

Economic Development for the Community Development Block Grant Program

Economic Development for the Community Development Block Grant Program

Congressional Findings in the HCDA

Section 101

“to address the economic ... hardships”

**“the alleviation of physical and economic distress
through the stimulation of private investment”**

Economic Development for the Community Development Block Grant Program

Eligible Activities of the HCDA

Section 105(a)

(17) provision of assistance to private, for-profit entities, when the assistance is appropriate to carry out an economic development project

Economic Development for the Community Development Block Grant Program

Eligible Activities of the HCDA

Section 105(e) Guidelines for evaluating and selecting economic development projects

**(1) The Secretary shall establish, ...guidelines ... to
evaluate and select activities described in
subsection (a) (17) of this section for assistance
with grant amounts.**

Economic Development for the Community Development Block Grant Program

Eligible Activities of the HCDA

Section 105(e) Guidelines for evaluating and selecting economic development projects

(2) Project costs and financial requirements

Economic Development for the Community Development Block Grant Program

Eligible Activities of the HCDA

Section 105(a)(17) Appropriate assistance that

- (A) creates or retains jobs for low- and moderate-income persons;**
- (B) prevents or eliminates slums and blight;**
- (C) meets urgent needs;**

Economic Development for the Community Development Block Grant Program

Eligible Activities of the HCDA

Section 105(c) Activities benefiting persons of low and moderate income

(1) Assisted activity shall...

**(C) involve employment of persons, a majority of
whom are persons of low and moderate
income.**

Economic Development for the Community Development Block Grant Program

Other Requirements of the HCDA

**Section 104 Compliance with the National
Environmental Policy Act**

Section 110 Compliance with the Davis Bacon Act

Economic Development for the Community Development Block Grant Program

Code of Federal Regulations

**Title 24 Department of Housing and Urban
Development**

Part 570 CDBG Program

Economic Development for the Community Development Block Grant Program

Code of Federal Regulations

Sec. 570.203 Special economic development activities.

Sec. 570.209 Guidelines for evaluating and selecting economic development projects.

Economic Development for the Community Development Block Grant Program

Code of Federal Regulations

Sec. 570.482 Eligible activities.

**(e) Guidelines and objectives for evaluating
project costs and financial requirements**

Economic Development for the Community Development Block Grant Program

Code of Federal Regulations

Sec. 570.483 Criteria for national objectives.

**(b) Activities benefiting low and moderate
income persons.**

...

(4) Job creation or retention activities.

Economic Development for the Community Development Block Grant Program

Code of Federal Regulations

Sec. 570.483 Criteria for national objectives.

(c) Activities which aid in the prevention or elimination of slums or blight.

(d) Activities designed to meet community development needs having a particular urgency.

Economic Development for the Community Development Block Grant Program

Eligible Activities of the HCDA

Section 105(e) Guidelines for evaluating and selecting economic development projects

(2) Project costs and financial requirements

Economic Development for the Community Development Block Grant Program

Eligible Activities of the HCDA

Section 24 CFR 570.209

Appendix A to Part 570

**Guidelines for evaluating and selecting
economic development projects**

(2) Project costs and financial requirements

CDBG Underwriting Guidelines

Are project costs reasonable?

Are all project financing sources committed?

Are CDBG funds being substituted for non-federal sources?

Is the project financially feasible?

Is the return on the owner's equity unreasonably high?

Will CDBG funds be disbursed on a pro rata basis with other finances provided to the project?

CDBG Underwriting Guidelines

Are project costs reasonable?

Avoid providing either too much or too little CDBG assistance for the proposed project

Each cost element making up the project is reviewed for reasonableness

CDBG Underwriting Guidelines

Are all project financing sources committed?

Ensure:

- sufficient sources of funds have been identified to finance the project**
- participating parties funds have affirmed intention to make funds available**
- participating parties have financial capacity to provide funds**

CDBG Underwriting Guidelines

Are CDBG funds being substituted for non-federal sources?

Ensure the most efficient use of CDBG funds

Accomplished by financial analysis revenue and expense projections; debt service requirements and return on equity investments.

Determine whether private debt financing is available and committed

Determine whether the degree of equity participation is reasonable and whether entrepreneur can make additional investment

CDBG Underwriting Guidelines

Is the project financially feasible?

Ensure the public benefit of CDBG assistance will materialize by financing a viable project.

Accomplished by –

- examining assumptions about project's market share, sales levels, growth potential.**
- examining financial projections to determine the breakeven point.**
- evaluating the experience of the company's management to achieve the projections.**

CDBG Underwriting Guidelines

Is the return on the owner's equity unreasonably high?

Ensure-

- that the CDBG assisted activity should not provide more than a reasonable return on investment to the owner given the industry rates of return, local conditions and the risk of the project.**
- that the ED program is able to maximize the use of CDBG funds for its economic development objectives.**

CDBG Underwriting Guidelines

Will CDBG funds be disbursed on a pro rata basis with other finances provided to the project?

Ensure that CDBG funds are not placed at significantly greater risk than non-CDBG funds

CDBG Underwriting Guidelines

Are project costs reasonable?

Are all project financing sources committed?

Are CDBG funds being substituted for non-federal sources?

Is the project financially feasible?

Is the return on the owner's equity unreasonably high?

Will CDBG funds be disbursed on a pro rata basis with other finances provided to the project?

CDBG Underwriting Guidelines

Are all project financing sources committed?

