May 12, 2023

Pooja P. Patel, CDFI Program and NACA Program Manager
CDFI Fund
U.S. Department of the Treasury
1500 Pennsylvania Ave NW
Washington, DC 20220

RE: CDFI Program and NACA Program Financial Assistance and Technical Assistance Applications (OMB Number: 1559-0021)

Dear Ms. Patel:

Thank you for the opportunity to comment on the Department of Treasury's notice and request for public comment, "CDFI Program and NACA Program Financial Assistance and Technical Assistance Applications". Community development financial institutions (CDFIs) are drivers of economic opportunity and empowerment for low- and moderate-income (LMI) neighborhoods and populations, as well as majority-minority communities. The impact of racist housing and city planning policies, as a means to exclude non-white populations from financial and homeownership markets and the intergenerational transfer of assets, continues to permeate across the country. This results in vast wealth gaps for Black and brown households and neighborhoods.[i]

The Homeownership Alliance, a collaboration of 29 leading CDFIs and nonprofit housing developers across 20 states, is dedicated to fighting these dangerous phenomena by furthering affordable homeownership opportunities.[ii] 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 without gentrification. The Homeownership Alliance is committed to building a robust nonprofit-led delivery structure that will increase access to homeownership for those who have been left behind by our current system.

Homeownership Alliance members take advantage of numerous programs offered by the CDFI Fund, including CDFI Financial Assistance (CDFI FA), CDFI Technical Assistance (CDFI TA), Capital Magnet Fund (CMF), Persistent Poverty Counties – Financial Assistance (PPC-FA), CDFI Equitable Recovery Program, and CDFI Rapid Response Program. Included in the Homeownership Alliance are CDFIs that serve geographies where many other sources of capital are extremely limited, and as such the CDFI-FA program is crucial to their operations in serving rural and remote communities. The Homeownership Alliance is again grateful for the opportunity to suggest improvements to these and other crucial programs within the CDFI Fund's jurisdiction, as these funds provide crucial financing to nonprofits within and outside of the Alliance to improve the economic state of target populations.

Improving the CDFI Fund to Encourage Homeownership

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,[iii] CDFIs seek to scale the production of affordably-priced homes and, in partnership with experienced non-profit developers, support the purchase of homes for LMI families. The success of the CDFI Fund model as a means to increase affordable housing supply and homeownership opportunities is demonstrated by cumulative investments and outputs by the Fund's awardees. This includes the development or rehabilitation of over 2.3 million housing units through 2021,[iv] plus an additional 72,807 affordable units developed or produced by CDFIs in FY 2022 alone.[v] It is important to note, however, that the majority of these units finance rental housing.

CDFIs support the purchase of homes by LMI buyers and, in partnership with experienced non-profit developers, scale the production of affordably-priced homes for LMI families who are crowded out in many markets across the country. This includes properties in areas of opportunity increasingly targeted 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, housing providers must produce the volume of homes that hardworking families across the country need, at price points these households can afford, in areas of high opportunity. The Homeownership Alliance seeks 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. To achieve these goals, CDFIs and nonprofit developers need increased access to dedicated, flexible, and patient capital.

Homeownership Finance Fund (HOFF)

Increasing homeownership stabilizes communities. Homeowners have a vested interest in helping their community, neighbors, and surrounding businesses create a healthy and vibrant economy. In closing the racial homeownership gap, we not only have to help more people of color purchase homes, but purchase homes earlier in their lives and in neighborhoods of their choice. Included in a proposal submitted to the Department of the Treasury, the Homeownership Alliance recommends the Department collaborate with Congress in creating a Homeownership Finance Fund (HOFF),[vi] which would create additional opportunities for CDFIs to undertake homeownership financing work that they seek to enhance and maximize. While more than half of all CDFIs report Residential Real Estate Finance as a primary or secondary line of business,[vii] home purchase loans constituted less than 12% of all loans made by FA awardees in FY 2021 and less than 9% made cumulatively between FY 2010 and FY 2021.[viii] Similarly, of the 280 CDFIs surveyed most recently 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.[ix] Increasing the scope and reach of CDFIs as intermediaries of affordable owner-occupied units is imperative as interest rates and home prices remain elevated and as competition from corporate and cash investors continues to crowd out many LMI buyers.

