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Daniel Aiello
Program Manager, Capital Magnet Fund
CDFI Fund
US Department of the Treasury
1500 Pennsylvania Avenue, N.W.
Washington DC 20220

Dear Mr. Aiello:

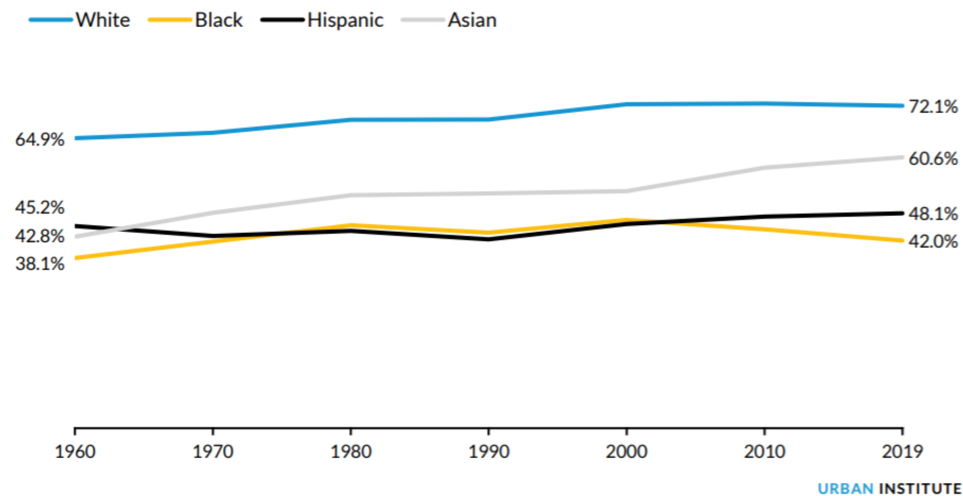
Thank you for the opportunity to comment on the Capital Magnet Fund (CMF) application and reporting and record retention requirements.

The Homeownership Alliance is a new advocacy coalition comprised of leading CDFIs and nonprofit single family developers that create affordable homeownership opportunities for families. These organizations prepare families to become successful homeowners and finance, renovate, and develop affordable homes that are assets for communities and the families that live in them. Homeownership Alliance members that have won CMF awards include the Atlanta Neighborhood Development Partnership, Homewise, Self-Help, cdcb, and Community Housing Capital.

While CMF grants have helped Homeownership Alliance members expand their affordable homeownership work, homeownership is but a fraction of the housing CMF helps produce. As of 2019, CMF has helped develop over 77,000 rental homes but has created just over 9,000 new homeowners[1]. The Round just awarded continued this pattern with 23,000 rental units planned compared to only 2,600 homeownership units.

The lack of CMF homeownership production is disturbing, given the racial homeownership gap's effect on America's persistent and disgraceful racial wealth gap. According to Federal Reserve's Survey of Consumer Finances (Sept. 2020) the median wealth of white households is $188,200 compared to only $24,100 for Black households and $36,200 for Hispanic households. And according to the Urban Institute, while 72% of White households own their own home, only 42% of Black households and 48% of Hispanic households are homeowners.

[1] https://www.lisc.org/media/filer_public/95/cf/95cf6bba-58ec-40b6-91e9-7d42a67619a1/112219_policy_briefs_capital_magnet_fund.pdf



This correlation between the racial wealth gap and the homeownership gap is receiving more and more attention from researchers, policy makers, and local communities. A report released by Brandeis University's Institute for Assets & Social Policy and the public policy organization, Demos, shows that the homeownership gap is the most significant driver of the racial wealth gap and is more significant than unequal incomes and access to higher education.[2]

The acute shortage of affordable rental housing in high cost metropolitan areas like Los Angeles, Seattle and Washington DC obscures the fact that in most of the US, sustainable homeownership with fixed rate mortgages provides families the stability of affordable housing with the wealth building benefits of homeownership. This map from the National Association of Realtors shows median home prices and mortgage payments by county across the US. In 57.9% of US counties the median home price is less than $150,000. In 36.9% of counties, the median home price is between $150, 000 and $350,000. Thus, in almost the entire US it is feasible and sustainable to work with lower income families to own their own home.

Another way to analyze this home price data comes from ATTOM Data Solutions which reports that in 63% of the U.S. counties they analyzed it is cheaper for a family to buy a three bedroom home than to rent one. These maps of housing affordability have great potential to help the CDFI Fund understand how to expand the geographic reach of its programs to serve more of the US, especially rural areas. Using CMF (and other CDFI Fund programs) for affordable homeownership can help the Fund effectively serve large areas of

[2] https://heller.brandeis.edu/iere/pdfs/racial-wealth-equity/racial-wealth-gap/racial-wealth-gap-why-policy-matters.pdf

the country that are zoned for single family housing and where there is a large stock of affordable homes.

