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## *Community Development Block Grant (CDBG) - Economic Development Loan*

### **Program Summary:**

The State of Wisconsin receives Community Development Block Grant (CDBG) funds from the U.S. Department of Housing and Urban Development (HUD) to support economic development projects that spur job creation for low to moderate income (LMI) residents located in Wisconsin communities of under 50,000 residents. The State will grant funds to a municipality. The municipality, in turn, makes a loan to a business for the purpose of job creation.

**Loan Amount:** Loans up to \$1 million, based on an allowance of up to \$35,000 per job created.

**Interest Rate:** The interest rate on the loan to the business is 1 percent.

**Loan Term:** Repayment terms for the business shall not exceed 5 years.

**Eligible Uses of CDBG Loan Funds:** Loan proceeds can be used by a business to purchase equipment or provide working capital. *Please note: Business loans for equipment require the least federal documentation.*

**Job Creation:** Project must create/retain jobs and be documented for a period not to exceed 24 months.

**Local Match Requirement:** The assisted business must bring 50% of the funds to the CDBG project. However, those funds can come from financial institutions, economic development agency, other grants or loans.

**Underwriting Criteria:** This loan can be subordinated to bank financing. Loan to value (LTV) ratios: General equipment (good resale value) 75%, titled equipment 60%, Industry specific equipment 50%. The loan must be secured with collateral. Balance sheets, Income Statements, Statement of Cash Flow, market conditions are reviewed at the municipal and State level.

### **Application Process:**

Application can be submitted to Wisconsin Department of Administration

### **Items of Note – Employer/Community Documentation Requirements:**

These loans use federal funds; therefore, there are a number of loan documentation requirements:

- CDBG funds must be used to benefit low-to moderate income (LMI) individuals.
- Jobs created must be made available to those LMI individuals - Advertising
- At least 51% of the hires should be LMI individuals.
- Self-certification forms of family income on new hires shall be used to track hiring of LMI.

- Environmental reviews (ERRs) must be completed. Non-construction projects have limited paperwork. Job-pirating is prohibited. The business cannot be lured from one labor market to another with the use of CDBG funds.
- Relocation; eminent domain may not be used to disrupt another business or homeowner for the benefit of business expansion.
- The municipality must follow a CDBG citizen participation plan – i.e., have a public hearing on the proposed use of CDBG funds. A second hearing must be held towards or at the end of the project documenting the results of the project.
- The community must agree to undertake at least three (3) activities to support fair housing: such as posting poster at public office. Municipalities may have financial obligation to repay bad CDBG loans to the State and/or the U.S. Department of Housing and Urban Development (HUD).

**Construction Projects:**

Due to the loan using federal funds, a number of additional requirements for projects involving construction:

- A Davis-Bacon labor (wage) standard applies to acquisition, building expansion, if adaption or construction occurs.
- Full environmental reviews (ERRs) must be completed for ALL CDBG projects.