The Homeownership Alliance recommends the Department design the HOFF as a setaside under CDFI-FA. The HOFF should provide increased and 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. To ensure this program does not supplant the crucial work of the other FA setasides – PPC-FA, Disability Funds (DF-FA), and the Healthy Food Financing Initiative (HFFI-FA) – the Homeownership Alliance proposes that the HOFF be an additional setaside operating as a separate line item.

We also encourage the HOFF to draw in part on the CMF framework for further shaping eligible activities, uses, and priorities of the HOFF.[x] 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. There are other aspects of the CMF, however, that should *not* be incorporated into the HOFF. For example, the CMF statute imposes a minimum 10:1 leverage requirement.[xi] This threshold is too high in that it impedes many otherwise feasible projects. Similarly, we urge the Department to exclude the home purchase price limits that currently apply[xii] under CMF from the HOFF. 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.

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 can attain homeownership today. CDFIs can help, and a dedicated pool of flexible capital to support homeownership financing, such as the HOFF, will address this widening gap.

Proposed Changes to the CDFI Application

In general, many CDFIs within the Homeownership Alliance could benefit from the CDFI Fund's improved standardization of financial data required across applications. Such a change would assist in easing current administrative burdens experienced by applicants. Not only can financial data requirements be better aligned, but the method and frequency by which the CDFI Fund issues training for applicants can also be improved. Currently, the CDFI Fund supports applicants through webinars and written instructions. Some CDFIs, particularly those smaller in size, are finding the written materials difficult to digest, and note that more frequent webinar trainings would be welcome. The Homeownership Alliance recommends the CDFI Fund provide additional instructional webinars and Q&A sessions throughout the year, even if there is not a current application period underway. This way, as CDFIs add new staff to their organizations, entities can become more familiar with the application process, resulting in a better-informed and compliant application from prospective awardees.

The Frequently Asked Questions (FAQs) provided by the CDFI Fund have been greatly enhanced, much to the appreciation of Homeownership Alliance members. In many cases, applicants within the Alliance assess this resource to seek the clarity required to fill out a competitive application. However, if the guidance and FAQs do not provide sufficient clarity on a specific issue, applicants are directed to submit a service request. In some cases, the response to an Alliance member's service request was the same instructional manual the organization already possessed. Additional time and staff bandwidth is required to initiate additional correspondence with the CDFI contact to further explain that the information they seek is not provided in the manual, amid a fast-approaching deadline. This often delays the ability of an applicant to gather adequate data and fully answer application questions. The Homeownership Alliance in turn requests that the CDFI Fund improve the service request process by accelerating the speed and efficiency at which an applicant can discuss their specific concern with a CDFI Fund staff member. Improving this process will remove additional time-wasting barriers to applying.

Regarding character limits for both FA and TA applications, the Homeownership Alliance asserts that the current thresholds are entirely too restrictive. For many application questions, a competitive and adequate response requires extensive quantitative and qualitative data to justify an organization's application. CDFIs in the Homeownership Alliance note the difficulty in including a full account of programs, guidelines, products, policies, and other elements within a narrow character limit.

Homeownership Alliance members also note an imbalance between CDFI Fund awards to depository financial institutions in comparison to loan funds.[xiii] Loan funds are crucial operators within the CDFI space, as they provide both technical assistance and financing to businesses, commercial real estate, community facilities, and – of most importance to the Homeownership Alliance – housing development. Depository institutions do provide a tremendous value-add for community lending. However, some loan funds within the Homeownership Alliance are concerned about the numerous funding opportunities made available to depositories wherein loan funds are not eligible to apply – such as the Emergency Capital Investment Program. Additionally, many loan funds detect a trend of depositories receiving greater levels of funding from the CDFI Fund writ large in comparison to loan funds. As such, the Homeownership Alliance urges the CDFI Fund to closely review how many awards are provided to each type of CDFI, and establish greater parity between depositories and loan funds. The Department could consider setting aside a certain percentage of awards that are only provided directly to loan funds to ensure equitable treatment of both types of CDFIs.