Of course, low home prices alone are not sufficient to create homeowners. There are barriers to expanding homeownership that Homeownership Alliance members work with families to overcome. For example, limited access to mortgage credit for low and moderate income families and families of color is a problem that is ironically the most severe for the least expensive homes because lenders do not make as much money on small mortgages. Lack of savings for down payments is another challenge. Competition with wealthy investors who buy up homes to use as rentals is another problem in some markets for aspiring homeowners.

All of these challenges can be addressed by the work of mission-driven housing developers and lenders who build affordable homes and work with families to access existing homes with mortgages with fair terms. CMF grant funds are exactly the resource needed by mission-driven nonprofit lenders and development to unlock this stock of affordable homes for families. Directing more CMF resources to support affordable homeownership is critical because homeownership is a key building block for stable, vital neighborhoods as well for the health, education and prosperity of individual families.

The Homeownership Alliance respectfully requests that the CDFI Fund work with us to explore ways to more effectively deploy the resources of CMF to address the homeownership gap and help bridge the wealth gap. The Capital Magnet Fund has the potential to play an expanded role in closing the racial homeownership gap. We encourage the CDFI Fund to explore ways CMF can be deployed more effectively to help low-income households and disinvested neighborhoods benefit from homeownership. We are pleased to offer public comment on the proposed changes to the application process that have been proposed by the Fund.

Comments on CMF Application:

(a) Impact: The proposed Application includes questions about the intended impact of an Applicant's CMF strategy. (1) How should the CDFI Fund assess the impact of CMF awards on Low-Income Families and Communities? (2) The CDFI Fund has identified for Applicants a set of impacts in the proposed Application from which to choose. Are the current impact choices sufficiently comprehensive? Are there impacts that should be added or modified? (3) The CDFI Fund is proposing a standard set of metrics for each impact in the Application. Are the metrics proposed in the Application reasonable? Should any be added or removed?

Given the severity of America's racial wealth gap, we believe that Impact 1, "Improved financial strength and stability of Low-Income Families," should explicitly mention "wealth building." For example it could be changed to "Improved financial strength, wealth creation, and stability of Low-Income Families." There are different ways wealth building

could be measured. Increases in home equity and savings accounts are obvious tangible benefits that can be measured and reported to the CDFI Fund.

A focus on financial stability and wealth building could help homeownership applications be more competitive, but rental projects that have an asset building component could also benefit. For example, rental projects would score well if they incorporated the Family Self-Sufficiency (FSS) program, which allows residents with rental assistance in a project-based rental assistance developments to deposit rent increase due to higher incomes in escrow savings accounts. When residents graduate from the program, they can keep the escrow savings accounts which can be used for education or homeownership. FSS is an effective way to leverage the stability of affordable rental housing to help families build assets and financial stability.

(b) Entity Types: Financing entities (including CDFIs) and affordable housing developers/managers participate in the CMF program. These two entity types generally have different business models and may have different approaches to using the CMF award. (1.) Are additional questions or revisions to existing questions needed in the Application to further differentiate the two entity types? If so, please describe and justify. (2.) Both the existing and proposed Application currently asks non-CDFI applicants to self-identify as financing entities or affordable housing developers/managers; all CDFIs are classified as financing entities. Should a CDFI be permitted to self-identify as an affordable housing developer/manager if the CDFI intends to primarily act in a developer role when executing its CMF Award strategy?

The CDFI Fund's policy of creating separate CMF application pools for CDFIs and developers in proportion to their representation in the applicant pool is consistent with other ways the Fund has managed competitions, but it may be time to reconsider this bifurcation of the applicant pool. One of the strengths of the CMF program is that it was designed to accommodate many types of affordable housing in different geographies created by both lenders and developers. As the questions above acknowledge, the business model of the applicant may not match with the strategy chosen to develop the housing. Thus if a CDFI is acting as a developer/manager, the CDFI should be allowed to accurately self-identify as part of the application process.

This raises the larger question of whether the business model of the applicant really the right way to organize the CMF competition. The Fund should carefully review the application materials and evaluation standards and consider whether there should be different questions and information required of rental and homeownership applicants as well. Since the statutory income limits are different for rental housing and homeownership, perhaps dividing the pool between rental and homeownership is a better way to create a competition that rewards the best applications. The development and ongoing management process for rental housing is different in many ways than developing homes for owner-occupants or providing homebuyer financing and assistance. Thus, differentiated applications and evaluation standards might both reduce the burden on

applicants who struggle to answer questions not relevant to their project and make it easier for the Fund to fairly score applications.

