



# Community Development Block Grants

## Introduction

The CDBG program, a state and local block grant program, can be used for a wide variety of housing and community development activities to benefit low income families. The program is not primarily a housing production program, but it includes multiple opportunities to support community based nonprofit housing organizations, including housing acquisition and rehabilitation. CDBG funds are generally expended on non-profits, small landlords, or individual homeowners.

If a jurisdiction chooses to use CDBG funds for new housing construction, those funds must be given to a specific type of community based nonprofit (defined as a Community Based Development Organization or CBDO).<sup>1</sup>CDBG funds spent on housing rehabilitation have no such limitation.

## Disbursement Method

CDBG grants are distributed to “entitlement jurisdictions,” which are any city or county that receives from HUD a formula allocation of funds - vs. a competitive allocation of funds - according to a congressionally set formula for distribution,. Grants are made to cities and counties and, through the State CDBG program, to smaller jurisdictions in states that don’t meet the entitlement jurisdiction threshold.

Cities and counties make decisions about how to spend and re-grant their CDBG funds guided by the priorities laid out in their [Consolidated Plan](#),. The plan is developed every 3–5 years and that includes other federal funding programs (including HOME, the Housing Trust Fund, and others. Public participation is a requirement of the consolidated plan process. Jurisdictions have a good amount of lee-way on how they allocate their grants, as long as it follows the national objectives

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<sup>1</sup> 24 CFR §570.204(c)

of the program. Unlike the set formula of funding from the HUD at the federal level, however, cities and counties can distribute funding through a competitive process.

Serving low and moderate income individuals is a core objective so social housing programs and goals fit well with the program overall. [Here is an example of a Notice of Funding Availability from the City of Long Beach making \\$1.6M of CDBG available for development of low-income multi-family housing.](#)

## General Federally Allowable and Prohibited Activities for Social Housing

### Rental Housing Acquisition

Under CDBG, rental housing acquisition is an eligible activity as long as it meets a threshold where 51% of the units are for low & moderate income tenants. Acquisition under CDBG is eligible ONLY for public and nonprofit entities, not for-profit entities.

CDBG funds can also be used to provide low-interest or zero-interest mortgages and grants.

**The restriction on for-profit developers means that CDBG funds can be used for housing that is owned by residents, the public, or a mission driven non-profit.**

### Rental Housing Acquisition & Rehabilitation

Rental housing acquisition with rehabilitation is an eligible activity for CDBG funds and is eligible for public, nonprofit, and for-profit organizations, as it is categorized as primarily rehabilitation. It must meet CDBG national objectives and at least 51% of the original tenants must be low-to-moderate-income. There are no requirements on the types of rehabilitation that can be undertaken, except habitability.

### Tenant-Based Rental Assistance

Using CDBG funds for ongoing tenant based assistance is an ineligible use of funds as it is seen as an ongoing income payment that is prohibited under CDBG

### Multi-Family New Construction

Generally, new construction costs — both hard and soft — are NOT allowed under CDBG. An exception is made if the construction is done by a Community Based Development Organization with a specific geographic boundary and as a part of a stated neighborhood revitalization, energy conservation or community economic development activity.

## Rehabilitation & Conversion of Multifamily Housing

Conversion of existing non-housing to housing is allowed under CDBG if it meets the national objectives of the program and if original tenants are at least 51% low and moderate income. Rehabilitation of housing is also permitted with the same restrictions.

## Homebuyer Assistance

CDBG Funds can be used to provide grants and low-interest, zero percent, and forgivable loans for down payment assistance up to no more than 50% of the required downpayment for low-to-moderate income people or 'presumed' groups (i.e. elderly, disabled, etc.).

CDBG funds can also be used to cover closing costs, lower the interest rate, and provide a loan guarantee to lower the mortgage cost overall.

CDBG funds can be used to help acquire rental housing for the current tenants to convert to homeownership CDBG funds can “finance the acquisition by low- and moderate-income homebuyers of housing that is occupied by the homebuyers;”<sup>2</sup>

**The use of funds to support tenant purchase can be used for housing that is, if not resident owned, available for tenants to purchase on sale and could, depending on how the purchase is structured, be used for housing that is democratically controlled by residents and permanently removed from the speculative market.**

## Potential for prioritizing CDBG for Social Housing

Because of how the CDBG program is distributed, HUD can do little to prioritize acquisition or steer housing funds to community-based nonprofit organizations (beyond what is already listed in the statute and regulations). However, HUD could clarify that CDBG funds can be used to acquire private rental housing by community based nonprofits and set out examples of community acquisition funds that would qualify under the statute. HUD could also remind grantees that new housing development by CBDOs is an eligible use of CDBG funds, a fact that is sometimes overlooked by local governments.

Congress is free to add priorities for CDBG expenditures in annual appropriations bills, including funding set asides for use by community based nonprofits for the

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<sup>2</sup> HCD Act of 1974; 5305.201

acquisition of private rental housing — or the establishment of a community acquisition fund for the same purpose.