Toledo, Ohio	129,000	1,290,000
Dayton, Ohio	129,000	1,290,000
Cleveland, Ohio	86,000	573,750
Philadelphia, Pennsylvania	1,000,000	10,000,000
Providence, Rhode Island	500,000	5,000,000
Columbia, South Carolina	227,000	1,515,000
Harris County, Texas	129,000	1,290,000
Fort Worth, Texas	660,000	6,600,000
Tacoma, Washington	165,000	1,135,000
Total fiscal year 1994	**$18,975,000**	**$181,409,521**

Table I.2: EDI Grants and Economic Development Loan Fund Loans, Fiscal Year 1995

Community	Grant amount	Loan amount
Selma, Alabama	$450,000	$450,000
South Gate, California	475,000	2,370,000
Alhambra, California	675,000	2,025,000
San Francisco, California	1,000,000	10,000,000
San Jose, California	475,000	2,710,000
San Bernadino County, California	475,000	1,360,000
Oakland, California	22,000,000	27,000,000
Fresno, California	1,000,000	1,630,000
Riverside, California	950,000	4,130,000
Sacramento, California	1,500,000	8,000,000
Pico Rivera, California	750,000	1,850,000
Los Angeles County, California	25,000,000	25,000,000
Los Angeles, California	100,000,000	300,000,000
San Diego, California	1,000,000	1,000,000
Denver, Colorado	1,000,000	3,330,000
Bridgeport, Connecticut	475,000	1,580,000
New Haven, Connecticut	1,000,000	2,000,000
Fort Myers, Florida	500,000	500,000
Miami, Florida	670,000	2,700,000
Gary, Indiana	1,000,000	4,680,000
Kansas City, Kansas	7,800,000	7,800,000
Louisville, Kentucky	4,000,000	4,000,000
Boston, Massachusetts	22,000,000	22,000,000
Fall River, Massachusetts	1,155,000	1,210,000

(continued)

Community	Grant amount	Loan amount
Lynn, Massachusetts	899,000	1,200,000
Lawrence, Massachusetts	1,000,000	6,670,000
Boston, Massachusetts	1,000,000	2,000,000
Lewiston, Maine	500,000	5,000,000
Detroit, Michigan	250,000	2,390,000
Detroit, Michigan	70,000	400,000
Detroit, Michigan	90,000	450,000
Saint Paul, Minnesota	1,000,000	4,000,000
Kansas City, Missouri	14,200,000	14,200,000
St. Louis, Missouri	1,000,000	1,000,000
Moss Point, Mississippi	475,000	1,900,000
Hudson County, New Jersey	1,000,000	8,300,000
Syracuse, New York	475,000	475,000
Buffalo, New York	1,000,000	3,400,000
Rochester, New York	475,000	1,900,000
Yonkers, New York	40,000	180,000
Elmira, New York	385,000	2,420,000
New York, New York	4,600,000	13,800,000
Kingston, New York	555,000	3,700,000
Yonkers, New York	41,000	170,000
Yonkers, New York	94,000	380,000
Warren, Ohio	170,000	1,000,000
Trumbull County, Ohio	340,000	2,000,000
Columbiana County, Ohio	102,000	600,000
Columbus, Ohio	1,000,000	9,000,000
Youngstown, Ohio	340,000	2,000,000
Akron, Ohio	300,000	1,700,000
Cleveland, Ohio	87,000,000	87,000,000
Cuyahoga County, Ohio	1,000,000	6,670,000
East Liverpool, Ohio	21,000	120,000
Youngstown, Ohio	435,000	3,300,000
Mahoning County, Ohio	170,000	1,000,000
Oklahoma City, Oklahoma	1,000,000	3,330,000
Tulsa, Oklahoma	1,000,000	2,800,000
Philadelphia, Pennsylvania	1,000,000	6,000,000
Pittsburgh, Pennsylvania	1,000,000	4,010,000
McKeesport, Pennsylvania	1,000,000	2,000,000
Harrisburg, Pennsylvania	1,000,000	2,430,000
Columbia, South Carolina	200,000	200,000

(continued)

Community	Grant amount	Loan amount
Houston, Texas	22,000,000	175,000,000
Abilene, Texas	1,000,000	2,800,000
Hidalgo County, Texas	250,000	1,000,000
Austin, Texas	475,000	475,000
Fillmore, Utah	200,000	650,000
Fairfax County, Virginia	150,000	1,000,000
Kitsap County, Washington	348,000	1,500,000
Tacoma, Washington	475,000	2,380,000
Kitsap County, Washington	475,000	920,000
Seattle, Washington	350,000	2,400,000
Spokane, Washington	1,000,000	6,610,000
Milwaukee, Wisconsin	1,000,000	1,700,000
Huntington, West Virginia	350,000	3,500,000
Cheyenne, Wyoming	105,000	695,000
Laramie, Wyoming	300,000	1,500,000
Total fiscal year-1995	**$350,055,000**	**$848,550,000**