Additionally, the CDFI Fund can establish consistency between the level of funds awarded in comparison to the amount applied for, and the stated goals that an awardee must complete based on their submitted application. For example, if an awarded organization receives 45% of its requested amount, an applicant should not be required to fulfill 100% of the stated goals with less than half of the funding requested. Instead, the CDFI Fund should allow the commitments by the applicants to be adjusted to align with the percentage of awards received. The amount of lending a CDFI can do is typically limited by the amount of capital the organization can obtain. Further, that amount of capital is directly dependent on the presence and/ or availability of net assets that can be leveraged. Requiring awardees to reach 100% of the stated goals with only a portion of the requested funding sets a CDFI up for failure.

<u>Financial Assistance (FA) Application</u>

The CDFI FA application is an extensive process for many Homeownership Alliance members. Oftentimes, organizations must use resources out of their limited budgets to hire a consulting firm to ensure an application has the required components. As such, the Homeownership Alliance supports further streamlining the application process from a data perspective, allowing the utilization of information already provided in the Award Management Information System. Much of the information required for an FA application is duplicative, creating additional administrative burdens for applicants.

Further, removing the requirement that an organization must qualify, apply for, and receive a base FA award before applying for any other dedicated awards (HFFI-FA, PPC-FA, and DF-FA) would simplify the CDFI Fund application and implementation process for applicants. This requirement creates an administrative headache for many organizations, and we encourage the CDFI to develop a less burdensome methodology to ensure applicants for the various CDFI-FA setasides are properly equipped to receive the funds and effectively operate the program.

To better pose CDFIs as drivers of economic and community stability, the Homeownership Alliance requests that the CDFI Fund consider a greater weighting of homeownership activities within the Base FA funds, particularly in the absence of available funds to deploy a new setaside for the HOFF. Until a separate line item is created for this proposed program, the Homeownership Alliance encourages the following adjustments to the FA program to make homeownership-focused applications more competitive for Base FA awards:

- **Business Plan Review –** As detailed in the FY 2022 Notice of Funding Announcement,[xiv] 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*. 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.[xv] Consider adding as a fourth policy objective: *reducing racial disparities in homeownership and household wealth building*.

Lastly, some Homeownership Alliance members have raised concerns about the existing and proposed FA objectives that are based on an awardee's expansion into "new" target populations, products and services, or geographies. Currently, the CDFI FA application requires an awardee to expand overall operations into a new investment area, serve a new population, or increase the volume of its business.[xvi] The Homeownership Alliance requests that the CDFI Fund ensures FA applications focused on continuing to serve existing populations, geographies, and products are not disadvantaged relative to those focused on new populations, geographies, and products. While prioritization of expanding into new areas or activities is a well-intentioned method of spurring innovation, such a requirement has unintended consequences for some awardees, and in turn stifles innovation within their existing, targeted, high-needs markets. Allowing CDFIs to deepen their current activities with FA awards will result in greater stability and enhancement of existing, evidence-based, and community-informed activities, in turn laying a stronger foundation for new and innovative projects.

Technical Assistance (TA) Application

Some Homeownership Alliance members elect that streamlining and simplifying the CDFI TA application would benefit nonprofit organizations seeking to access and maximize this resource.

Measuring Economic Distress

The CDFI Fund can improve data consolidation for new and targeted markets by allowing applicants to compile and present information on a census tract basis. Currently, a county designation is accepted by the CDFI Fund as the smallest market size. This geographic level is far too broad for many CDFIs, and a narrower view will provide greater specificity in neighborhoods served, displaying a fuller picture of the local impact that the CDFI Fund and the CDFIs themselves can use to inform best practices.

