August 26, 2024

Director Pravina Raghavan
Community Development Financial Institutions Fund
U.S. Department of the Treasury
1500 Pennsylvania Avenue NW
Washington, D.C. 20220

RE: Request for Comment, Capital Magnet Fund Interim Rule

The National Community Stabilization Trust (NCST) and the Homeownership Alliance thank you for the opportunity to provide comment on the Department of the Treasury's notice of Interim Rule of the Capital Magnet Fund (CMF).

Members of the Homeownership Alliance,[1] NCST's practitioner-led coalition of leading Community Development Financial Institutions (CDFIs) and nonprofit housing organizations, are key stakeholders of the CMF and are deeply invested in advocating to maximize the program's impact. The mission of the Homeownership Alliance is to increase access to homeownership to narrow America's racial wealth gap, improve access to long-term affordable housing, and revitalize disinvested communities. Members of the Homeownership Alliance have a strong track record of producing quality homes, and our network focuses particularly on mitigating the racial wealth gap by enabling low- to moderate-income (LMI) families to attain affordable homeownership through increasing supply. Across the country, Alliance members generate a robust, nonprofit-led delivery system that effectively prepares families to become successful homeowners, as well as finance, renovate, and develop affordable homes benefiting individual households and the surrounding community. Members utilize CMF as part of their leveraged funding to be able to accomplish this work.

NCST and the Homeownership Alliance are appreciative of the work that the Department has undertaken in strides to bring an effective program that takes into consideration practitioner use in development of affordable homes and empowers a nonprofit delivery system. CDFIs bolstered by flexible federal resources like CMF facilitate homeownership, promote local economic development, create job opportunities, and advance growth in historically underserved communities.

We are pleased with many of the revisions incorporated in the revised CMF interim rule[2] to stimulate the growth of homeownership and opportunities for LMI families. Increased homeownership opportunities will assist many Black and brown households seeking to increase wealth, thereby closing the racial wealth gap. NCST and the Homeownership Alliance propose additional recommendations to further optimize these important resources, including additional flexibility within the median home price limits, as well as the reinvestment-level leverage

[1] Established by NCST in 2021, the Homeownership Alliance is a practitioner-led coalition of 20 CDFIs and nonprofit housing developers serving 16 states, (2024). The Homeownership Alliance.
[2] CDFI Fund Publishes Revisions to Capital Magnet Fund Interim Final Rule, (Jun 2024). U.S. Department of Treasury.

requirements. Overall, we commend the Department's responsiveness to stakeholder recommendations by issuing the previous Request For Information (RFI)[3] and soliciting comments on this revised interim rule, and applaud programmatic revisions that improve homeownership outcomes for mission-driven developers serving LMI communities nationwide.

Proposed Regulatory Changes Supporting Affordable Homeownership

NCST and the Homeownership Alliance are pleased to see many of our concerns[4] addressed in this rulemaking that we articulate in greater detail below.

Extension of Deadline for Commitment of Funds. The Homeownership Alliance is pleased to see a two-step approach incorporated into the commitment of awards, which provides additional year to be able to commit funds to a project, extending the deadline to three years. By providing grantees an additional year to commit funds to a project, recipients will have greater flexibility to meet project deadlines, adapt to unforeseen market changes, and allow for greater latitude for practitioners who may need to absorb increased construction and property insurance costs.

Aligning Definitions and Reducing Regulatory Burden. Some Alliance members have previously noted concerns with the income limit definitions applicable to CMF-funded projects, and emphasize the significance of aligning these definitions with those used in other federal housing programs such as the HOME Investment Partnerships Program (HOME), Community Development Block Grant (CDBG), or Low-Income Housing Tax Credit (LIHTC). Consistency in definitions across federal programs will ease the regulatory burden on CMF recipients as they deploy these awards. We are pleased to see the Department adjust the Very-Low-Income definition from 50% of the Area Median Income (AMI) to 60% and below. Units subsidized by CMF dollars are often layered with LIHTC, and this adjustment enhances compatibility between the programs and increases financing options, thereby contributing to a CDFI's capacity to develop more affordable supply.