Loan Fund Commitments, Fiscal Years 1990-96

State	Community	Project description	Amount	Fiscal year	Status
Ala.	Gadsden		$1,000,000	90	
Ala.	Mobile		1,000,000	94	
Ala.	Florence		800,000	95	
Ala.	Birmingham		3,300,000	95	
Ala.	Bessemer	Construction of a business incubator facility	1,000,000	92	Underway
Ala.	Selma	Renovation of a hospital into a medical clinic	2,200,000	95	Underway
Ala.	Mobile	Acqusition/Rehabilitation of a hotel	2,000,000	91	Completed
Ala.	Greene County	Financial assistance for business start up costs; construct plant	9,000,000	95	Underway
Ariz.	Little Rock		1,800,000	91	
Ariz.	Yuma		1,500,000	94	
Ariz.	Pima County		1,200,000	90	
Calif.	Riverside		4,130,000	95	
Calif.	Oakland		2,500,000	94	
Calif.	Norwalk		2,500,000	95	
Calif.	Los Angeles County		1,060,000	90	
Calif.	Lancaster		4,000,000	95	
Calif.	Westminster		2,900,000	95	
Calif.	Sacramento		805,000	93	
Calif.	Livermore		185,000	94	
Calif.	Sacramento		8,000,000	95	
Calif.	Sacramento County		2,020,000	93	
Calif.	Sacramento County		1,000,000	94	
Calif.	Vacaville		555,000	92	
Calif.	Sacramento		400,000	94	
Calif.	San Bernardino		500,000	94	
Calif.	Sacramento County		1,500,000	90	
Calif.	San Diego		4,400,000	94	
Calif.	Pasadena		3,725,000	93	
Calif.	Sacramento		1,250,000	90	
Calif.	San Diego		1,760,000	95	
Calif.	San Diego		990,000	94	
Calif.	San Bernardino		7,350,000	95	
Calif.	Sacramento	Establishment of a loan fund	1,000,000	93	Underway
Calif.	Los Angeles	Fund the Los Angeles Community Development Bank	300,000,000	95	Underway
Calif.	San Diego	Construction of a shopping center	7,200,000	95	Underway
Calif.	Chula Vista		750,000	91	

(continued)

State	Community	Project description	Amount	Fiscal year	Status
Calif.	Bakersfield	Purchase of furniture and fixtures for a convention center hotel	2,500,000	94	Completed
Calif.	Los Angeles	Housing rehabilitation, revolving loan fund	60,000,000	93	Underway
Calif.	Oakland	Renovation of the Martin Luther King, Jr. Plaza	10,945,000	95	Underway
Calif.	Oakland	Finance Enterprise Community economic development activities	27,000,000	95	Underway
Calif.	Santa Ana	Acquisition of land for street widening	20,000,000	93	Completed
Calif.	Sacramento County	Low interest loans for rehabilitation	360,000	90	Completed
Calif.	San Francisco	Capitalization of an existing revolving loan	50,000,000	95	Underway
Calif.	Alhambra		3,000,000	95	
Calif.	Carlsbad		1,200,000	94	
Calif.	Santa Ana		13,900,000	95	
Calif.	Huntington Park		2,970,000	95	
Calif.	San Mateo County		2,000,000	95	
Calif.	Woodland		800,000	95	
Calif.	Fresno		3,150,000	95	
Calif.	Downey		1,700,000	91	
Colo.	Denver	Establishment of three interim financing programs	15,000,000	93	Completed
Colo.	Lakewood		2,805,000	94	
Colo.	Lakewood	Construction of public facilities; infrastructure improvements	2,050,000	95	Underway
Colo.	Denver		1,300,000	93	
Colo.	Denver		7,000,000	94	
Conn.	Bridgeport		5,000,000	95	
Conn.	New Haven		5,000,000	91	
D.C.	Washington		5,000,000	92	
Fla.	Fort Myers	Construction of a shopping center	500,000	95	Underway
Fla.	Miami		2,500,000	93	
Fla.	Fort Myers	Acquisition/Redevelopment of land for low-income housing	750,000	93	Completed
Fla.	Jacksonville[a]	Acquisition/Renovation of a waterfront resturant	2,850,000	90	Underway
Fla.	West Palm Beach	Rehabilitation of two privately owned rental housing complexes	1,095,000	94	Don’t know
Fla.	Jacksonville		3,845,000	95	
Fla.	Pompano Beach		2,000,000	91	
Fla.	Jacksonville		10,000,000	94	
Fla.	Miami		8,000,000	90	

(continued)

State	Community	Project description	Amount	Fiscal year	Status
Fla.	Boca Raton		700,000	94	
Ga.	Savannah	Rehabilitation of 74 unit low- and moderate-income rental housing	1,855,000	92	Completed
Ga	Atlanta		6,170,000	95	
Ga	Atlanta		6,825,000	95	
Ga	Atlanta		4,980,000	93	
Ga	Macon		500,000	95	
Ga	Macon		2,500,000	93	
Ia	Des Moines		1,000,000	94	
Ia	Des Moines		1,000,000	95	
Ia	Des Moines		407,000	90	
Ia	Sioux City		600,000	92	
Ia	Dubuque		1,000,000	91	
Ia	Dubuque	Acquisition of land; construction of a hotel	1,200,000	90	Completed
Ill.	Chicago	Finance seven economic and community development programs	50,000,000	95	Underway
Ill.	Rockford		250,000	94	
Ill.	Schaumburg		550,000	93	
Ill.	Moline	Acquisition of land to redevelop harbor area	3,000,000	92	Underway
Ind.	South Bend		450,000	92	
Ind.	Hammond		1,050,000	93	
Ind.	South Bend		1,050,000	94	
Ind.	East Chicago		3,500,000	95	
Ind.	Gary		7,440,000	94	
Ind.	South Bend		750,000	90	
Ind.	Gary	Construction of a building leased to US Postal Service	3,470,000	95	Completed
Ind.	Indianapolis		3,200,000	95	
Kans.	Kansas City		7,800,000	95	
Kans.	Baxter Springs	Construct manufacturing facility; purchase equipment	7,000,000	94	Completed
La.	Kenner		700,000	92	
La.	Jefferson Parish		6,800,000	90	
La.	New Orleans	Conversion of a building into hotel suites	5,600,000	91	Underway
La.	Jefferson Parish[a]	Acquisition of equipment; refinance loan; working capital for for-profit business	2,625,000	94	Underway
Mass.	Malden	Finance handicapped accessibility improvements	500,000	95	Completed
Mass.	Boston	Establishment of the Enterprise Community Economic Development Loan program	22,000,000	95	Underway