As the Department determines the best-fit metrics for measuring economic distress, Treasury must ensure they are not positing that areas with high concentrations of nonwhite households are automatically deemed areas of economic distress, as such an association is not exact. It would be incorrect and prejudicial to assume a census tract is distressed simply because of a majority-minority population makeup. This is not to ignore the fact that racial discrepancies in economic opportunity and wealth-building outcomes are vast and growing, and as such the Department of Treasury must continue to develop innovative methods to rectify this harmful trend. In considering the most effective and equitable interventions to empower Black and brown communities, we must assert that including the percentage of other targeted populations residing in underlying census tracts as the sole measure of economic distress is a reductive approach and implies the false assumption that a community of color is inherently in distress.

The Homeownership Alliance supports efforts to increase lending opportunities to nonwhite households and neighborhoods, as it is the core of our mission to increase racial equity through affordable homeownership without gentrification or displacement. Greater consideration must be taken to ensure targeting data yields effective outcomes. The Homeownership Alliance recommends a deeper view into the data that can determine the distress of a household or a community outside of race alone. There are many sources of public and readily-available demographic data that can contribute to an accurate and fuller picture of the barriers experienced by populations in economic distress, and why those communities may have a higher population of nonwhite residents. For example, we urge the Department to include the percentage of household income contributing to household expenses as an indicator, as such data speaks directly to the presence or lack of housing affordability. We also recommend including homeownership rates as a targeting metric, and assessing the racial breakout within those rates to better understand the prevalence or absence of nonwhite households living in owner-occupied units.

Home Mortgage Disclosure Act data can also contribute to a CDFI's metrics for targeting economic distress. There are disproportionate rates of mortgage denials in people of color in comparison to their white counterparts, as Black and brown families are more often denied traditional mortgage loans in comparison to white families.[xvii] Analyses display that these race-based denials take place regardless of income, Debt-to-Income ratio, or Loan To Value ratio.[xviii] Many Homeownership Alliance members target their lending activities to communities with households who experience mortgage denial at higher rates, and the CDFI Fund's recognition and valuing of this work will support nonprofit organizations in reversing the disturbing rate of white households outpacing all other racial and ethnic groups for homeownership.

Many Homeownership Alliance members serve immigrant communities and populations wherein English is not the primary spoken and written language, therefore information on linguistic isolation can be an important factor in assessing a population's level of economic distress. Alliance members operating as CDFIs provide community lending services combined with translation services to allow recent immigrant communities to enter the market and provide a stable home for their families. We recommend the CDFI Fund also consider this data point as a targeting measure to assist CDFIs in supporting immigrant populations.

It is abundantly clear that different markets will show different data indicators to justify the needs of a certain area or population. The CDFI Fund could also consider allowing the individual applicant to highlight key indicators of distress as appropriate for their individual market. If more specificity is required to articulate economic distress, the Homeownership Alliance again recommends allowing as much additional space in the application as possible to discuss specific market indicators in that particular area to provide qualitative information for a CDFI to justify their eligibility and usability of the grant.

<u>Deep Impact Lending</u>

It is unclear how the Deep Lending definitions proposed by the CDFI Fund are any different from the work CDFIs already do. CDFIs within and outside of the Homeownership Alliance are held to a high standard, and successful applicants are currently demonstrating levels of impact within communities that far exceed basic eligibility requirements as articulated by CDFI certification standards. In reviewing the language proposed by the CDFI Fund on deep impact lending, it is unclear what other entities would receive additional benefit from this change, outside of depositories that already have an advantage in awards over loan funds, as articulated previously in this comment letter (page 4, "Changes to the CDFI

Fund Application"). The Homeownership Alliance shares the apprehension of other commenters that this definition may be designed to advantage insured depositories and has concerns on how this can fairly apply to other CDFI types.

Should the CDFI Fund further clarify these implications and ensure an unbiased award process across both depositories and loan funds, the proposed Deep Lending definitions should include expanding access to mortgage credit and homeownership in order to stabilize communities, support income diversity, and narrow our nation's racial wealth gap.