"Presumptively Compliant" Alignment with Federal Programs. Seeing as practitioners often layer federal programs simultaneously, streamlining the varying definitions, interpretations, and regulations for each program contributes to an organization's administrative burden. Our organizations, in turn, are grateful that the Department has adopted our recommendation allowing practitioners to be considered "presumptively compliant" with certain CMF rules and requirements given their participation with select qualifying programs, reducing much burden for recipients and beneficiaries. We look forward to the Department releasing further guidance within the assistance agreements detailing which federal affordable housing programs and their components qualify as presumptively compliant, providing more clarity and transparency to CMF recipients.

The most relevant federal programs for the Homeownership Alliance membership include LIHTC, New Market Tax Credits, HUD programs (HOME, CDBG, Office of Native American Programs grants), and U.S

[3] CMF Notice and request for information, (Jul 2023). Federal Register.
[4] Homeownership Alliance response to July 2023 CMF RFI, (Sep 2023). Homeownership Alliance.

Department of Agriculture's 502 program, among other federal affordable housing programs supporting LMI households. We request the Department consider this list of programs when implementing guidance on presumptively compliant federal programs. Given the persistent surge in housing costs,[5] it is imperative that CDFIs possess the ability to easily combine diverse funding sources when deploying CMF dollars in order to successfully undertake affordable homeownership initiatives. Alignment within federal program requirements, the application, and reporting process - as proposed in the previous recommendation - can greatly simplify this process. This would enable the completion of more projects, ultimately increasing the inventory of affordable housing options and expanding opportunities for LMI homeownership.

Program Income (PI) for CMF-Eligible Activities. NCST and the Homeownership Alliance commend the Department for increasing flexibility on the use of PI by enabling this flexibility through the use of Assistance Agreements and revising applicable agreements. PI is the revenue generated by recipients from investments made using a CMF award in a project or loan creation. This includes return from equity, repayment of loan principal, and any interest income. Allowing PI to be used for all CMF-eligible activities[6] provides crucial flexibility for practitioners in executing increased homeownership opportunities. This also helps determine how funds can be utilized depending on the project phase in which CMF awards are allocated. In addition to these uses, some Homeownership Alliance members request the CDFI Fund consider administrative and operational support, housing counseling, post purchase counseling, and funding for home warranties as additional eligible uses of PI.

Members express concern over the CMF's 36-month completion deadline for projects funded with PI and propose certain adjustments to this deadline to expand the impacts of the projects. These improvements include both creating a deadline extension for unforeseen challenges and aligning the PI deadline with other project timelines to streamline the commitment process. Organizations in our network have also raised concerns with the requirement that any PI above $100,000 must be committed to a project in the following year. The Homeownership Alliance again recommends Treasury modify the requirement to allow commitment within the 5-year program expenditure timeframe, as project costs tend to increase, making it more likely for the PI earned to reach this threshold.[7]

Furthermore, the current 10-year affordability period requirement for projects funded with PI creates an obstacle for homeownership. An affordability period of 5 years, particularly for homeownership, should be established. Once a home is sold to an eligible homebuyer (or an existing owner's home is rehabilitated), the CMF Recipient has no effective control of the property or the reselling owner's ability to repay. Resale restrictions – especially for 10 years – may be confusing for homebuyers/owners, and especially first-time homeowners seeking to enjoy the usual unrestricted benefits of homeownership and instead, burdened by paperwork associated with the purchase and financing. The lower limit of 5 years presents an opportunity to bolster the affordable housing inventory, expand homeownership options, and facilitate tracking logistics. Regarding the 10-year period, it should exclusively apply to direct subsidies for buyers and not be imposed on development subsidies. Overall,

[5] According to Fannie Mae, rising mortgage rates and affordability constraints are increasingly limiting homebuyers. Home Prices Advance Another 3 Percent in Second Quarter, Show Signs of Slowing, (July 2024). Fannie Mae.
[6] 12 CFR § 1807.301
[7] Ibid.

we support relaxing CMF PI requirements, as these requirements appear to be excessive in scope as compared to the requirements of other CDFI Fund programs and present a burden in executing homeownership opportunities.