(c.) Areas of Economic Distress and High Opportunity Areas: Along with focusing on Areas of Economic Distress, the CMF authorizing statute enables the program to prioritize "projects that target Extremely Low-, Very Low- and Low Income Families in or outside a designated economic distress area." To this end, the CDFI Fund is proposing to implement this statutory language by adding High Opportunity Areas as defined by the Federal Housing Finance Agency (FHFA) as a priority alongside areas of economic distress. High Opportunity Areas are priorities in the Duty to Serve Rule and generally encompass areas outside of existing CMF Areas of Economic Distress, including areas with lower poverty rates, and is seeking public comment on the following questions (1) Should the CDFI Fund add High Opportunity Areas as a priority in the application? (2) If added, should High Opportunity Areas be weighted the same as Areas of Economic Distress in the evaluation of applications? (3) Should the CDFI Fund rely on the criteria established by the FHFA in the Duty to Serve Rule to designate such areas? Under the FHFA definition is High Opportunity Area much (i) be designated by HUD as a Difficult to Develop Area whose poverty rate is lower than the rate specified by FHFA in the most recent published Duty to Serve Evaluation Guidance or (ii) be designated by a state Qualified Allocation Plan as a high opportunity area and approved by FHFA in its most recently published Duty to Serve Evaluation Guidance. (4) Should the CDFI Fund consider an alternative nationally applicable definition of High Opportunity Areas instead of the FHFA definition? If so, what federal sources of data are available to define these areas at the census tract level?

It does not make sense to overlay "High Opportunity Areas" designations from other programs (namely Duty to Serve and LIHTC) onto the homeownership activities funded by CMF. Adding HOAs as a priority would be a much more effective and relevant policy applied only to the competition for rental housing production, not homeownership. It is clear that the definition of High Opportunity Areas was written with LIHTC projects in mind. The Fund should be wary of unintended consequences of applying this priority for to homeownership projects.

It would be nearly impossible to make CMF homeownership programs or projects work in areas that are HOAs with high rents and plentiful jobs. Home prices in these areas are typically too high and there are no deep subsidy programs such as LIHTC available to close the affordability gap for homeownership projects. There is an additional problem with adding HOAs as a priority for homeownership from the CDFI Fund's s adoption of the HOME price limit of 95% of Area Median in the CMF regulations. The HOME price limit would prohibit the use of CMF funds in many HOAs because homes would certainly appraise above the maximum price limits. Even if the client can afford the home with the help of the CMF Awardee, the program price limit prevents this.

While elimination of the HOME price limits from the CMF regulations would help low-income homeowners to access homes in some additional neighborhoods using CMF assistance, it would not necessarily allow them to access HOAs (as defined in the proposed changes) because most of these areas are simply too expensive and there is not enough subsidy to close the affordability gap. Thus prioritizing HOAs for homeownership could have the impact of discouraging CMF use for homeownership. Both the HOA proposal for homeownership and the HOME price limits should be reconsidered for the CMF.

As the CDFI Fund explores scoring methods that incentivize applicants to provide lower-income families access to housing in higher opportunity neighborhoods, as a complementary goal, we think the Fund should also explore ways to allow for greater income diversity (up to the 120% AMI limit) to Areas of Economic Distress. Currently scoring encourages Applicants to promise high affordability goals (e.g., 100% of units go to clients under 80% AMI) and to promise a high percentage in areas of economic distress. The result is that applicants are incentivized to provide housing for low income clients only, and only in low income areas.

As an alternative to the Fund is assigning 100% of the points to applications that target 100% Low-Income Families, the targeting of Low-Income Families should be limited to areas <u>outside of AEDs</u> and any activity in AEDs would be able to assist families with incomes up to 120% of the AMI without out a reduction of points for income targeting. Under this structure, the Fund would continue to favor applications that target activity within AEDs, but allow for this activity to serve families with incomes up to 120% of the AMI.

The current scoring system can put affordable housing and revitalization goals at odds with each other. Part 2 of the application, Community Impact, states that:

> The Applicant will also score more favorably to the extent that it: commits to producing a higher percentage and/or number of rental housing units targeted to Very Low-Income Families (if proposing to use CMF for rental housing); commits to producing a higher percentage and/or number of Homeownership units targeted to Low-Income Families (if proposing to use CMF for Homeownership);… and commits to producing a higher percentage of units in Areas of Economic Distress.