Ensure:

- sufficient sources of funds have been identified to finance the project**
- participating parties funds have affirmed intention to make funds available**
- participating parties have financial capacity to provide funds**

		Sources of Funds				
Uses of Funds	Private Equity/Investors	Commercial Financial Institution Lender(s)	Non-Commercial Financial Institution Lender(s)	Other Public/Non- profit Sources	Disaster Recover CDBG Funds	TOTAL
1. Land Acquisition	-	-	-		-	-
From Appraisal					<i>URA Compliance</i>	
2. Building Acquisition	-					-
From Appraisal					<i>URA Compliance</i>	
3. Building Construction	-					-
From Cost estimate					<i>Labor Compliance</i>	
4. Building Renovation	-					-
From Cost estimate					<i>Labor Compliance</i>	
5. Capital Equipment	-					-
6. Net Inventory	-					-
From Projections: Inventory Balance minus Accounts Payable Balance						
7. Accounts Receivable	-					-
From Projected Balance Sheet						
8. Operating Expenses	-					-
Projected Cashflow difference between Revenues and Cash Expenses						
Total	-	-	-	-	-	-

Debt Amortization

Debt Amortization

Principal Amount	\$100,000
Interest Rate	6.0%
Term/Period	5 Years/Annual payment
= Periodic Payment	\$23,739.64

Debt Amortization

Principal Amount **\$100,000**

Divided by

= Periodic Payment **\$23,739.64**

Debt Amortization

Principal Amount **\$100,000**

Divided by

Periodic Payment **\$23,739.64**

Equals the Debt Service Constant

DSK .2374

Debt Amortization

Interest Rate	Term Years								
	3	4	5	6	7	8	9	10	11
1.0%	0.3400	0.2563	0.2060	0.1725	0.1486	0.1307	0.1167	0.1056	0.0965
1.5%	0.3434	0.2594	0.2091	0.1755	0.1516	0.1336	0.1196	0.1084	0.0993
2.0%	0.3468	0.2626	0.2122	0.1785	0.1545	0.1365	0.1225	0.1113	0.1022
2.5%	0.3501	0.2658	0.2152	0.1815	0.1575	0.1395	0.1255	0.1143	0.1051
3.0%	0.3535	0.2690	0.2184	0.1846	0.1605	0.1425	0.1284	0.1172	0.1081
3.5%	0.3569	0.2723	0.2215	0.1877	0.1635	0.1455	0.1314	0.1202	0.1111
4.0%	0.3603	0.2755	0.2246	0.1908	0.1666	0.1485	0.1345	0.1233	0.1141
4.5%	0.3638	0.2787	0.2278	0.1939	0.1697	0.1516	0.1376	0.1264	0.1172
5.0%	0.3672	0.2820	0.2310	0.1970	0.1728	0.1547	0.1407	0.1295	0.1204
5.5%	0.3707	0.2853	0.2342	0.2002	0.1760	0.1579	0.1438	0.1327	0.1236
6.0%	0.3741	0.2886	0.2374	0.2034	0.1791	0.1610	0.1470	0.1359	0.1268
6.5%	0.3776	0.2919	0.2406	0.2066	0.1823	0.1642	0.1502	0.1391	0.1301
7.0%	0.3811	0.2952	0.2439	0.2098	0.1856	0.1675	0.1535	0.1424	0.1334

Debt Amortization

Interest Rate	Term Years					
	3	4	5	10	11	12
1.0%	0.3400	0.2563	0.2060	0.1056	0.0965	0.0888
6.0%	0.3741	0.2886	0.2374	0.1359	0.1268	0.1193
6.5%	0.3776	0.2919	0.2406	0.1391	0.1301	0.1226

Debt Amortization

Interest Rate	Term Years
6.0%	5
	0.2374

What is the payment for:

Principal \$50,000

Interest Rate 6.0%

Term 5 Years

Debt Amortization

Interest Rate	Term Years
6.0%	5
	0.2374

What is the payment for:

Principal \$50,000

multiply DSK .2347

equals \$11,869.82

Debt Amortization

Exercise !

Exercise

Practice

For a \$100,000 dollar loan what is the payment for:

Five years at 6%

Five years at 3%

Six years at 6%

Seven years at 6%

Exercise

For a \$100,000 dollar loan what is the payment for:

Five years at 6%	<u>\$ 23,739.64</u>	
Five years at 3%	<u>\$ 21,835.46</u>	92%
Six years at 6%	<u>\$ 20,336.26</u>	86%
Seven years at 6%	<u>\$ 17,913.50</u>	75%

Debt Amortization

Interest Rate	Term Years
6.0%	5
	0.2374

How much can be borrowed for:

Payment \$10,000

Interest Rate 6.0%

Term 5 Years

Debt Amortization

Interest Rate	Term Years
6.0%	5
	0.2374

How much can be borrowed for:

Payment \$10,000

Divided by .2374

Equals \$42,163.64

Financial Terms

**Operating
Income or
EBITDA
Earnings
before
Interest,
Taxes,
Depreciation
and
Amortization**

<u>Income Statement</u>	
Revenues	1,000,000.00
Cost of Goods Sold	600,000.00
Gross Profit	400,000.00
Wages and salaries	150,000.00
Professional Services	50,000.00
Utilities	25,000.00
Insurance	30,000.00
Transportation	20,000.00
Office Supplies	15,000.00
Misc, Other	10,000.00
Interest Expense	-
Depreciation / Amortization	25,000.00
Operating costs	<u>325,000.00</u>
Total Operating costs	<u>925,000.00</u>
Operating Income	75,000.00