(continued)

State	Community	Project description	Amount	Fiscal year	Status
Mass.	Lawrence		700,000	93	
Mass.	Lynn		7,890,000	92	
Mass.	Lowell		10,000,000	94	
Mass.	Springfield	Construction of a medical center	900,000	94	Completed
Mass.	Boston	Construction of hotel and parking garage	40,000,000	94	Underway
Mass.	Lynn	Acquisition/Site preparation work for schools and firehouses	3,400,000	95	Completed
Mass.	Westfield	Working capital for local manufacturer	2,200,000	94	Underway
Mass.	Malden	Acquisition/Relocation/Demolition of commercial buildings	1,800,000	92	Underway
Mass.	Salem		600,000	95	
Mass.	Springfield		350,000	94	
Mass.	Lynn		3,000,000	95	
Mass.	Cambridge		1,000,000	94	
Mass.	Gloucester		1,750,000	94	
Mass.	Medford		3,500,000	94	
Mass.	Cambridge		5,000,000	93	
Mass.	Malden		3,000,000	95	
Mass.	Springfield		2,000,000	95	
Mass.	Malden		475,000	90	
Md.	Baltimore		4,700,000	93	
Md.	Cumberland		550,000	94	
Md.	Baltimore		14,000,000	95	
Md.	Annapolis		210,000	94	
Md.	Prince George’s County	Acquisition/Renovation of a shopping center	6,000,000	95	Underway
Md.	Prince George’s County		1,600,000	93	
Md.	Baltimore		6,750,000	91	
Me.	Lewiston		500,000	95	
Mich.	Cheboygan	Assistance to for-profit business for purchase of a vacant paper plant and machinery	3,000,000	93	Completed
Mich.	Royal Oak		2,400,000	92	
Mich.	Saginaw	Rehabilitation of a parking garage	1,715,000	93	Completed
Mich.	Bay City	Renovation of commercial property into printing, graphics arts and sales facility	350,000	90	Completed
Mich.	Muskegon	Purchase private property ; removal/installation of public facilities and improvements	650,000	92	Completed

(continued)

State	Community	Project description	Amount	Fiscal year	Status
Mich.	Royal Oak		3,097,000	90	
Mich.	Detroit		2,000,000	90	
Mich.	Norton Shores		250,000	94	
Mich.	Detroit		3,060,000	95	
Mich.	Waterford		255,000	93	
Mich.	St. Clair Shores		1,250,000	91	
Mich.	Detroit		2,000,000	92	
Mich.	Detroit	Construction of 23,000 sq foot addition to Riverbend Shopping Center	1,150,000	95	Completed
Mo.	Kansas City		1,600,000	95	
Mo.	Kansas City		1,500,000	95	
Mo.	Kansas City		1,500,000	94	
Mo.	Kansas City		500,000	94	
Mo.	Kansas City		5,000,000	94	
Mo.	Kansas City		2,000,000	92	
Mo.	Kansas City		3,250,000	92	
Mo.	Kansas City		3,000,000	90	
Mo.	Kansas City	Construction/Rehabilitation of a building used by public service organization	250,000	94	Completed
Mo.	St. Joseph[a]	Renovation of building and provide business expansion opportunities	1,260,000	93	Underway
Mo.	St. Louis	Housing and neighborhood development; land acquisition; economic development activities	15,000,000	90	Completed
Mo.	Kansas City	Acquisition/Relocation/Demolition of blighted and substandard properties	4,500,000	92	Completed
Miss.	Greenville	Construction of water and sewer facilities; acquisition of real property; relocation costs	2,445,000	93	Underway
Mont.	Billings		400,000	90	
N.C.	Greensboro		1,640,000	94	
N.C.	Gastonia		3,305,000	94	
N.C.	Charlotte	Rehabilitation of a historic mill into low-income housing units	1,645,000	95	Completed
Nebr.	Lincoln		675,000	91	
Nebr.	Lincoln		315,000	94	
N.H.	Portsmouth	Acquisition/Rehabilitation of the Mariner's Village housing complex	820,000	94	Completed
N.J.	Jersey City		8,000,000	95	
N.J.	Elizabeth		5,000,000	91	
N.J.	Trenton		6,000,000	92	

(continued)

State	Community	Project description	Amount	Fiscal year	Status
N.J.	Hudson County		5,000,000	92	
N.J.	Camden		475,000	92	
N.J.	Camden		3,000,000	90	
N.J.	West Windsor Township	Provide working capital, acquire office property and machinery	870,000	96	Underway
N.J.	Camden	Construction of an industrial building and provide permanent financing	180,000	92	Underway
N.J.	Egg Harbor City	Finance for-profit business' acquisition of fixed assets and provide working capital	3,550,000	93	Underway
N.J.	Pohatcong Township	Acquisition/Rehabilitation of a facility into a hotel	4,495,000	93	Underway
N.J.	Buena Vista Township[b]	Assistance to for-profit business; working capital and expansion	1,400,000	93	Terminated
N.J.	Wanaque	Acquisition of land and construction of a supermarket	2,310,000	95	Underway
N.Y.	Rochester		500,000	94	
N.Y.	Utica		9,000,000	92	
N.Y.	Rochester		2,000,000	94	
N.Y.	Union		2,000,000	95	
N.Y.	Middletown		70,000	95	
N.Y.	Buffalo		5,000,000	95	
N.Y.	Rochester		10,000,000	94	
N.Y.	Nassau County		6,025,000	92	
N.Y.	Binghamton		4,205,000	92	
N.Y.	Buffalo		1,000,000	93	
N.Y.	Buffalo		5,000,000	92	
N.Y.	Newburgh		1,500,000	92	
N.Y.	Syracuse		14,395,000	92	
N.Y.	Suffolk County		1,500,000	95	
N.Y.	Rochester		4,000,000	91	
N.Y.	Buffalo		8,000,000	90	
N.Y.	Rochester	Establishment of revolving loan fund for commercial and industrial projects	5,000,000	92	Don't know
N.Y.	Buffalo	Refinance an existing Section 108 loan and make improvements to hotel.	2,200,000	94	Completed
N.Y.	Yonkers	Provide working capital for credit worthy businesses, finance site improvement	18,000,000	95	Underway
N.Y.	Kingston	Assistance in capitalization of a revolving loan fund	3,700,000	95	Underway
N.Y.	Babylon	Acquisition/Rehabilitation of shopping centers	1,600,000	94	Underway