The effect of this language is that it favors applications that maximize both the percentage and/or number of Very Low-Income Families (in the case of rental) or Low-Income Families (in the case of homeownership) **and** these housing units are located in Areas of Economic Distress. The unintended consequence of this language is that it encourages the further concentration of low-income households in Areas of Economic Distress and discourages the creation of housing options in "opportunity neighborhoods."

The CDFI Fund should consider both scoring changes that increase the income mix in Areas of Economic Distress to revitalize disinvested neighborhoods and scoring changes that

provide more rental housing for Very Low-Income and Low-Income housing in "opportunity neighborhoods." All of these changes are conducive to increasing the upward mobility of low-income families.

e) Rental and Homeownership Housing: Affordable rental housing and affordable Homeownership are eligible uses for a CMF award. The CDFI Fund has differentiated between the two in past NOFAs and Applications as each relates to targeted income levels. Specifically, the targeted income level for Homeownership is Low-Income (80% of Area Median Income (AMI) and below), compared to a targeted income level of Very-Low Income (50% AMI and below) for rental housing. In addition to targeted income levels, are there other areas in the proposed Application where there should be different approaches to requesting and evaluating information on Homeownership and rental housing strategies?

The Fund's differentiation of targeted income levels for homeownership versus rental applications make sense. As mentioned above under the discussion of Areas of Economic Distress and High Opportunity Areas, we think the Fund should also differentiate the definitions of higher opportunity neighborhoods for homeownership versus rental programs. While the proposed definition of HOAs may make sense for LIHTC and other rental programs, it does not make sense for homeownership programs. Because there are no other deep subsidy programs that support homeownership, it would not be possible to assist low-income homebuyers in these areas. And the maximum subsidy allowed from CMF funding essentially amounts to 10% of the total transaction costs (home price plus closing costs), which is not enough to reach Low-Income Families in these Areas.

For homeownership programs it would make more sense to consider all areas outside of AEDs as areas of higher opportunity. This distinction would help avoid the current Application's favoring applications that target both Low-Income Families and AED, essentially encouraging the further concentration of poverty in AEDs while discouraging providing homeownership opportunities in neighborhoods of higher opportunity outside of AEDs. In order to encourage the provision of homeownership opportunities in both types of neighborhoods, homeownership applications would receive favorable consideration for all of their proposed activity in AEDs including assistance to families with incomes up to 120% AMI. Applications would also receive favorable consideration for the proposed activity targeting Low-Income Families in areas outside the AEDs. In other words, homeownership applications would not be penalized for serving high income families as long as those families would be purchasing homes in AEDs.

The above proposal that would allow higher income households purchase homes in AEDs and encourage the development of homeownership opportunities for Low-Income Families buying outside of AEDs would apply to all CMF applicants, including non-profit housing developers. The CDFI Fund should also consider allowing CDFI applicants to broaden their target market to include any household that meets the definition of Targeted Population as defined in the CDFI certification regulations. Section 1805.201(b)(3)(iii) defines Targeted Population as follows:

Targeted Population shall mean individuals, or an identifiable group of individuals, who are Low-Income persons or lack adequate access to Financial Products or Financial Services in the entity's Target Market.

People who "lack adequate access to Financial Products or Financial Services" generally include people of color and would allow CDFI applicants to receive favorable treatment in the application process if they target minority households even if their incomes exceed the 80% AMI definition of Low-Income Family (as long as the household income does not exceed 120% AMI.) Allowing CDFIs that provide homeownership Financial Products to broaden their target market to include both Low-Income Families and minority households with incomes up to 120% of the AMI, would be a big help in closing the racial homeownership gap

(g) Priorities: From funding round to funding round, new priorities may emerge, such as disaster response, an economic downturn, or new initiatives. In the past, the CDFI Fund has addressed changing priorities on a round by round basis for Applications in a specific funding round. Should this approach be continued or adjusted? If it should be adjusted, what alternative approach should the CDFI Fund consider?

Recent events have focused long overdue attention on economic inequality in the US. The Biden Administration's proposals in the areas of homeownership and infrastructure are intended to close these gaps. The CDFI Fund should continue to adjust priorities from round to round and it is time to prioritize homeownership applications to the CMF as part of these broader efforts to lessen inequality. If the US is going to make progress in closing its racial wealth gap, it must close its homeownership gap. The CMF could help ameliorate the dearth of resources for homeownership activities across the different government housing programs. In addition, use of CMF for homeownership would bolster the nonprofit sector increasing the number of organizations able to take on the task of addressing the nation's massive homeownership gap.