Financial Terms

**Operating
Income or
EBITDA
Earnings
before
Interest,
Taxes,
Depreciation
and
Amortization**

<u>Income Statement</u>	
Revenues	1,000,000.00
Interest Expense	-
Depreciation / Amortization	25,000.00
<u>Total Operating costs</u>	<u>925,000.00</u>
Operating Income	75,000.00

Financial Terms

**Operating
Income or
EBITDA
Earnings
before
Interest,
Taxes,
Depreciation
and
Amortization**

<u>Income Statement</u>	
Revenues	1,000,000.00
Interest Expense	-
Depreciation / Amortization	-
<u>Total Operating costs</u>	<u>900,000.00</u>
Operating Income	100,000.00
[<i>Operating Cash flow</i>]	

Financial Terms

Debt Service Coverage Ratio

DSCR

For every dollar of Debt Service how much additional operating cash flow

Income Statement	
Revenues	1,000,000.00
	-
	-
Total Operating costs	900,000.00
Operating Income	100,000.00
Debt Service Coverage Ratio	1.5

Financial Terms

Debt Service Coverage Ratio

DSCR

For every dollar of Debt Service how much additional operating cash flow

Income Statement	
Revenues	1,000,000.00
	-
	-
Total Operating costs	900,000.00
Operating Income	100,000.00
Debt Service Coverage Ratio	1.5

**Divide Operating Income
by DSCR
equals**

Financial Terms

**Cash Flow
Available for
Debt Service**

CFADS

**Total amount
available for
paying debt**

<u>Income Statement</u>	
Revenues	1,000,000.00
	-
	-
<u>Total Operating costs</u>	<u>900,000.00</u>
Operating Income	100,000.00
Debt Service Coverage Ratio	1.5
Cash Available for Debt Service	66,666.67
<i>[CFADS]</i>	

The Project: A combination of Private and CDBG Loans

CDBG Underwriting Guidelines

Are all project financing sources committed?

Ensure:

-sufficient sources of funds have been identified to finance the project

The Project: A combination of Private and CDBG Loans

Total Project Cost	500,000.00
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Private Loan	250,000.00
Terms 6% 8 Years	

Equity	50,000.00
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The Project: A combination of Private and CDBG Loans

<u>Total Project Cost</u>	<u>500,000.00</u>
Private Loan	250,000.00
Terms 6% 8 Years	
CDBG Loan	200,000.00
Equity	50,000.00

How do we determine the terms of CDBG assistance?

**The Project: A combination of
Private and CDBG Loans**

Exercise!

**How do we determine the terms of
CDBG assistance?**

The Project: A combination Private and CDBG Loan

<u>Total Project Cost</u>	<u>500,000.00</u>
Private Loan	250,000.00
Terms 6% 8 Years	

Step 1

**Calculate the Debt service for the private
sector loan**

The Project: A combination Private and CDBG Loan

<u>Total Project Cost</u>	<u>500,000.00</u>
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Private Loan	250,000.00
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Terms 6% 8 Years	
------------------	--

Step 1

**Find the Debt service constant for the terms
of the loan**

Multiply DSK times the principal

The Project: A combination Private and CDBG Loan

<u>Total Project Cost</u>	<u>500,000.00</u>
---------------------------	-------------------

Private Loan	250,000.00
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Terms 6% 8 Years	
------------------	--

Step 1

Find the Debt service constant for the terms
of the loan .1610

Multiply DSK times the principal

The Project: A combination Private and CDBG Loan

Step 2

Subtract the private loan

Debt Service

- \$40,259

The Project: A combination Private and CDBG Loan

Step 3

\$26,407

The Project: A combination Private and CDBG Loan

Step 3

Divide CDBG Loan **\$200,000**

By Residual CFADS **\$26,407**

Equals DSK

The Project: A combination Private and CDBG Loan

Step 4

Find the
Terms
that
match
DSK

.1320

Interest Rate	Term Years				
	7	8	9	10	11
1.0%	0.1486	0.1307	0.1167	0.1056	0.0965
1.5%	0.1516	0.1336	0.1196	0.1084	0.0993
2.0%	0.1545	0.1365	0.1225	0.1113	0.1022
2.5%	0.1575	0.1395	0.1255	0.1143	0.1051
3.0%	0.1605	0.1425	0.1284	0.1172	0.1081
3.5%	0.1635	0.1455	0.1314	0.1202	0.1111
4.0%	0.1666	0.1485	0.1345	0.1233	0.1141
4.5%	0.1697	0.1516	0.1376	0.1264	0.1172
5.0%	0.1728	0.1547	0.1407	0.1295	0.1204
5.5%	0.1760	0.1579	0.1438	0.1327	0.1236
6.0%	0.1791	0.1610	0.1470	0.1359	0.1268
6.5%	0.1823	0.1642	0.1502	0.1391	0.1301
7.0%	0.1856	0.1675	0.1535	0.1424	0.1334
7.5%	0.1888	0.1707	0.1568	0.1457	0.1367