(continued)

State	Community	Project description	Amount	Fiscal year	Status
N.Y.	Monroe County	Expansion of an ice arena and various other projects.	6,345,000	94	Don't Know
N.Y.	Binghamton	Refinance an existing Section 108 loan to retain 119 jobs	800,000	94	Completed
N.Y.	Buffalo	Purchase 5 new fire trucks	2,235,000	95	Underway
N.Y.	Buffalo	Refinance loan, renovate property, re-open restaurant	3,000,000	94	Don't know
N.Y.	Buffalo	Rehabilitation of a vacant store and establish a revolving loan fund	1,290,000	95	Has not started
O.H.	Youngstown		1,250,000	90	
O.H.	Youngstown		1,275,000	90	
O.H.	Euclid		1,250,000	93	
O.H.	Columbus	Rehabilitation of 400 room ocupancy units in YMCA	8,360,000	95	Underway
O.H.	Cleveland	Establishment of two loan programs for economic development activities	87,000,000	95	Don't know
O.H.	Warren		650,000	90	
O.H.	Youngstown		810,000	92	
O.H.	Cleveland		2,100,000	95	
O.H.	Youngstown		850,000	94	
O.H.	Cleveland Heights		700,000	92	
O.H.	Cincinnati		9,400,000	90	
O.H.	Youngstown		650,000	94	
O.H.	Canton		5,000,000	94	
O.H.	Youngstown		2,500,000	93	
O.H.	Akron		1,700,000	95	
O.H.	Lake County		3,000,000	93	
O.H.	Lorain		170,000	92	
O.H.	Toledo		550,000	96	
O.H.	Lorain		350,000	91	
O.H.	Youngstown		2,300,000	96	
O.H.	Youngstown		300,000	95	
O.H.	Toledo		650,000	95	
O.H.	Lorain		2,200,000	92	
O.H.	Youngstown	Construction of a manufacturing facility, equipment acquisition	4,000,000	93	Completed
O.H.	Cleveland	Renovation of 3 vacant buildings in the city's historic warehouse district	2,100,000	95	Completed
O.H.	Barberton	Renovation of theater, restaurant, and amusement center	2,225,000	93	Completed

(continued)

State	Community	Project description	Amount	Fiscal year	Status
Okla.	Shawnee		450,000	95	
Okla.	Oklahoma City	Establishment of a loan fund for business creation and expansion	20,000,000	93	Has not started
Pa.	Allentown		1,900,000	91	
Pa.	Berks County		2,000,000	94	
Pa.	Bethlehem		1,364,000	91	
Pa.	Easton		1,000,000	94	
Pa.	Erie		2,000,000	93	
Pa.	Harrisburg		1,680,000	90	
Pa	Johnstown		5,500,000	94	
Pa.	Montgomery County		500,000	90	
Pa.	Philadelphia		8,915,000	94	
Pa.	Philadelphia		800,000	92	
Pa.	Norristown		550,000	90	
Pa.	Philadelphia		3,000,000	94	
Pa.	Lancaster		1,500,000	94	
Pa.	Scranton		1,000,000	92	
Pa.	Reading		580,000	92	
Pa.	Philadelphia	Establishment of loan pool	20,000,000	95	Underway (all projects)
Pa.	Cambria County	Acquisition/Modernization of former steel facility	3,000,000	94	Completed
Pa.	Philadelphia	Expansion/Enhancement of an existing Section 108 loan program	30,000,000	95	Has not started
Pa.	Philadelphia	Renovation of building into a 351 room hotel	16,000,000	95	Underway
Pa.	Allentown	Acquisition/Clearance of obsolete structures for installation of public facilities	4,000,000	95	Underway
Pa.	Scranton	Assistance to for-profit business in the development of a downtown mall	9,957,000	91	Don’t know
P.R.	Caguas	Final improvements on Civic Center Complex	2,800,000	91	Completed
P.R.	Cayey		4,800,000	95	
P.R.	Vieques	Construction of a sports complex	5,000,000	94	Underway
P.R.	Ponce	Acquisition of building and land, district redevelopment, and construction	20,600,000	95	Underway
P.R.	Cayey		5,000,000	95	
P.R.	Vega Baja		6,455,000	95	
P.R.	Vega Baja		4,500,000	94	
P.R.	Carolina		8,000,000	93	
P.R.	Toa Baja		7,600,000	92	
P.R.	Toa Baja		9,550,000	95	

(continued)

