funds are used to repay the guaranteed loan. When such a guaranteed loan is partially repaid with CDBG funds, the amount generated shall be prorated to reflect the percentage of CDBG funds used. Amounts generated by activities financed with loans guaranteed under Section 108 which are not defined as program income shall be treated as miscellaneous revenue and shall not be subject to any of the requirements of this Part. However, such treatment shall not affect the right of the Secretary to require the Section 108 borrower to pledge such amounts as security for the guaranteed loan. The determination whether such amounts shall constitute program income shall be governed by the provisions of the contract required at § 570.705(b)(1).

- (c) Subrecipient means a public or private nonprofit agency, authority or organization, or a for-profit entity authorized under § 570.201(o), receiving CDBG funds from the recipient to undertake activities eligible for such assistance under Subpart C of this part. The term excludes an entity receiving CDBG funds from the recipient under the authority of § 570.204. The term includes a public agency designated by a metropolitan city or urban county to receive a loan guarantee under Subpart M of this part, but does not include contractors providing supplies, equipment, construction or services subject to the procurement requirements in 24 CFR 85.36 or in Attachment O of OMB Circular A-110, as applicable.
- 15. Section 570.506 is amended by revising paragraph (b) introductory text; by removing the semicolon at the end of paragraph (b)(2)(iii) and adding a period in its place; by redesignating paragraphs (b)(7) through (b)(11) as paragraphs (b)(8) through (b)(12), respectively; by adding a new paragraph (b)(7); and by revising paragraph (c), to read as follows:

§ 570.506 Records to be maintained.

(b) Records demonstrating that each activity undertaken meets one of the criteria set forth in § 570.208. (Where information on income by family size is required, the recipient may substitute evidence establishing that the person assisted qualifies under another program having income qualification criteria at least as restrictive as that used in the definitions of "low and moderate income person" and "low and moderate income household" (as applicable) at § 570.3, such as Job Training Partnership Act (JTPA) and welfare programs; or the recipient may substitute evidence that the assisted

person is homeless; or the recipient may substitute a copy of a verifiable certification from the assisted person that his or her family income does not exceed the applicable income limit established in accordance with § 570.3; or the recipient may substitute a notice that the assisted person is a referral from a state, county or local employment agency or other entity that agrees to refer individuals it determines to be low and moderate income persons based on HUD's criteria and agrees to maintain documentation supporting these determinations.) Such records shall include the following information:

(7) For purposes of documenting,

- pursuant to paragraphs (b)(5)(i)(B), (b)(5)(ii)(C), (b)(6)(iii) or (b)(6)(v) of this section, that the person for whom a job was either filled by or made available to a low- or moderate-income person based upon the census tract where the person resides or in which the business is located, the recipient, in lieu of maintaining records showing the person's family size and income, may substitute records showing either the person's address at the time the determination of income status was made or the address of the business providing the job, as applicable, the census tract in which that address was located, the percent of persons residing in that tract who either are in poverty or who are low- and moderate-income, as applicable, the data source used for determining the percentage, and a description of the pervasive poverty and general distress in the census tract in sufficient detail to demonstrate how the census tract met the criteria in § 570.208(a)(4)(v), as applicable.
- (c) Records which demonstrate that the recipient has made the determinations required as a condition of eligibility of certain activities, as prescribed in §§ 570.201(f), 570.201(i), 570.202(b)(3), 570.203(b), 570.204(a), 570.206(f), and 570.209.
- 16. Appendix A is added to part 570 to read as follows:

Appendix A to Part 570—Guidelines and **Objectives for Evaluating Project Costs and** Financial Requirements

I. Guidelines and Objectives for Evaluating Project Costs and Financial Requirements. HUD has developed the following guidelines that are designed to provide the recipient with a framework for financially underwriting and selecting CDBG-assisted economic development projects which are financially viable and will make the most effective use of the CDBG funds. The use of these underwriting guidelines as published by HUD is not mandatory. However, grantees electing not to use these underwriting guidelines would be expected to conduct basic financial underwriting prior to the provision of CDBG financial assistance to a for-profit business. States electing not to use these underwriting guidelines would be expected to ensure that the state or units of general local government conduct basic financial underwriting prior to the provision of CDBG financial assistance to a for-profit business.

II. Where appropriate, HUD's underwriting guidelines recognize that different levels of review are appropriate to take into account differences in the size and scope of a proposed project, and in the case of a microenterprise or other small business to take into account the differences in the capacity and level of sophistication among businesses of differing sizes.

III. Recipients are encouraged, when they develop their own programs and underwriting criteria, to also take these factors into account. For example, a recipient administering a program providing only technical assistance to small businesses might choose to apply underwriting guidelines to the technical assistance program as a whole, rather than to each instance of assistance to a business. Given the nature and dollar value of such a program, a recipient might choose to limit its evaluation to factors such as the extent of need for this type of assistance by the target group of businesses and the extent to which this type of assistance is already available.

IV. The objectives of the underwriting guidelines are to ensure:

- (1) that project costs are reasonable;
- (2) that all sources of project financing are committed;
- (3) that to the extent practicable, CDBG funds are not substituted for non-Federal financial support;
- (4) that the project is financially feasible; (5) that to the extent practicable, the return on the owner's equity investment will not be unreasonably high; and

(6) that to the extent practicable, CDBG funds are disbursed on a pro rata basis with other finances provided to the project.

i. Project costs are reasonable. i. Reviewing costs for reasonableness is important. It will help the recipient avoid providing either too much or too little CDBG assistance for the proposed project. Therefore, it is suggested that the grantee obtain a breakdown of all project costs and that each cost element making up the project be reviewed for reasonableness. The amount of time and resources the recipient expends evaluating the reasonableness of a cost element should be commensurate with its cost. For example, it would be appropriate for an experienced reviewer looking at a cost element of less than \$10,000 to judge the reasonableness of that cost based upon his or her knowledge and common sense. For a cost element in excess of \$10,000, it would be more appropriate for the reviewer to compare the cost element with a third-party, fair-market price quotation for that cost element. Thirdparty price quotations may also be used by a reviewer to help determine the reasonableness of cost elements below \$10,000 when the reviewer evaluates projects