The Project: A combination Private and CDBG Loan

Step 4

Find the
Terms
that
match
DSK

.1320

Interest Rate	Term Years				
	7	8	9	10	11
1.0%	0.1486	0.1307	0.1167	0.1056	0.0965
1.5%	0.1516	0.1336	0.1196	0.1084	0.0993
2.0%	0.1545	0.1365	0.1225	0.1113	0.1022
2.5%	0.1575	0.1395	0.1255	0.1143	0.1051
3.0%	0.1605	0.1425	0.1284	0.1172	0.1081
3.5%	0.1635	0.1455	0.1314	0.1202	0.1111
4.0%	0.1666	0.1485	0.1345	0.1233	0.1141
4.5%	0.1697	0.1516	0.1376	0.1264	0.1172
5.0%	0.1728	0.1547	0.1407	0.1295	0.1204
5.5%	0.1760	0.1579	0.1438	0.1327	0.1236
6.0%	0.1791	0.1610	0.1470	0.1359	0.1268
6.5%	0.1823	0.1642	0.1502	0.1391	0.1301
7.0%	0.1856	0.1675	0.1535	0.1424	0.1334
7.5%	0.1888	0.1707	0.1568	0.1457	0.1367

The Project: A combination Private and CDBG Loan

<u>Income Statement</u>		
Revenues	1,000,000.00	
	-	
	-	
<u>Total Operating costs</u>	<u>900,000.00</u>	
Operating Income	100,000.00	
Debt Service Coverage Ratio		1.5
Cash Available for Debt Service	<u>66,666.67</u>	
Private Loan	<u>40,258.99</u>	Private Loan 6% 8 Years 250,000
<i>Residual CFADS</i>	<i>26,407.6810</i>	
CDBG Loan	<u>26,349.83</u>	CDBG Loan 3.55% 9 Years 200,000
<i>Residual CFADS</i>	<i>57.85</i>	

The Project: A combination Private and CDBG Loan

<u>Income Statement</u>		
Revenues	1,000,000.00	1,000,000.00
Total Operating costs	900,000.00	920,000.00
Operating Income	100,000.00	80,000.00
Debt Service Coverage Ratio	1.5	1.5
Cash Available for Debt Service	<u>66,666.67</u>	<u>53,333.33</u>
Private Loan	<u>40,258.99</u>	<u>\$40,258.99</u>
		Private Loan 6% 8 Years 250,000 0.1610
Residual CFADS	26,407.6810	13,074.35
CDBG Loan	<u>26,349.83</u>	CDBG Loan

The Project: A combination Private and CDBG Loan

Total Project Cost	500,000.00
Private Loan	250,000.00
Terms 6% 8 Years	
CDBG Loan	200,000.00
Equity	50,000.00
Residual CFADS	13,074.35
DSK	0.0654

The Project: A combination Private and CDBG Loan

Interest Rate	Term Years								
	7	8	9	10	11	12	13	14	15
1.0%	0.1486	0.1307	0.1167	0.1056	0.0965	0.0888	0.0824	0.0769	0.0721
1.5%	0.1516	0.1336	0.1196	0.1084	0.0993	0.0917	0.0852	0.0797	0.0749
2.0%	0.1545	0.1365	0.1225	0.1113	0.1022	0.0946	0.0881	0.0826	0.0778
2.5%	0.1575	0.1395	0.1255	0.1143	0.1051	0.0975	0.0910	0.0855	0.0808
3.0%	0.1605	0.1425	0.1284	0.1172	0.1081	0.1005	0.0940	0.0885	0.0838
3.5%	0.1635	0.1455	0.1314	0.1202	0.1111	0.1035	0.0971	0.0916	0.0868
4.0%	0.1666	0.1485	0.1345	0.1233	0.1141	0.1066	0.1001	0.0947	0.0899

DSK

.0654

The Project: A combination Private and CDBG Loan

CDBG Underwriting Guidelines

Are CDBG funds being substituted for non-federal sources?

Ensure the most efficient use of CDBG funds

Determine whether the degree of equity participation is reasonable and whether entrepreneur can make additional investment

The Project: A combination Private and CDBG Loan

Total Project Cost	500,000.00
Private Loan	250,000.00
Terms 6% 8 Years	
CDBG Loan	200,000.00
Equity	50,000.00
Residual CFADS	13,074.35
DSK	0.0654

The Project: A combination Private and CDBG Loan

Interest Rate	Term Years									
	7	8	9	10	11	12	13	14	15	
1.0%	0.1486	0.1307	0.1167	0.1056	0.0965	0.0888	0.0824	0.0769	0.0721	
1.5%	0.1516	0.1336	0.1196	0.1084	0.0993	0.0917	0.0852	0.0797	0.0749	
2.0%	0.1545	0.1365	0.1225	0.1113	0.1022	0.0946	0.0881	0.0826	0.0778	
2.5%	0.1575	0.1395	0.1255	0.1143	0.1051	0.0975	0.0910	0.0855	0.0808	
3.0%	0.1605	0.1425	0.1284	0.1172	0.1081	0.1005	0.0940	0.0885	0.0838	
3.5%	0.1635	0.1455	0.1314	0.1202	0.1111	0.1035	0.0971	0.0916	0.0868	
4.0%	0.1666	0.1485	0.1345	0.1233	0.1141	0.1066	0.1001	0.0947	0.0899	

DSK

.1046

The Project: A combination Private and CDBG Loan

<u>Income Statement</u>			
Revenues	1,000,000.00	1,000,000.00	
Total Operating costs	900,000.00	920,000.00	
Operating Income	100,000.00	80,000.00	
Debt Service Coverage Ratio	1.5	1.5	
Cash Available for Debt Service	<u>66,666.67</u>	<u>53,333.33</u>	
Private Loan	<u>40,258.99</u>	<u>\$40,258.99</u>	Private Loan 6% 8 Years 250,000 0.1610
Residual CFADS	26,407.6810	13,074.35	CDBG Loan 3.65% 12 Years
CDBG Loan	<u>26,349.83</u>	<u>\$13,049.95</u>	125,000

The Project: A combination Private and CDBG Loan

CDBG Underwriting Guidelines

Cash Available for Debt Service 66,666.67 53,333.33

Are project costs reasonable?