State	Community	Project description	Amount	Fiscal year	Status
P.R.	Fajardo		2,500,000	95	
P.R.	Fajardo		3,700,000	91	
P.R.	Trujillo Alto		1,600,000	90	
P.R.	Aguadilla		3,200,000	90	
P.R.	Arecibo		9,575,000	94	
P.R.	Guaynabo	Rehabilitation of a public facility and make various site improvements	9,870,000	95	Underway
P.R.	Dorado	Rehabilitation of public facilities for arts theater; acquisition/rehabilitiation of commercial property	4,105,000	95	Underway
P.R.	Barceloneta	Site improvements on land	2,800,000	95	Completed
R.I.	Providence		9,000,000	92	
R.I.	Providence	Partially finance the rehabilitation of the Performing Arts Center	2,000,000	94	Don’t know
R.I.	Newport	Acquisition/Rehabilitation of a closed and vacant school	1,350,000	94	Completed
R.I.	Providence		2,000,000	93	
R.I.	Cranston		285,000	93	
R.I.	Providence		1,500,000	94	
S.C.	Greenville		750,000	95	
S.C.	Lexington County	Partially fund the start up of a regional airline carrier	12,000,000	94	Underway
S.C.	Columbia		1,515,000	94	
S.C.	Charleston		4,250,000	94	
S.C.	Berkeley County[c]	Acquisition of a closed industrial facility	12,000,000	95	Foreclosure
S.C.	Columbia	Assistance in the acquisition of a 25 acre site for redevelopment	1,515,000	95	Underway
Tenn.	Nashville		2,500,000	90	
Tenn.	Memphis		3,350,000	94	
Tex.	Abilene		190,000	90	
Tex.	Fort Bend		1,030,000	95	
Tex.	Bryan		500,000	94	
Tex.	Port Arthur		565,000	94	
Tex.	Hidalgo County		335,000	90	
Tex.	Tyler		400,000	90	
Tex.	Abilene		1,865,000	92	
Tex.	Harris County		1,290,000	95	
Tex.	San Benito[d]	Business expansion	820,000	90	Terminated

(continued)

State	Community	Project description	Amount	Fiscal year	Status
Tex.	Dallas	Rehabilitation/Conversion of building into multi-family rental units	25,000,000	94	Some underway; some haven't started
U.T.	Fillmore City	Construction of a facility, acquisition of machinery; training	650,000	95	Underway
U.T.	Salt Lake County		5,000,000	93	
Va.	Fairfax County		5,691,000	90	
Va.	Fairfax County		2,120,000	91	
Va.	Fairfax County		4,755,000	92	
Va.	Fairfax County		500,000	94	
Va.	Fairfax County		500,000	95	
Va.	Fairfax County		80,000	95	
Va.	Roanoke		3,470,000	91	
Va.	Roanoke		2,530,000	92	
Va.	Richmond	Acquisition/Rehabilitation of real property, clearance and relocation	15,000,000	92	Underway
Va.	Virginia Beach	Housing rehabilitation in three targeted neighborhoods	2,000,000	93	Underway
Wash.	Seattle	Assistance in financing,expanding and stabalizing a shopping center	2,400,000	95	Completed
Wash.	Spokane		5,555,000	91	
Wash.	Tacoma		1,135,000	95	
Wash.	Bellingham	Gap financing for private businesses to revitalize central business district	1,755,000	90	Completed
Wash.	Hoquiam	Working capital to acquire and reopen a paper mill	3,300,000	94	Completed
Wash.	Tacoma	Acquisition of first mortgage on downtown hotel	5,180,000	93	Completed
Wash.	Ocean Shores	Finance construction and permanent financing of a full service hotel	3,600,000	94	Completed
Wash.	Leavenworth	Finance land, equipment, and other costs to develop amusement center	2,220,000	95	Completed
Wash.	Seattle	Acquisition of a building to eliminate slum and blight on a spot basis	24,200,000	94	Completed
Wis.	Wausau		2,000,000	95	
Wyo.	Cheyenne		800,000	95	
Wyo.	Laramie	Assistance in financing a distribution and manufacturing facility	1,500,000	95	Completed
TOTAL			**$1,738,916,000**		

(Table notes on next page)

Note: Project descriptions are included for the 100 loans in our sample.

[a]Loan to a for-profit business is in default. The community is repaying the loan.

[b]Loan to a for-profit business is in default. The state is repaying the loan

[c]State is foreclosing on for-profit business. The state is repaying the loan.

[d]HUD terminated the project due to the community's mismanagement of loan funds. The community is repaying the loan.

Estimates and Related Sampling Errors for Projected Data

Description	Estimate	Sampling error	Confidence interval From	Confidence interval To
What type of activity was financed with the loan? (%)				
Economic development activities	73.2	9.0	64.2	82.2
Acquisition of real property	12.3	6.1	6.2	18.4
Housing rehabilitation	10.4	6.1	4.3	16.5
Public property rehabilitation	8.5	5.7	2.8	14.2
What type of activity was financed with the loan by entitlement communities? (%)				
Economic development activities	72.1	9.4	62.7	81.5
Acquisition of real property	11.9	6.5	5.4	18.4
Housing rehabilitation	10.8	6.5	4.3	17.3
Public property rehabilitation	9.2	5.9	3.3	15.1
Relocation costs	5.2	4.7	0.5	9.9
What type of activity was financed with the loan by non-entitlement communities? (%)				
Economic development activities	87.0	Not applicable		
Acquisition of real property	17.4	Not applicable		
Housing rehabilitation	4.3	Not applicable		
Public property rehabilitation	0	Not applicable		
Relocation costs	4.3	Not applicable		
What percentage of loans fulfilled the national objectives?				
National objective to benefit low- and moderate-income people	88.4	6.7	81.7	95.1
National objective to reduce slums and blight	23.2	8.4	14.8	31.6
What amount of loan proceeds were used to finance economic development activities?				
At least this amount of loan proceeds to finance economic development activities	$1,303,483,421	$2,738,961	$1,300,744,460	$1,306,222,382
What number of loans were used to finance economic development activities?				
At least this number of loans to finance economic development activities	210	20	190	230
What percentage of loans financed specific types of economic development activities?				
Financing acquisition, construction, or renovation of commercial properties	36.6	11.4	25.2	48.0