Purchase Price Limits. The most significant hurdle to homeownership with the CMF program has been prompted by the Fund's adoption of HUD's HOME 95% median purchase price limit requirements. This limitation creates a barrier for both developers looking to meet housing demand and homebuyers wanting to live in communities of their choice. This regulatory limit has unnecessarily limited housing choices, undermined the effectiveness of CMF, fostered over-subsidization, and harmed prospective LMI buyers, without ultimately enhancing compliance.

As such, our organization applauds the Department for addressing this issue by implementing data that better supports the dynamic nature of today's economic conditions as a basis for the 95% calculation. Using FHA 203(b) data, as the Department notes, is a more reliable and effective index that provides more flexibility and housing options when using many federal programs[8] that require a median purchase price limitation. FHA 203(b) data are forward looking, avoid data lags, provide enhanced flexibility for high-cost urban areas, and establish a national floor for low-cost rural communities. This creates a dynamic and representative dataset that supports increased affordable homeownership development. As the Department implements the 203(b) data, we note the importance for clear guidance and direction regarding the location of specific data used and the steps taken to evaluate the 95% calculation. To better clarify for grantees to ensure compliance, CDFIs would benefit from Treasury releasing examples of executing the methodology.

We thank the Department for acknowledging the challenges of previous 95% median home price requirements, such as limited availability, particularly for large families, and the concentrated affordable housing in specific geographic areas. The CDFI Fund rightly acknowledges that inflationary pressures, combined with limited housing stock across markets, display significantly distorted perceptions of a homebuyer's purchasing power and consequently, larger families have limited options. However, this further reinforces the argument for the complete elimination of the limit.

While we support and welcome the rule change allowing the FHA 203(b) data as a basis for the 95% calculation, we stress that the use of purchase price limits foster segregation, stunt upward mobility and create an unnecessary barrier to homeownership. Eliminating the 95% median purchase price requirement under CMF would fully deter the escalating imbalance between the number of qualified borrowers and the supply of eligible homes. We support reevaluation of the utility of purchase price limits given that these limits are not required by CMF statute and increase the difficulty of the deployment of CMF funds. Overall, we welcome partnership to

[8] Using 203(b) data across federal programs as a basis for calculating the 95% threshold provides greater flexibility for affordable homeownership practitioners seeking to create more LMI owner-occupants. 203(b) data can elevate many practitioners' concerns in using representative data sets. For example, in Grainger County, TN, 95% of the median home price limit using HUD's HOME program data (that as of the 2016 interim CMF rule informed the data used for CMF), in 2023 was $251,000. Using 203(b) data in determining the 95% limit, however, would yield a limit of $378,000, adding an additional $127,000 to the highest allowable home price. The 203(b) data support flexibility for rural communities by providing a higher national floor, leading to more accurate and representative limits. Homeownership Alliance response to HUD's NPRM on HOME. (July 2024).

explore alternative methods on how to best meet the homeownership needs of the communities served by the Homeownership Alliance.

Additional Recommendations to Improve CMF and Increase Affordable Homeownership Opportunities

Our organization articulates additional suggestions for the Department to consider below. All of our recommendations are informed by Homeownership Alliance members, with careful consideration to implementation across housing markets.