Avoid providing either too much or too little CDBG assistance for the proposed project

The Project: A combination Private and CDBG Loan

Total Project Cost	500,000.00	500,000.00
Private Loan Terms 6% 8 Years	250,000.00	250,000.00
CDBG Loan	200,000.00	160,000.00
Equity	50,000.00	90,000.00
Residual CFADS	13,074.35	13,074.35
DSK	0.0654	

The Project: A combination Private and CDBG Loan

Interest Rate	Term Years					
	7	8	9	10	11	12
1.0%	0.1486	0.1307	0.1167	0.1056	0.0965	0.0888
1.5%	0.1516	0.1336	0.1196	0.1084	0.0993	0.0917
2.0%	0.1545	0.1365	0.1225	0.1113	0.1022	0.0946
2.5%	0.1575	0.1395	0.1255	0.1143	0.1051	0.0975
3.0%	0.1605	0.1425	0.1284	0.1172	0.1081	0.1005
3.5%	0.1635	0.1455	0.1314	0.1202	0.1111	0.1035
4.0%	0.1666	0.1485	0.1345	0.1233	0.1141	0.1066
4.5%	0.1697	0.1516	0.1376	0.1264	0.1172	0.1097

DSK

.0817

The Project: A combination Private and CDBG Loan

Interest Rate	Term Years					
	7	8	9	10	11	12
1.0%	0.1486	0.1307	0.1167	0.1056	0.0965	0.0888
1.5%	0.1516	0.1336	0.1196	0.1084	0.0993	0.0917
2.0%	0.1545	0.1365	0.1225	0.1113	0.1022	0.0946
2.5%	0.1575	0.1395	0.1255	0.1143	0.1051	0.0975
3.0%	0.1605	0.1425	0.1284	0.1172	0.1081	0.1005
3.5%	0.1635	0.1455	0.1314	0.1202	0.1111	0.1035
4.0%	0.1666	0.1485	0.1345	0.1233	0.1141	0.1066
4.5%	0.1697	0.1516	0.1376	0.1264	0.1172	0.1097

The Project: A combination Private and CDBG Loan

Divide the CFADS \$13,074 by DSKs

**And
determine
new
borrowing
amounts**

0.1143	0.1051	0.0975
0.1172	0.1081	0.1005
0.1202	0.1111	0.1035

**The Project: A combination
Private and CDBG Loan**

Divide the CFADS \$13,074 by DSKs

**And
determine
new
borrowing
amounts**

114,424	124,389	134,110
111,524	120,969	130,139
108,731	117,686	126,338

The Project: A combination Private and CDBG Loan

Interest Rate	Term Years		
	10	11	12
2.5%	114,424	124,389	134,110
3.0%	111,524	120,969	130,139
3.5%	108,731	117,686	126,338

**Subtract the new borrowing amounts
from the CDBG Loan requirement
\$160,000**

The Project: A combination Private and CDBG Loan

Interest Rate	Term Years		
	10	11	12
2.5%	45,576	35,611	25,890
3.0%	48,476	39,031	29,861
3.5%	51,269	42,314	33,662

The differences are the grant amounts that can be negotiated

The Project: A combination Private and CDBG Loan

Total Project Cost	500,000.00	500,000.00
Private Loan Terms 6% 8 Years	250,000.00	250,000.00
CDBG Loan Terms 3% 11 Years	200,000.00	120,943.57
CDBG Grant		39,056.43
Equity	50,000.00	90,000.00
Residual CFADS	13,074.35	13,074.35
DSK	0.0654	0.1081

The differences are the grant amounts that can be negotiated

Things to consider:

What is the target DSCR? What is the minimum DSCR

What is the target loan term? What is the maximum?

**What is the maximum interest rate?
What is the minimum? [lower interest, shorter term; higher interest, longer term]**

What is the maximum grant as a percent of the CDBG financing?

Things to consider:

What is the maximum amount of CDBG assistance as a percent of the project?

What is the target loan to value ratio?

What is the maximum LVR? [By asset types]

What is the target equity percent for a project? What is the minimum?

What are the security/collateral requirements for the program?

Questions?

5.

Indicate what underwriting guidelines the states uses to evaluate relevant economic development activities eligible under the HCD Act at sections 105(a)(14), (15) and (17):

The state uses the HUD underwriting guidelines in Appendix A of 24 CFR Part 570.

- The state has developed its own underwriting guidelines, use of which is mandatory by local governments.
- The state allows local governments to develop and use their own underwriting guidelines.
- The state employs different underwriting criteria or review procedures depending on the type of assistance, project scope, or nature of the business.
- The state has no underwriting guidelines requirements.
- Other (Explain) _____

Describe Basis for Conclusion:

6.

a. If the state has underwriting guidelines per question 5 above, how does its underwriting process operate?