(continued)

Description	Estimate	Sampling error	Confidence interval From	Confidence interval To
Financing acquisition, construction, or renovation of public property	9.6	6.9	2.7	16.5
Financing business start up or retention of for-profit business/ revolving loan funds	46.4	11.6	34.8	58.0
What number of loans financed specific types of economic development activities?				
Financing acquisition, construction, or renovation of commercial properties	84	28	56	112
Financing acquisition, construction, or renovation of public property	22	14	8	36
Financing business start up or retention of for-profit business/ revolving loan funds	106	29	77	135
What percentage of loans financed revolving loan funds?				
Financing revolving loan funds-all loans	6.2	3.7	2.5	9.9
Financing revolving loan funds-top 20 entitlement communities	45.0	Not applicable		
Financing revolving loan funds-non-entitlement communities	4.3	Not applicable		
What number of loans financed revolving loan funds?				
Financing revolving loan funds-all loans	19	12	7	31
Financing revolving loan funds-top 20 entitlement communities	9	Not applicable		
Financing revolving loan funds-non-entitlement communities	1	Not applicable		
What percentage of loans received reviews?				
Receiving technical assistance	24.2	8.8	15.4	33.0
Receiving an on-site inspection	29.4	8.6	20.8	38.0
Receiving an annual in-house assessment	54.9	9.6	45.3	64.5
Receiving another type of review	7.9	5.4	2.5	13.3

(continued)

Description	Estimate	Sampling error	Confidence interval From	Confidence interval To
For the field offices that do not routinely include a review of Economic Development Loan Fund loans, what is the percentage of loans for which those field offices are responsible?				
Loan responsibility for the 5 field offices not routinely including a review of the loan in their regular CDBG monitoring	26.5	8.8	17.7	35.3
Loan responsibility for the 7 field offices who did not routinely have the final loan terms	39.6	9.8	29.8	49.4
For the field offices that do not routinely include a review of Economic Development Loan Fund loans, what is the amount of loans for which those field offices are responsible?				
Amount of funds for the 5 field offices not routinely including a review of the loan in their regular CDBG monitoring	$292,746,316	$735,649	$292,010,767	$293,481,965
Amount of funds for the 7 field offices that did not routinely have the final loan terms	$792,141,053	$1,128,487	$791,012,566	$793,269,540

Objectives, Scope, and Methodology

As requested, we reviewed (1) the extent to which communities and states are using the loan fund; (2) factors affecting communities' and states' willingness to use the program; (3) the types of projects being financed with loan proceeds; and (4) the Department of Housing and Urban Development 's (HUD) procedures for overseeing the program.

To obtain information on the loan fund, we reviewed the program's history, regulations, policies, and procedures. We also reviewed HUD's annual reports to the Congress for community development programs for 1994 and 1996.[5] We interviewed the Director, Office of Block Grant Assistance; the Director, Financial Management Division (FMD) (the loan fund program office); FMD representatives; HUD Community Planning and Development officials in HUD field offices in Atlanta, Georgia; Columbia, South Carolina; and Portland, Oregon. We also interviewed community development officials for the states of Georgia and South Carolina, and the cities of Atlanta, Georgia, and Columbia, South Carolina. We reviewed Inspector General reports issued as of January 7, 1997.

To determine the extent to which communities and states use the program, we obtained and analyzed FMD's database of HUD's loan fund. We identified the manner in which the data were collected and summarized. We reviewed annual reports to the Congress for community development programs for 1994 and 1996. We interviewed the Director, Financial Management Division, and Community Planning and Development officials at HUD's field offices in Atlanta, Georgia, and Columbia, South Carolina.

To identify the factors affecting communities' willingness to use the program, we interviewed officials of associations that represent communities eligible for the program, including the Council of State Community Development Agencies, the National Congress for Community Economic Development, the National Council for Urban Economic Development, the U.S. Conference of Mayors, the National Community Development Association, and the National Association of State Development Agencies. We discussed this issue with the Director of HUD's Financial Management Division; and HUD Community Planning and Development officials at two HUD field offices. In addition, we interviewed state community development officials in Georgia and South Carolina, and city development officials in Atlanta and Columbia. We also reviewed documentation obtained during these interviews.

[5]The fiscal year 1996 contains program results for 1995 and 1996.

To identify the types of projects financed with loan proceeds, we obtained and analyzed FMD's database of HUD's loan fund. We developed two data collection instruments to obtain additional information about loan commitments. With the first, we recorded data from loan files on the activities communities and states financed with loan proceeds. With the second, we conducted a telephone survey with HUD community planning and development officials at HUD field offices responsible for monitoring loan commitments in our sample. HUD program officials reviewed and commented on the telephone data collection instrument, and we incorporated their suggested changes. (App. V shows the locations of HUD field offices contacted.) In developing these instruments, we interviewed program officials, reviewed Economic Development Loan Fund legislation and regulations, and examined selected loan fund files.

We used these data collection instruments to collect information about a sample of loan commitments. We selected a stratified random sample of 100 loan commitments approved (out of 313 loan commitments) in fiscal years 1990 through 1996 that had funding advances. We included all loan commitments of $15 million and above (20 loans) given to entitlement communities and states, all loan commitments to nonentitlement communities (23 loans), and a random sample of the remaining loan commitments to entitlement communities and states (57 of 270 loans). We appropriately weighted the information to take into consideration the stratification used to select loan commitments.

