Homeownership Alliance

Homeownership Finance Fund (HOFF) Proposal
Expanding Affordable Homeownership through the CDFI Program

January 30, 2023

Summary

The time is right for the Biden Administration to work with Congress to establish a Homeownership Finance Fund (HOFF) set-aside within the CDFI Financial Assistance (FA) Program. Our country faces a severe and worsening housing affordability and supply crisis, as well as persistent and harmful racial disparities in the rates of homeownership and household wealth. CDFIs and nonprofit housing developers can help solve these problems by scaling up the production of homes affordable to low- and moderate-income (LMI) families and by improving access to homebuyer financial assistance – including for many households of color and first-time homebuyers who are increasingly priced out of many markets across the country. To do so, we seek increased access to flexible, long-term capital for CDFIs that finance the development of affordable homeownership as well as those that offer mortgage financing and down payment assistance. The HOFF would counterbalance the nation's multi-year underproduction of homeownership units by helping to generate the volume of affordable homes (both through rehabilitation and new construction) that LMI households urgently need, and by improving access to these homes through down payment assistance and advantageous, affordable mortgages.

Background

Across the nation, CDFIs and nonprofit housing developers have a strong track record of financing, developing and supporting the purchase of quality homes that enable LMI families to attain affordable homeownership and the benefits that typically accrue to homeowners over time (e.g., predictable housing costs, asset appreciation, generational wealth building, and neighborhood stability).

The success of the CDFI Fund model is demonstrated by cumulative investments and outputs over time, including development or rehabilitation of over 2.1 million housing units.[1] It is also reflected in sustained, bipartisan Congressional support in the form of annual appropriations that have steadily increased over time. For FY 2023, Congress appropriated $324 million to the CDFI fund, $29 million (9.8%) above FY 2022 funding.[2] For FY 2024, national CDFI advocates are again asking Congress to provide $1 billion for these proven programs, a request which the Homeownership Alliance supports.[3]

In the face of the nation's acute housing supply crisis, as well as chronic and well documented racial disparities in the rates of homeownership and household wealth building,[4] [5] CDFIs seek to support the purchase of homes by low- and moderate-income buyers and, in partnership with experienced non-profit developers, to scale the production of affordably-priced homes for LMI families who are crowded out in many markets across the country –including increasingly by corporate investors and all-cash buyers. Through home buyer education, home purchase assistance, access to high quality mortgage products, and financing for affordable housing development, we seek to produce the volume of homes that hardworking families across the country need, at price points these households can afford, in areas of high opportunity. We seek to leverage nonprofit-led delivery systems as a counterweight to the nation's acute underproduction of housing and to the harsh supply and demand constraints that disproportionately impact LMI households, first-time homebuyers, and families of color.[6] [7] [8] To achieve these goals, CDFIs and nonprofit developers need increased access to dedicated, flexible and patient capital.

<u>Proposal for Consideration by Treasury</u>

NCST and the Homeownership Alliance,[9] a practitioner-led coalition of 31 CDFIs and nonprofit housing developers from 19 states, ask the Treasury Department to establish a Homeownership Finance Fund (HOFF) within the CDFI Fund's Financial Assistance (FA) program. This set-aside would provide a dedicated pool of flexible, competitively-awarded funds in each funding cycle to support affordable homeownership production and homebuyer assistance activities consistent with program objectives.[10]