Describe Basis for Conclusion:



b. If the state follows an underwriting process, how does the process relate to the amount, type and terms of assistance provided by the state to fund economic development activities?

Describe Basis for Conclusion:



7.

a. When in the application/funding process are underwriting determinations made?

Describe Basis for Conclusion:



b. Who performs underwriting determinations?

Describe Basis for Conclusion:



8.

Who reviews determinations for reasonableness?

Describe Basis for Conclusion:



9.

Does the state have a process for adjusting the amount, type or terms of financial assistance for the project to ensure that it will still meet the state's underwriting guidelines?

<input type="checkbox"/>	<input type="checkbox"/>
Yes	No

Describe Basis for Conclusion:



11.

Do the state's underwriting guidelines (if any) and application review procedures meet all of the following: _____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Yes	No	N/A
<ul style="list-style-type: none"><li data-bbox="204 344 1561 496"><input type="checkbox"/> The state's underwriting expectations/requirements are clearly communicated to localities (including criteria regarding significant amendments)?<li data-bbox="204 501 1561 654"><input type="checkbox"/> Some basic level of financial underwriting is performed at the state or local level, which is appropriate to the types of assistance, project scope and nature of businesses?<li data-bbox="204 658 1561 811"><input type="checkbox"/> All applications (and amendments) are reviewed consistently by the state against underwriting guidelines, or the state reviews underwriting determinations made by applicant local governments.<li data-bbox="204 815 1561 911"><input type="checkbox"/> Underwriting determinations for all applications (and amendments) are thoroughly documented in files?<li data-bbox="204 915 1561 1011"><input type="checkbox"/> Higher-level management reviews underwriting determinations by state staff?<li data-bbox="204 1015 1561 1230"><input type="checkbox"/> The state has criteria and procedures for re-evaluating the underwriting of amended economic development projects, in situations where an amendment would constitute a substantial change to the scope or financial elements of the project?			

12.

<p>Is there any evidence of the following by the state:</p> <ul style="list-style-type: none"> <input type="checkbox"/> Higher-level management regularly reverses underwriting determinations by staff? <input type="checkbox"/> The activities, amounts, rates, terms, etc., in approved grants differ from what was in the application, but there's no documentation explaining when or why the changes occurred? <input type="checkbox"/> Activities are funded despite documented determinations that the activities don't meet the state's underwriting guidelines? 	<input type="checkbox"/>	<input type="checkbox"/>
	Yes	No

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Exhibit 4-2
State CDBG Program

<ul style="list-style-type: none"> <input type="checkbox"/> activities don't meet the state's underwriting guidelines? <input type="checkbox"/> Significant amendments to the scope or financial elements of projects are approved by the state without re-evaluating projects against underwriting guidelines? <input type="checkbox"/> Significant amendments are approved despite documented determinations that the amended project doesn't meet the state's underwriting guidelines? 	
Describe Basis for Conclusion:	
<div style="background-color: #cccccc; height: 20px; width: 50px;"></div>	

13.

Does the state have an adequate process to ensure that all funded activities comply with state or local underwriting guidelines? [24 CFR 570.482(e)]	<input type="checkbox"/>	<input type="checkbox"/>
	Yes	No
Describe Basis for Conclusion: 		

14.

Does the state consistently adhere to its process? (In the response below, include any weaknesses, if identified, in the state's underwriting guidelines that may form the basis for a "concern" or advisory guidance to state staff.)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Yes	No	N/A
Describe Basis for Conclusion: 			

Determine DAYS RECEIVABLES

SALES	16,000	
	BALANCE SHEET	
ASSETS		LIABILITIES AND NET WORTH
<hr/>		<hr/>
Accounts Receivable	1,320	

Divide Accounts Receivable \$1,320 by
Annual Sales \$16,000 = .0825 or 8.25%

Multiply .0825 X 365 days =

How much can I borrow?

SALES	16,000
COST OF GOODS SOLD	8,670
GROSS PROFIT	7,330
Operating Expenses	5,740
Operating CF /EBITDA	1,590
Depreciation	-
Interest Expense	-
Income from Operations	1,590

Term Years	4	5	6	7
Rate	Debt Service Constant			
0.0%	0.250	0.200	0.167	0.143
4.0%	0.275	0.225	0.191	0.167
4.5%	0.279	0.228	0.194	0.170
5.0%	0.282	0.231	0.197	0.173
5.5%	0.285	0.234	0.200	0.176
6.0%	0.289	0.237	0.203	0.179
6.5%	0.292	0.241	0.207	0.182
7.0%	0.295	0.244	0.210	0.186

Beginning

BALANCE SHEET

ASSETS

Gross Fixed Assets	8,000
-Depreciation	-
Net Fixed assets	8,000

LIABILITIES AND NET WORTH

Long Term Debt

Total Liabilities

Net Worth

How much can I borrow?

Operating CF /EBITDA 1,590

Term Years	4	5	6	7
Rate	Debt Service Constant			
0.0%	0.250	0.200	0.167	0.143
4.0%	0.275	0.225	0.191	0.167
4.5%	0.279	0.228	0.194	0.170
5.0%	0.282	0.231	0.197	0.173
5.5%	0.285	0.234	0.200	0.176
6.0%	0.289	0.237	0.203	0.179
6.5%	0.292	0.241	0.207	0.182
7.0%	0.295	0.244	0.210	0.186

BALANCE SHEET

ASSETS

Gross Fixed Assets 8,000
 -Depreciation -
 Net Fixed assets 8,000

How much can I borrow?