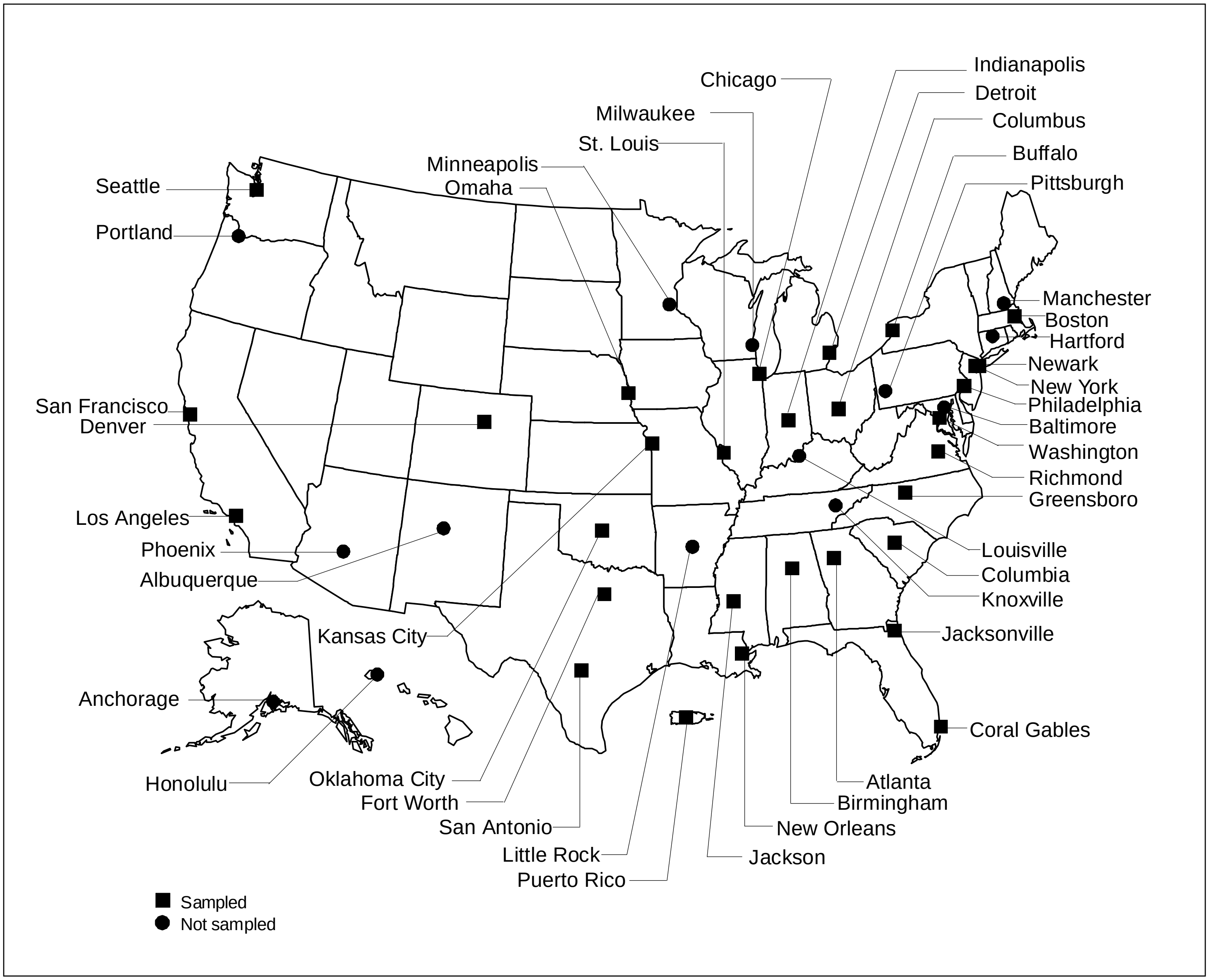
Since we used a sample (called a probability sample) of loan commitments to develop our estimates, each estimate has a measurable precision, or sampling error, that may be expressed as a plus/minus figure. A sampling error indicates how closely we can reproduce from a sample the results that we would obtain if we were to take a complete count of the universe using the same measurement methods. By adding the sampling error to and subtracting it from the estimate, we can develop upper and lower bounds for each estimate. This range is called a confidence interval. Sampling errors and confidence intervals are stated at a certain confidence level—in this case, 95 percent. For example, a confidence interval at the 95-percent confidence level means that in 95 out of 100 instances, the sampling procedure we used would produce a confidence interval containing the universe value we are estimating.

To determine HUD's monitoring of the program, we conducted a telephone survey of HUD community planning and development officials in HUD field offices responsible for monitoring loan fund commitments in our sample.

This resulted in our interviewing HUD officials in 30 of 44 field offices. We also obtained and reviewed HUD reports of the most recent monitoring activities performed on the CDBG communities or states that held the respective loan commitments.

Using the information collected about the sample of 100 loans, we are able to provides estimates for the 313 loan commitments approved in fiscal years 1990 and 1996 which had funding advances. Appendix IV provides the sampling errors of estimates, referred to in this report, that were made from the above mentioned data collection instruments. In contrast, information obtained from the 30 of 44 field offices is not projectable to the program, as a whole. However, we were able to describe these offices in terms of the number of loan commitments for which they were responsible.

HUD Field Offices Surveyed



Comments From the Department of Housing and Urban Development

Note: GAO comments supplementing those in the report text appear at the end of this appendix.