The case for creating a homeownership-focused set-aside within the CDFI Fund is strong. **First**, the concept aligns with the Biden-Harris Administration's commitment to advancing racial equity and to supporting underserved communities.[11] It is also consistent with the Administration's *Housing Supply Action Plan,* [12] its strategy for fighting inflation, [13] and its whole-of-government approach to addressing the national housing crisis. **Second**, the CDFI Fund Administrator has some flexibility within the existing statutory framework to direct program resources to national priorities.[14] **Third**, there is precedent. Three set-asides (FA supplemental pools) currently exist to incentivize investments that address specific national priorities: Healthy Food Financing Initiative (HFFI-FA) launched in FY 2011; Disability Funds (DF-FA) established in FY 2018, and Persistent Poverty Counties (PPC-FA).[15] [16] **Fourth**, while more than half of all CDFIs report Residential Real Estate Finance as a top primary or secondary line of business,[17] home purchase loans constituted less than 12 percent of all loans made by FA awardees in FY 2021 and less than 9% made cumulatively between FY 2010 and FY 2021.[18] Similarly, of 280 CDFIs surveyed by the Opportunity Finance Network, only 30 (11%) provide residential real estate financing services to individuals, indicating that CDFIs could take a more prominent role in expanding access to home purchase finance for low income households.[19] **Fifth,** with FY 2023 appropriations for the CDFI Fund at their highest level since inception, establishing a specific set-aside to spur homeownership production would not reduce resources for other CDFI Fund programs and priorities. **Finally**, time is of the essence. As interest rates and home prices remain elevated, as competition from corporate and cash investors continue to crowd out many LMI buyers, and as the Administration is at the mid-point of its term, now is the time for bold actions that can be approved and implemented administratively or with the support of Congressional appropriators.

<u>Options for Homeownership Finance Fund Structure</u>

Option A: We recommend structuring the Homeownership Finance Fund (HOFF) as a set-aside within the Base FA program, similar to- but distinct from the three existing supplemental pools (HFFI-FA, PPC-FA and DA-FA). Under this approach, Treasury would propose annual funding levels for the HOFF as well as for the Base FA program. Treasury would also have authority to allocate additional funds to the HOFF based on needs and circumstances.

While conforming to the statutory requirements of the FA program overall, we recommend that Treasury utilize its authority to design HOFF as a set-aside that provides increased / maximal flexibility for CDFIs to address the diverse homeownership and housing finance needs of LMI buyers in proven and innovative ways. For example, in addition to home purchase assistance for individual homebuyers, we urge that the HOFF specifically support homeownership projects for which valuation gaps must be addressed in the financing stack. Such properties are often located in distressed neighborhoods and do not score as competitively as projects requiring less subsidy.

More broadly, we ask that the HOFF emphasize sustainable LMI homeownership outcomes, rather than the amount of patient capital that each transaction may require. We also note that demand for Base FA awards has exceeded supply in recent funding cycles by as much as 3-to-1.[20] In this context, having to win a Base FA award in order to be eligible for HOFF set-aside funds would likely result in loss of consideration for many viable homeownership projects prioritized in their local or regional markets. This precondition currently applies to HFFI-FA, PPC-FA and DA-FA awards; it should not be extended to the HOFF.

We also encourage Treasury to draw in part on the Capital Magnet Fund (CMF) framework for further shaping eligible activities, uses and priorities of HOFF.[21] CMF awards may be used for down payment assistance and mortgages (first and second) to help individuals buy homes, as well as to finance the development, preservation, or rehabilitation of homeownership units.

However, other aspects of the CMF should *not* be incorporated into the HOFF. For example, the CMF statute imposes a minimum 10:1 leverage requirement.[22] This threshold is too high in that it impedes many otherwise feasible projects. Similarly, we urge Treasury to exclude the *home purchase price limits* that currently apply under CMF from the HOFF. As detailed separately, [23] these price caps do not have a basis in the CMF statute and make it increasingly difficult to deploy CMF funds to help LMI homebuyers in many markets today.

Option B: If Treasury determines that establishing a homeownership set-aside is not feasible, we would encourage the following adjustments to the FA program in order to make homeownership-focused applications more competitive for Base FA awards:

- Business Plan Review – As detailed in the FY 2022 NOFA, the CDFI Fund evaluates and scores the soundness of each applicant's comprehensive business plan. Points are awarded in five categories, including for *Products and Services*.[24] Consider making homeownership-focused applications eligible for extra points in this category; and

- Policy Objective Review – Base FA applications are currently evaluated on their ability to meet three policy objectives set by the Fund: addressing economic distress and need; expanding economic opportunities; and increasing resources through collaborations and partnerships.[25] Consider adding as a fourth policy objective: *reducing racial disparities in homeownership and household wealth building*.

Conclusion

We live in extraordinary times. The underproduction of homeownership units over the past decade, combined with the rapid escalation of home prices, rising interest rates, and increased competition by corporate- and cash investors mean that fewer and fewer LMI families –especially Black and Brown households- are able to attain homeownership today.