Conclusion

Thank you for the opportunity to opine on the operations and proposed changes to the CDFI Fund programs. The Homeownership Alliance is a willing partnership of affordable housing and community lending stakeholders, eager to maximize these resources to stave off the growing housing crisis facing our nation through thoughtful and robust policy advocacy and analysis. Any questions or points of clarification can be addressed to Elisabeth Coats, Director of Homeownership Alliance, at the National Community Stabilization Trust (ecoats@stabilizationtrust.org). We appreciate the Department's time and consideration of our proposed improvements to the programs.

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[i] Closing the Gaps – Building Black Wealth through Homeownership, (Nov. 2020). Housing Finance Policy Center, Urban Institute.

[ii] Established by the National Community Stabilization Trust in 2021, the Homeownership Alliance is a practitioner-led coalition of 29 CDFIs and nonprofit housing developers from 20 states. Webpage.

[iii] U.S. Census Bureau, (Jan. 2023). In 2022, the Census Bureau reported a homeownership rate of 74% for white households, 44% for Black households, and 48% for Hispanic households.

Board of Governors of the Federal Reserve System, (Sept. 2020). The Survey of Consumer Finances reports the median wealth of white households is $188,200 compared with $24,100 for Black households and $36,200 for Hispanic households.

[iv] 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. Page 1.

[v] Department of the Treasury Community Development Financial Institutions Fund, Congressional Budget Justification and Annual Performance Plan and Report, FY 2024, page 11.

[vi] Homeownership Finance Fund (HOFF) Proposal – Expanding Affordable Homeownership through the CDFI Program, (Jan. 2023). Homeownership Alliance.

[vii] 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."

[viii] 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 FY 2010 to 2022 includes:
  - 355,208 ($41.4 billion) in Home Improvement and Home Purchase Originations
  - 38,911 ($18.6 billion) Residential Real Estate Originations
  - 425,910 Affordable Housing Units financed: 390,854 (92%) Rental units, and 35,506 (8%) Owner units
- Annual Performance Report of CDFI Program Award Recipients for FY 2022 includes:
  - 70,995 ($9. 8 billion) in Home Improvement and Home Purchase Originations
  - 7,354 ($3.7 billion) Residential Real Estate Originations
  - 53,836 Affordable Housing Units financed: 50,574 (94%) Rental units, and 3,262 (6%) Owner units

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

[xx] 12 CFR Part 1807.402 Affordable Housing – Homeownership

[xi] 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.

[xii] 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 setaside.

In June 2022, the Homeownership Alliance requested that Treasury 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.

[xiii] A clear example can be found in the Equitable Recovery Program awards to applicants in the state of Mississippi. According to the CDFI Fund Award announcements, 45 CDFIs in the state received awards. Of the total awardees, 42 are financial institutions, whereas only 3 loan funds received awards.

[xiv] FY2022 CDFI NOFA.

[xv] FY2022 CDFI Program and NACA Program Base-Financial Assistance Application Evaluation Process.

[xvi] This requirement is statutory. Public Law 103-325. Riegle Community Development and Regulatory Improvement Act of 1994, Title I, Subtitle A, Section 105(b)(4)(B) ("Minimum Requirements") requires an applicant that has previously received CDFI assistance to demonstrate that it "will expand its operations into a new investment area or serve a new targeted population, offer more products or services, or increase the volume of its business;". We request that the Department coordinate with Congress to make the relevant legislative and regulatory reforms to allow CDFIs to be awarded FA funds to conduct deep, effective, and community-driven work in existing areas, as well as continue to provide an opportunity for CDFIs to expand into new markets, geographies, and services/ products.

[xvii] What Different Denial Rates Can Tell Us About Racial Disparities in the Mortgage Market, (Jan. 2022). Urban Institute.

[xviii] The Role of Race in Mortgage Application Denials, (May 2022). Federal Reserve of Minneapolis.