AMENDMENT 796 -- Prohibits the repayment of federal loans with federal grants.

In a lending scheme so strange it could only have been devised by the government, the Department of Housing and Urban Development (HUD) is loaning taxpayer dollars and then forcing the lenders—the taxpayers—to repay the loans. As a result, taxpayers get stuck footing the bill repaying the loans of delinquent developers and bailing out failed or poorly planned local projects.

This amendment protects taxpayers by prohibiting the use of federal grants to repay federal loans.

In Buffalo, New York, "nearly 20 percent of block grant funds, totaling $38.5 million, have been spent over the past decade repaying risky loans to developers who defaulted, as well as money the city lent itself through the Section 108 loan program backed by block grants."[1]

In Massillon, Ohio, the city is spending $1,416,985 of Community Development Block Grant (CDBG) funds—provided by HUD—to repay a $2.25 million Section 108 loan—provided by HUD—to the city to help finance a loan for a developer. The developer owes the money not for a housing project, but for a Hampton Inn which was completed in 1998. The HUD loan and grant can be used for a vast array of projects including economic development, housing rehabilitation, construction, and in this case, bailing out a developer who could not repay an old debt.[2]

In Newburgh, New York, where the city "squandered" more than $2 million in federal funds on two failed projects financed by HUD Section 108 loans that were later repaid with HUD CDBG grants.[3] The two projects were "a still non-existent industrial park" and a marina near "trendy waterfront nightspots and restaurants." When the marina developer was delinquent in making payments, the city tapped Community Development Block Grants

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[1] James Heane, "The Half-Billion-Dollar Bust," Buffalo News, November 14, 2004; http://buffalonews.typepad.com/outrages_insights/files/the_halfbillion_dollar_bust.pdf .

[2] Matthew Rink, "Hampton Inn becomes political football in mayor's race, Massillon Independent (Ohio), April 21, 2011; http://www.indeonline.com/news/x396828604/Hampton-Inn-becomes-political-football-in-mayors-race .

[3] "Semiannual Report to Congress," U.S. Department of Housing and Urban Development Office of Inspector General, for the period October 1, 2008 through March 31, 2009, pages 67 and 68; http://www.hudoig.gov/pdf/sar/sar61.pdf .

from HUD to repay the loans. The industrial park project was initiated with a $2.13 million federal loan in 1999. But no developer was found for the project and “the city has no plans to finish the project.” The city spent $900,000 of the $2.13 million federal loan and the remainder sat in the bank while the city used $1.7 million of CDBG funds to make repayments for the loan.[4]

In just these three cities, over $42 million of HUD loans are being repaid with HUD grants.

This practice is nothing more than a financial shell game that bills taxpayers twice for failed risky government projects.

Federal funds, from HUD or any other Department or agency, should no longer be allowed to be spent to repay federal loans.

[4] Doyle Murphy, “City of Newburgh used grants for poor to pay delinquent developer, federal audit says; HUD slaps officials for poor oversight of loans; industrial park never built,” Times Herald-Record (New York), December 29, 2008; http://www.recordonline.com/apps/pbcs.dll/article?AID=/20081229/NEWS/812290328 .