Prioritizing homeownership applications to the CMF should be part of a broader effort by this Administration to boost the homeownership rates among people who have been shut out from our primary path to build assets. There is no investment alternative that is as beneficial as homeownership for wealth building for middle class Americans. Homeowners benefit from both equity that builds up as they pay down a mortgage and any appreciation in the value of the home. Thus, homeowners can enjoy a more secure retirement even if they don't have a pension. Homeownership also offers families stable housing costs because mortgage payments on fixed rate loans don't increase, unlike rents. In addition, in half of the largest US cities, it is cheaper to buy a home than to rent.[3]

Homeownership also offers a range of nonfinancial benefits. As the Joint Center for Housing Studies points out, "Americans have long found the idea owning one's home deeply appealing, associating homeownership with increased privacy, independence from landlords and rent increases, control over one's living space, greater wealth, better

[3] *The Case for Homeownership*, Alanna McCargo, Urban Institute, October 2018

outcomes for children, and opportunities such as higher-quality schools and safer communities that, for a multitude of reasons, often accompany living in areas dominated by single-family owner occupied housing."[4]

Unfortunately, the benefits of homeownership are not evenly distributed throughout our society. America's growing racial wealth gap and homeownership gap are well documented and interrelated. This matters because as noted in *Closing the Gaps*, "Wealth and income are both critical to building financial security. Wealth (e.g. savings and real estate or business holdings) cushions families against emergencies, provides the means for moving up the economic ladder, potentially grows over time, and can be transferred from generation to generation. Income allows a family to pay monthly bills and to build more wealth. But income is often volatile, and vanish with job loss, or can be curtailed suddenly. During economic crises, households with less wealth are worse off than households with more wealth because they have less savings and fewer liquid assets with which to adapt and recover."[5] Resources from the CMF for affordable homeownership development could be a significant source of support to close these homeownership gaps, and thus the racial wealth gap.

j) Leverage: Attracting capital or leveraging the CMF Award is a statutory requirement and key component of CMF. (1) Is the current approach, set forth in the proposed Application, where Applicants are asked to describe their different types of leverage (e.g. Enterprise-Level, Reinvestment-Level, and Project-Level) clear? (2) The CDFI Fund is considering requesting that Applicants provide more documentation about the leverage they have secured at the time of the Application. What types of documentation related to proposed sources of leverage should the CDFI Fund collect? What, if any, burdens would collecting such documentation place on Applicants? (3) Per the CMF authorizing statute, Applicants to the CMF program must leverage their Award at least 10 times. Currently, the CDFI Fund does not evaluate Applicants exceeding the 10:1 ration more favorably than Applicants that meet the minimum 10 times benchmark. Should this approach be changed to recognize and score more favorably Applicants with total leverage exceeding the minimum requirement?

The minimum 10 times benchmark should remain a minimum benchmark and leverage above that level should not be considered more favorably. Given that the leverage being achieved under the current requirement significantly exceeds the leverage requirement, what would be accomplished by treating higher leverage application more favorably? The financial structure of a project or program is not necessarily related to its impact. Shouldn't impact be the main determinant in assessing applications? Shouldn't <u>what</u> a program will achieve be more important than <u>how</u> it will be achieved?

This proposed change also could cause negative unintended consequences, including the inefficient structuring of financing. In order to maximize leverage, applicants would be encouraged to layer extra subsidies on to each CMF-funded activity rather than simply use

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[4] *Homeownership Built to Last*, Joint Center for Housing Studies, 2014

[5] McCargo and Choi, p. 2

those subsidies more efficiently on other projects. For example, for a homeownership assistance program could efficiently and effectively use CMF funding within the allowed leverage amount of essentially 10% of the home price. For example, on a $100,000 home a buyer might use $10,000 in a homebuyer assistance mortgage from CMF and $90,000 in a private mortgage. This is pretty simple and straightforward.

But in order to obtain more points for leverage, the applicant would be incented structure the financing with three mortgages, a privately-funded $90,000 first mortgage and two subordinate mortgages for the homebuyer assistance: $5,000 from CMF and $5,000 from CDBG or another subsidy source. It would be more efficient to have the two subsidy sources fund two separate homebuyers so that each transaction would have only two mortgages. But rewarding unnecessary increased leveraging would encourage the more inefficient use of three mortgages on each transaction even though it would not increase the number of households served.

Thank you for considering our comments. Please contact me at ksiglin@stabilizationtrust.org if you have questions.

Sincerely,

Kristin Siglin
Vice President for Policy and Partnerships
National Community Stabilization Trust
On behalf of the Homeownership Alliance