Recognizing that the housing affordability and supply crisis will require a sustained response over time, additional resources are needed and warranted. Creating a set-aside for affordable homeownership within the CDFI Fund's Financial Assistance program would be a powerful way to respond to the crisis and begin to reduce racial disparities in terms of who gets to own a home and build household wealth overtime. We would welcome the opportunity to meet with your office to discuss this proposal further. For more information, please contact Kris Siglin ksiglin@stabilizationtrust.org or David Hunter at dhunter@stabilizationtrust.org.

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[1] The cumulative impacts of CDFI investments include the development or rehabilitation of over 2.3 million housing units. Opportunity Finance Institutions Side By Side: Fiscal Year 2021 OFN Member Data Analysis, Twenty Fourth Edition.

[2] FY 2023 Omnibus Appropriations Act.

[3] CDFI Coalition, Current Policy and Advocacy webpage; FY 2023 CDFI Fund Appropriations.

[4] FACT SHEET: Biden-Harris Administration Announces New Actions to Build Black Wealth and Narrow the Racial Wealth Gap: Biden-Harris Administration Announces New Actions to Build Black Wealth and Narrow the Racial Wealth Gap; the White House, Statements and Releases; June 1, 2021. "…The U.S. is home to stark and persistent disparities in homeownership and wealth. Across the country, just 49 percent of Hispanic Americans and 45 percent of Black Americans own their own homes, compared to 74 percent of White Americans. Hispanic and Black households also have just a fraction of the wealth of their White counterparts…."

[5] According to the Federal Reserve's 2019 Survey of Consumer Finances (Sept. 2020), the median wealth of White households is eight times higher ($188,200) than that of Black households ($24,100) and five times higher than that of Hispanic households ($36,200). This survey is conducted every three years. The 2022 survey is being conducted between March and Dec. 2022. According to the Urban Institute, 72.2% of White households own their home, compared to 42.3% of Black households and 48.1% of Hispanic households. The accrued impact of these disparities over many decades and generations of families is also reflected in the [distressed] physical and financial conditions of many communities of color.

[6] According to the National Association of Home Builders, the price of residential construction materials rose 33% since the start of the pandemic through March 2022. This total includes a 20.4% year over year increase during 2021, and 7.7% increase in Q1 of 2022. The price of services inputs for residential construction increased even further, by 39%. (NAHB's report draws on the U.S. Bureau of Labor Statistics' April 2022 Producer Price Index (PPI) report.

[7] Post-pandemic economic conditions that have made home ownership significantly more difficult for families of all colors to achieve and sustain include rising interest rates; historic low for-sale inventory; heightened competition in the single family purchase (SFP) market, including from corporate investors with the capital resources to make all-cash offers; increasing U.S. house prices, which rose 18.7% from Q1 2021 to Q1 2022, and 4.6% from Q4 2021 (FHFA HPI); home builder supply chain disruptions; and a continuing multi-year trend of underproduction.

[8] Impact of Institutional Buyers on Home Sales and Single-Family Rentals, May 2022, NAR Research Group. PowerPoint Presentation. Findings include that institutional buyers' purchase activity has been concentrated in areas that include in high-density minority markets, especially Black households; also that the purchase of existing homes by institutional investors takes away from available stock for homeowners.

[9] Established by NCST in 2021, the Homeownership Alliance is a practitioner-led coalition of 31 CDFIs and nonprofit housing developers from 19 states. Webpage.

[10] Financial Assistance (Base-FA) awards of up to $1 million allow CDFIs to sustain and expand their financial products and services. Base-FA awards can be used for lending capital, loan loss reserves, capital reserves, financial services, and development services to achieve at least one four FA objectives: Increase volume of products or services; Provide new products or services; Expand operations into new geographic areas; or Service new targeted populations. Source: Final 2021 CDFI Award Book v2, page 2.

[11] Executive Order 13985 of January 20, 2021, Advancing Racial Equity and Support for Underserved Communities through the Federal Government.

[12] President Biden Announces New Actions to Ease the Burden of Housing Costs, May 16, 2022.