Operating CF /EBITDA 1,590

Term Years	4	5	6	7
Rate	Debt Service Constant			
0.0%	0.250	0.200	0.167	0.143
4.0%	0.275	0.225	0.191	0.167
4.5%	0.279	0.228	0.194	0.170
5.0%	0.282	0.231	0.197	0.173
5.5%	0.285	0.234	0.200	0.176
6.0%	0.289	0.237	0.203	0.179
6.5%	0.292	0.241	0.207	0.182
7.0%	0.295	0.244	0.210	0.186

BALANCE SHEET

ASSETS

Gross Fixed Assets	8,000
-Depreciation	-
Net Fixed assets	8,000

Choose a term based upon the projected useful life of the asset

Next: determine what percent of the asset the lender is willing to loan-

How much can I borrow?

Operating CF /EBITDA 1,590

Term Years	4	5	6	7
Rate	Debt Service Constant			
0.0%	0.250	0.200	0.167	0.143
4.0%	0.275	0.225	0.191	0.167
4.5%	0.279	0.228	0.194	0.170
5.0%	0.282	0.231	0.197	0.173
5.5%	0.285	0.234	0.200	0.176
6.0%	0.289	0.237	0.203	0.179
6.5%	0.292	0.241	0.207	0.182
7.0%	0.295	0.244	0.210	0.186

BALANCE SHEET

ASSETS

Gross Fixed Assets	8,000
-Depreciation	-
Net Fixed assets	8,000

Choose a term based upon the projected useful life of the asset

Or alternatively: how much cash equity do I have to put down?

How much can I borrow?

Operating CF /EBITDA 1,590

Term Years	4	5	6	7
Rate	Debt Service Constant			
0.0%	0.250	0.200	0.167	0.143
4.0%	0.275	0.225	0.191	0.167
4.5%	0.279	0.228	0.194	0.170
5.0%	0.282	0.231	0.197	0.173
5.5%	0.285	0.234	0.200	0.176
6.0%	0.289	0.237	0.203	0.179
6.5%	0.292	0.241	0.207	0.182
7.0%	0.295	0.244	0.210	0.186

BALANCE SHEET

ASSETS

Gross Fixed Assets 8,000
 -Depreciation -
Net Fixed assets 8,000

Net Worth 2,000

How much can I borrow?

Operating CF /EBITDA 1,590

Term Years	4	5	6	7
Rate	Debt Service Constant			
0.0%	0.250	0.200	0.167	0.143
4.0%	0.275	0.225	0.191	0.167
4.5%	0.279	0.228	0.194	0.170
5.0%	0.282	0.231	0.197	0.173
5.5%	0.285	0.234	0.200	0.176
6.0%	0.289	0.237	0.203	0.179
6.5%	0.292	0.241	0.207	0.182
7.0%	0.295	0.244	0.210	0.186

BALANCE SHEET

ASSETS

Gross Fixed Assets	8,000
-Depreciation	-
Net Fixed assets	8,000

Net Worth 2,000

How much can I borrow?

Next: determine how much debt can the cash flow service

Operating CF /EBITDA

1,590

Term Years	4	5	6	7
Rate	Debt Service Constant			
0.0%	0.250	0.200	0.167	0.143
4.0%	0.275	0.225	0.191	0.167
4.5%	0.279	0.228	0.194	0.170
5.0%	0.282	0.231	0.197	0.173
5.5%	0.285	0.234	0.200	0.176
6.0%	0.289	0.237	0.203	0.179
6.5%	0.292	0.241	0.207	0.182
7.0%	0.295	0.244	0.210	0.186

BALANCE SHEET

ASSETS

Gross Fixed Assets	8,000
-Depreciation	-
Net Fixed assets	8,000

Long Term Debt	6,000
Total Liabilities	6,000

Net Worth 2,000

\$1,590 divided by \$6,000 equals

How much can I borrow?

Next: determine how much debt can the cash flow service

Operating CF /EBITDA

1,590

Term Years	4	5	6	7
Rate	Debt Service Constant			
0.0%	0.250	0.200	0.167	0.143
4.0%	0.275	0.225	0.191	0.167
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5.5%	0.285	0.234	0.200	0.176
6.0%	0.289	0.237	0.203	0.179
6.5%	0.292	0.241	0.207	0.182
7.0%	0.295	0.244	0.210	0.186

BALANCE SHEET

ASSETS

Gross Fixed Assets	8,000
-Depreciation	-
Net Fixed assets	8,000

Long Term Debt	6,000
Total Liabilities	6,000

Net Worth 2,000

\$1,590 divided by \$6,000 equals **.265**

How much can I borrow?

Next: determine how much debt can the cash flow service

Operating CF /EBITDA 1,590

Term Years	4	5	6	7
Rate	Debt Service Constant			
0.0%	0.250	0.200	0.167	0.143
4.0%	0.275	0.225	0.191	0.167
4.5%	0.279	0.228	0.194	0.170
5.0%	0.282	0.231	0.197	0.173
5.5%	0.285	0.234	0.200	0.176
6.0%	0.289	0.237	0.203	0.179
6.5%	0.292	0.241	0.207	0.182
7.0%	0.295	0.244	0.210	0.186

BALANCE SHEET

ASSETS

Gross Fixed Assets	8,000
-Depreciation	-
Net Fixed assets	8,000

Long Term Debt	6,000
Total Liabilities	6,000

Net Worth 2,000

However an allowance should be made for a cash flow safety margin- \$1.25 CF to \$1.00 DS ; \$1,590 divided by 1.25

How much can I borrow?