Expanded Geographic Use. A robust and equitable federal homeownership strategy must include geographies outside of the urban core. Federal resources are needed to promote affordable homeownership, particularly in rural areas. In many rural communities, most of the housing stock is comprised of single-family homes, with a substantial portion in need of significant rehabilitation or total replacement. The shortage of accessible starter homes impedes homeownership opportunities, hindering wealth accumulation and financial stability. Without affordable homes, these neighborhoods cannot attract or retain working families, forcing many businesses to seek alternative locations. Additionally, Native American communities experience more extensive challenges, including infrastructure deficiencies, limited workforce development, and inadequate access to affordable financial services. In fact, 86% of these communities do not have access to a financial institution within their borders.[9] Members also note difficulty in addressing rural area needs that may be just outside of an "Area of Economic Distress" which leaves it ineligible for CMF funds regardless of a family or community need for investment. The CDFI Fund should consider modifying or adjusting the existing geographic restrictions to encourage development in all areas and communities.

Secondary Mortgage Markets. The use of CMF within secondary mortgage markets is an important mechanism to provide affordable homeownership opportunities at volume. Currently, however, the undue burden in place that requires secondary market partners to screen for CMF eligibility prior to origination has the undesired effect in creating cost inefficiencies that negatively impact borrowers. As such, we urge the Department to provide an exception for purchases within secondary mortgage markets by allowing for a commitment to use funds to "pay it forward," providing assurance that the deployment of CMF funds is in line with its intended mission.

Excessive Leverage Requirements. The existing leverage calculation is onerous for housing practitioners receiving CMF and solutions such as eliminating the reinvestment-level leverage would address several challenges faced by newer applicants with fewer resources. Practitioners note that the 10:1 leverage ratio[10] is particularly burdensome for homeownership projects as it requires a minimum project size of $5 million, which is excessive for rural areas and pressures meeting the two-year expenditure deadline for single-family homes. The current leverage calculation is complex and time consuming, necessitating simpler methods such as

[9] What is a Native CDFI? (2024). Native CDFI Network.
[10] 12 CFR § 1807.500

combining types of leverage. The calculation often fails to accurately reflect the investment strength of a project compared to other metrics. This places an undue administrative burden on practitioners receiving CMF funds.

Solutions to leverage requirements are needed. With the retention of this calculation, a template to aid first-time applicants would be beneficial in providing additional guidance. While we appreciate work being done towards simplification of this calculation with Direct Administrative Expenses and Feasibility Determination Costs combined excluded from project costs, a more accurate calculation could be drawn from changing the calculation multiplier based on the award amount. Additionally, for homeownership, encouraging the recycling of funds could facilitate further development or provide down payment assistance to homebuyers.

Treatment of Manufactured Homes. The CDFI Fund plays a vital role in promoting affordable homeownership across various types of homes, including manufactured homes. The interim rule's revision of broadening the definition of "single family housing" to encompass standalone manufactured homes, as well as combinations of manufactured housing units and their lots, are welcome changes. However, the CDFI Fund should ensure automatic inclusion of land rent costs in the total price when assessing the affordability of manufactured housing units. It is imperative that manufactured homes and single-family scattered site homes, particularly in rural areas, continue to be an eligible use of funds and receive heightened emphasis within CMF. As the Fund harmonizes the CMF program with other major federal affordable housing initiatives, it is crucial to address the distinct needs of rural, tribal, suburban, and urban communities. The Homeownership Alliance hopes to see the treatment of manufactured housing qualifications to be equivalent to that of other fee-simple family home transactions, overall reinforcing equal treatment across all housing types.

Thank you for the opportunity to provide comments on the various ways to enhance the CMF, as well as streamline administrative operations for program recipients. The Homeownership Alliance is a dedicated and enthusiastic partnership of affordable housing stakeholders. We commend the CDFI Fund for its continued commitment to promoting economic development and wealth-building in underserved communities. Soliciting feedback on CMF program reforms directly from the affordable housing industry will ensure these changes are both impactful and implementable. Any questions or points of clarification can be addressed to Elisabeth Coats, Director of Homeownership Alliance (ecoats@ncst.org) and Jenni Brown, Policy Manager (jbrown@ncst.org). We appreciate the Department's time and consideration of our perspectives.

Sincerely,

The Homeownership Alliance

The National Community Stabilization Trust