[13] The Biden-Harris Inflation Plan: Lowering Costs and Lowering the Deficit; May 10, 2022. "…Lowering Housing Costs by Building More Homes: Calling on Congress to invest in building more than 1 million affordable homes, including through a set of tax credits that have received bipartisan support; expanding and improving federal financing for the construction of new housing; and using existing federal funding to reward communities that eliminate needless barriers that prevent new housing from being built…."

[14] 12 USC Chapter 47: COMMUNITY DEVELOPMENT BANKING. Also, Public Law 103-325. Riegle Community Development and Regulatory Improvement Act of 1994, Title I, Subtitle A:

Section 4703(b)(1) Management of Fund – Appointment of Administrator. Management of the Fund is vested in an Administrator, who is appointed by the President and confirmed by the Senate.

Section 4703(c) General Powers. In carrying out the functions of the Fund, the Administrator shall – (1) Shall have all necessary and proper authority necessary to carry out this subtitle and subtitle B of title II; and (3) may adopt, amend, repeal bylaws, rules and regulations governing the manner in which business of the Fund may be conducted and such rules and regulations as may be necessary or appropriate to implement this subtitle and subtitle B of title II.

Section 4706. Selection of Institutions. (a) Selection Criteria. – Except as provided for in section 4712 of this title, the Fund shall, in its sole discretion, select CDFI applicants meeting the requirements for selection based on ….(14) other factors deemed appropriate by the Fund.

Section 4707. Assistance provided by the Fund (b) *Uses of Financial Assistance* - (1) In general financial assistance made available under this subchapter may be used by assisted community development financial institutions to serve investment areas or targeted populations by developing or supporting… (E) housing that is principally affordable to low-income people, except that assistance used to facilitate homeownership shall only be used for services and lending products – (i) that serve low-income people; and (ii) that – (I) are not provided by other lenders in the area; or (II) complement the services and lending products provided by other lenders that serve the investment area or target population; and (F) other businesses and activities deemed appropriate by the Fund.

[15] Agency Financial Report Fiscal Year 2021, contained within Audit of the Community Development Financial Institutions Fund's Financial Statements for Fiscal Years 2021 and 2020. December 15, 2021. Office of the Inspector General. Department of the Treasury. P.9. The Work of the Fund. Community Development Financial Institutions Program (CDFI Program) – Provides Financial Assistance and Technical Assistance awards to help Certified and Emerging CDFIs sustain and expand their services and build their technical capacity. The program also includes:

- *Healthy Food Financing Initiative (HFFI)* – Provides Financial Assistance awards to Certified CDFIs that invest in businesses that provide healthy food options, such as grocery stores, farmers' markets, bodegas, food co-ops, and urban farms.
- *Disability Funds-Financial Assistance (DF-FA)* – Provides Financial Assistance awards to Certified CDFIs that wish to expand their financing activities and services to benefit persons with disabilities.
- *Persistent Poverty County-Financial Assistance (PPC-FA)* – Provides Financial Assistance awards to Certified CDFIs that provide Financial Products in Persistent Poverty Counties (PPCs).

[16] Agency Financial Report Fiscal Year 2021 P. 36 of Audit of the Community Development Financial Institutions Fund Financial Statements for Fiscal Years 2021 and 2020. December 15, 2021.
The Consolidated Appropriations Act of 2019 and 2020 required that 10% of funds awarded "shall be used for awards that support investments that serve populations living in persistent poverty counties."

[17] CDFI Annual Certification and Data Collection Report (ACR) for FY 2020. Chart on page 15 of CDFI ACR 2020 report shows that the second highest *primary* line of business across all CDFIs was Residential Real Estate Finance (RREF) at 22.9%. Chart on page 16 shows that RREF was the top *secondary* line of business across all CDFIs at 22.8%. However, RREF definition includes rental and multifamily housing. Definition on page 44: "Financing provided for the purpose of acquisition, construction, renovation, and/or maintenance or improvement of single family housing (which includes properties with 1 to 4 residential units). Financing related to rental housing, purchasing (e.g., mortgages), and rehabilitating and/or improving single, or multi-family homes."