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, D.C. 20410-7000

OFFICE OF THE ASSISTANT SECRETARY FOR
COMMUNITY PLANNING AND DEVELOPMENT

JUL 28 1997

Ms. Judy England-Joseph
Director, Housing and Community
Development Issues
United States General Accounting Office
Washington, D.C. 20548

Dear Ms. England-Joseph:

See comment 1.

This is in response to your request for HUD's comments on the proposed report entitled Economic Development: Use and Oversight of HUD's Growing Loan Program (GAO/RCED-97-195). The report notes that the Section 108 program has experienced significant growth in recent years as more communities have taken advantage of this financing tool for community and economic projects. As noted in the report, this growth is in large part due to the Economic Development Initiative (implemented in 1994).

HUD views this growth as positive and encourages communities to consider using Section 108 to create jobs and revitalize distressed neighborhoods. At the same time, HUD is mindful of its stewardship responsibilities and welcomes any suggestions that will make our oversight of the Section 108 program more effective. In this regard, HUD considers the comments contained in the GAO report as constructive and in general agrees with its recommendations.

Oral comments were provided by HUD officials in their meeting with you and your staff on July 24, 1997. However, the following comments should be included in the final report.

Collateral requirements

See comment 2

Several points should be made regarding the concerns expressed by recipients and their associations concerning collateral requirements. The underwriting guidelines cited in the report have not nor will be issued as regulations and their use is not mandatory. They should be viewed as a tool for communities to underwrite revenue generating projects that are to be financed with Section 108 funds. The guidelines will assist communities in protecting their CDBG programs and in providing adequate security for Section 108 loan guarantees.

See comment 3.

These guidelines are not intended for use in connection with public facilities improvements and other activities which fail to generate revenue. Further, communities can still use CDBG funds, if available, to repay the Section 108 loans used to finance these non-revenue generating activities (although the community will have to furnish alternative security to protect the Federal financial interest in the event future appropriations are not made for the CDBG program).

The guidelines should not be viewed as an obstacle to carrying out activities with Section 108 loan funds. They provide public entities with a framework for making informed lending decisions that protect both their interests and the interests of HUD. They are not intended to force all loans to meet the same criteria. Section 108 can still be used to finance economic development projects in distressed areas. Indeed, since the Section 108 collateral requirements have been changed, HUD has continued to issue loan guarantees for such projects.

Inclusion of Section 108 Program in CDBG Monitoring

In recent years, HUD has improved its performance in providing field offices with loan information (23 of the 30 field offices indicated no problems in receiving information). Notwithstanding this improvement, it is apparent from the results of the GAO survey that such information is not getting through to all field offices. HUD agrees that the information distribution must be comprehensive and agrees that the current system is inadequate to accomplish that result.

That system relies on providing field offices with copies of correspondence between HUD headquarters and Section 108 borrowers on financing transactions and other paper documentation. HUD plans to implement a more effective and efficient system for furnishing information to field offices. The new approach will be implemented as a design change to HUD's integrated disbursement and information system (IDIS). Information on the use of funds, commitments, and actual borrowings can be provided more efficiently and reliably through IDIS. It is important to emphasize that the significant downsizing that has occurred (and that will continue to occur) in HUD staffing levels requires the optimum efficiency that can be obtained from computer based information systems (such as IDIS). HUD Headquarters will obtain field office input to ensure the field offices are receiving the information needed for monitoring.

See comment 4.

Accordingly, HUD agrees to develop procedures to ensure that information necessary for monitoring the use of guaranteed loan funds will be provided promptly to field offices. HUD also agrees with the recommendation that field offices be directed to include Section 108 activities in their monitoring of CDBG recipients.

See comment 5.

Tracking Use of CDBG Funds for Loan Payment

Although recipients are already required to report on the use of CDBG funds for Section 108 loan payments, the current reporting does not distinguish planned from unplanned uses of CDBG funds for Section 108 payments. The unplanned usage occurs when sources other than CDBG funds fail to materialize and CDBG funds must be used to cover the shortfall. HUD agrees to implement procedures to require reporting on such unplanned uses.

Very sincerely yours,

Jacquie M. Lawing

Jacquie M. Lawing
Acting Assistant Secretary

GAO's Comments

1. We revised the title of the report after we sent it to HUD for comment.

2. We added a discussion of HUD's view of the underwriting guidelines to the text and at the end of the report. As we point out, although HUD may not regard the collateral guidelines as mandatory, the associations we spoke with perceived that they will be required. We believe the program may benefit if HUD would open and maintain a dialogue with communities as it develops these guidelines to ensure that they are understood and not viewed as an obstacle to using the program.

3. HUD's comment addressed the first part of our second recommendation. HUD noted that the distribution of oversight information needed by the field offices must be comprehensive and that, while HUD has improved in this area in recent years, the current system—as our report points out— is inadequate to accomplish that result. HUD plans to implement our recommendation through a design change to its integrated disbursement and information system—a computer-based information system. As we discussed, HUD noted that it will consult with its field offices to ensure that the field offices are receiving the information needed for monitoring.

4. HUD's comment addressed the first and second part of our second recommendation. As we discussed, HUD agreed to develop procedures to ensure that the necessary monitoring information is provided promptly to field offices and to direct field offices to include loan activities in their monitoring of CDBG recipients as we recommend. We discuss this at the end of our report.

5. HUD's comment addressed our first recommendation. HUD agreed to implement procedures to require reporting of unplanned use of CDBG funds to make loan payments. However, our recommendation goes beyond a reporting requirement. As we discussed, we believe that routine tracking of these data will provide HUD and communities with useful information on, among other things, the likelihood that communities may need to use future CDBG funds to repay loans when other intended revenue sources fail to materialize.

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