Next: determine how much debt can the cash flow service

Operating CF /EBITDA 1,590

Term Years	4	5	6	7
Rate	Debt Service Constant			
0.0%	0.250	0.200	0.167	0.143
4.0%	0.275	0.225	0.191	0.167
4.5%	0.279	0.228	0.194	0.170
5.0%	0.282	0.231	0.197	0.173
5.5%	0.285	0.234	0.200	0.176
6.0%	0.289	0.237	0.203	0.179
6.5%	0.292	0.241	0.207	0.182
7.0%	0.295	0.244	0.210	0.186

BALANCE SHEET

ASSETS

Gross Fixed Assets	8,000
-Depreciation	-
Net Fixed assets	8,000

Long Term Debt	6,000
-----------------------	--------------

Total Liabilities	6,000
--------------------------	--------------

Net Worth	2,000
------------------	--------------

\$1,590 divided by 1.25 = \$1,272
 divided by \$6,000 =

.212

How much can I borrow?

Next: determine how much debt can the cash flow service

Operating CF /EBITDA 1,590

Term Years	4	5	6	7
Rate	Debt Service Constant			
0.0%	0.250	0.200	0.167	0.143
4.0%	0.275	0.225	0.191	0.167
4.5%	0.279	0.228	0.194	0.170
5.0%	0.282	0.231	0.197	0.173
5.5%	0.285	0.234	0.200	0.176
6.0%	0.289	0.237	0.203	0.179
6.5%	0.292	0.241	0.207	0.182
7.0%	0.295	0.244	0.210	0.186

BALANCE SHEET

ASSETS

Gross Fixed Assets	8,000
-Depreciation	-
Net Fixed assets	8,000

Long Term Debt	6,000
Total Liabilities	6,000
Net Worth	2,000

\$1,590 divided by 1.25 = \$1,272
 divided by \$6,000 =

.212

How much can I borrow?

Match DSK with lender's rate; 5% for six year term

Operating CF /EBITDA 1,590

Term Years	4	5	6	7
Rate	Debt Service Constant			
0.0%	0.250	0.200	0.167	0.143
4.0%	0.275	0.225	0.191	0.167
4.5%	0.279	0.228	0.194	0.170
5.0%	0.282	0.231	0.197	0.173
5.5%	0.285	0.234	0.200	0.176
6.0%	0.289	0.237	0.203	0.179
6.5%	0.292	0.241	0.207	0.182
7.0%	0.295	0.244	0.210	0.186

BALANCE SHEET

ASSETS

Gross Fixed Assets	8,000
-Depreciation	-
Net Fixed assets	8,000

Long Term Debt	6,000
Total Liabilities	6,000
Net Worth	2,000

\$1,590 divided by 1.25 = \$1,272
 divided by \$6,000 =

.212

How much can I borrow?

Match DSK with lender's rate; 5% for six year term

Operating CF /EBITDA 1,590

Term Years	4	5	6	7
Rate	Debt Service Constant			
5.0%			0.197	

BALANCE SHEET

ASSETS

Gross Fixed Assets	8,000
-Depreciation	-
Net Fixed assets	8,000

Long Term Debt	6,000
-----------------------	--------------

Total Liabilities	6,000
--------------------------	--------------

Net Worth	2,000
------------------	--------------

Calculate the annual debt service;
multiply .197 x \$6,000 equals

\$1,182

How much can I borrow?

	Debt Service	Interest	Principal	
		5.0%		
	1,182	300	882	
	1,182	256	926	
Operating CF /EBITDA	1,590	210	972	0.197
	1,182	161	1,021	
	1,182	110	1,072	
	1,182	56	1,126	

BALANCE SHEET

ASSETS

Gross Fixed Assets	8,000
-Depreciation	-
Net Fixed assets	8,000

Long Term Debt	6,000
Total Liabilities	6,000
Net Worth	2,000

Amortize the loan

How much can I borrow?

SALES	16,000			
COST OF GOODS SOLD	8,670			
GROSS PROFIT	7,330			
Operating Expenses	5,740			
Depreciation	1,000			
Interest Expense	300			
Income from Operations	290			
		Debt Service	Interest	Principal
			5.0%	
		1,182	300	882
			256	926
			210	972
			161	1,021
			110	1,072
			56	1,126
BALANCE SHEET				
ASSETS				
Gross Fixed Assets	8,000			Long Term Debt
-Depreciation	(1,000)			(882)
Net Fixed assets	7,000			Total Liabilities
				5,118
				Net Worth
				2,000

Amortize the loan Year One

How much can I borrow?

SALES	16,000
COST OF GOODS SOLD	8,670
GROSS PROFIT	7,330
Operating Expenses	5,740
Depreciation	1,000
Interest Expense	210
Income from Operations	380

Debt Service	Interest	Principal
	5.0%	
1,182	300	882
1,182	256	926
1,182	210	972
	161	1,021
	110	1,072
	56	1,126

BALANCE SHEET

ASSETS

Gross Fixed Assets	8,000
-Depreciation	(3,000)
Net Fixed assets	5,000

Long Term Debt	6,000
	(2,781)
Total Liabilities	3,219
Net Worth	2,000

Amortize the loan Year Three