[18] Agency Financial Report Fiscal Year 2021, pp. 36/37. Contained within Audit of the Community Development Financial Institutions Fund Financial Statements for Fiscal Years 2021 and 2020. December 15, 2021.
- Cumulative Performance Report of CDFI Program Award Recipients for FYs 2010 to 2021 includes:
  - 279,911 ($30.7 billion) in Home Improvement and Home Purchase Originations
  - 29,902 ($14.3 billion) Residential Real Estate Originations
  - 371,631 Affordable Housing Units financed: 340,089 (92%) Rental units, and 31,542 (8%) Owner units
- Annual Performance Report of CDFI Program Award Recipients for FY 2021 includes:
  - 77,824 ($10.7 billion) in Home Improvement and Home Purchase Originations
  - 6,549 ($3.2 billion) Residential Real Estate Originations
  - 49,776 Affordable Housing Units financed: 43,850 (88%) Rental units, and 5,916 (12%) Owner units

[19] Opportunity Finance Institutions Side By Side: Fiscal Year 2021 OFN Member Data Analysis, Twenty Fourth Edition.

[20] CDFI Program Award Book, FY 2021.
KEY STATISTICS OF FY 2021 BASE FA APPLICANTS. For the fiscal year (FY) 2021 funding round of the CDFI Program, the CDFI Fund received applications from 420 organizations requesting $366.1 million in Financial Assistance (Base-FA) awards. Of those applicants, 316 Core applicants requested $304.7 million in awards, and 104 Small and/or

Emerging CDFI (SECA) applicants requested $61.4 million in awards.

KEY STATISTICS OF FY 2021 BASE FA AWARDEES. 248 Base FA awards made, totaling $119.2 million. 180 were Core awards totaling $99.4 million, and 68 were SECA awards, totaling $19.9 million.

[21] 12 CFR Part 1807.402 Affordable Housing - Homeownership

[22] 12 CFR Part 1807.500 Leveraged Costs; Eligible Project Costs.

(a) Each CMF Award must result in Eligible Project Costs in an amount that equals at least 10 times the amount of the CMF Award or some higher standard established by the CDFI Fund in the Recipient's Assistance Agreement. Such Eligible Project Costs must be for Affordable Housing Activities and Economic Development Activities, as set forth in the Assistance Agreement.

[23] Capital Magnet Fund regulations prevent CMF funds from being used to purchase homes priced above 95% of the area median home price as determined by HUD for the HOME program. These price limits do not have a basis in the CMF statute. Rather, CMF regulations adopted these limits from HUD rules by reference at 1807.402 (a)(2). Under 1807.105, CMF has authority to waive these limits for current CMF grantees.

As detailed below, the HOME price limits are artificially low relative to market. Given the continued rise in home prices, rising interest rates and overall housing market volatility, we urge Treasury to not port the HOME price limit requirement from CMF to the HOFF set-aside.

The Homeownership Alliance recently asked Treasury to provide an immediate 12-month waiver to the provision. In the longer term, the Homeownership Alliance also urged the CDFI Fund to amend the CMF regulations to delete the counterproductive and unnecessary HOME price limit requirement. The requests reflect difficulties that Alliance members in markets across the country having to deploy CMF funds on behalf of qualified borrowers because the homebuyers cannot find homes priced below the applicable HUD HOME value limits.

For many years, the HUD HOME value limits have unnecessarily limited housing choice for recipients of down payment assistance. Recently, surging home prices and supply-demand market imbalance have transformed this long-standing impediment to fair housing into an insurmountable obstacle. FHFA's House Price Index rose 18.3% from May 2021 to May 2022.

Prices have escalated so much that, despite a surplus of qualified buyers below 80% AMI, there simply aren't enough homes priced below the limit to meet the demand. For example, in Gwinnett County GA, one of metropolitan Atlanta's largest counties, less than two percent (120) of the 6,953 homes listed, under contract, or sold between March and June 2022 were priced below the $281,000 HOME price limit. Similarly, fewer than nine percent of homes sold in Albuquerque during the same period were priced below the then-applicable $200,000 HOME value limit.

[24] FY2022 CDFI NOFA.

[25] FY2022 CDFI NOFA.