Homeownership Alliance

September 1, 2023

Marcia Sigal
Acting Director
CDFI Fund
U.S. Department of Treasury
1500 Pennsylvania Ave NW
Washington, DC 20220

RE: Capital Magnet Fund Notice and Request for Information, FR Doc. 2023-14407

Dear Acting Director Sigal,

Thank you for the opportunity to comment on the CDFI Fund, Department of the Treasury's notice and Request for Information (RFI) to improve the impact of the Capital Magnet Fund (CMF). Amid an unprecedented housing crisis — coupled with historic costs of construction, a widening racial wealth gap, and a deficit of 4.3 million homes[1] — this rulemaking comes at a critical point in time where additional federal resources are needed now more than ever. This action is welcomed by affordable housing advocates and practitioners alike, as improved streamlining of this resource will address a growing need for additional housing stock, particularly in low- and moderate-income (LMI) communities. There are several ways in which the program can be enhanced to help both award recipients and applicants maximize its utility, as well as ensure the program is adequately aligned with other existing federal resources to relieve administrative burden and accelerate the construction of affordable housing.

Members of the Homeownership Alliance, a practitioner-led coalition of 31 leading CDFIs and nonprofit housing organizations spanning 23 states, are key CMF stakeholders.[2] 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's CDFIs and nonprofit housing developers have a strong track record of producing quality homes. Our network focuses particularly on mitigating the racial wealth gap by enabling LMI families to attain affordable homeownership. 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.

[1] Across the country in 2021, there were nearly 8 million missing households, compared to just 3.7 million housing units available for rent or sale, yielding a deficit of 4.3 million homes. More than two-thirds of these missing households earn less than $35,000 a year. Affordability crisis: United States needs 4.3 million more homes, (Jun. 2023). Zillow.

[2] Homeownership Alliance. NCST.

CMF and Affordable Homeownership

Since 2008, the CMF has distributed nearly $1.1 billion in total grants to CDFIs, yet only a fraction of these funds have been awarded to homeownership initiatives. At the end of fiscal year 2022, CMF recipients financed 37,650 affordable rental units under this program, with over 52,000 rental housing units currently under development or construction. This is a stark contrast to the mere 5,500 affordable homeownership units developed by the CMF.[3]

Though positive for renters, the lack of CMF homeownership production is disturbing, given the median wealth among owner-occupants has steadily increased, surpassing that of renters. A report from the National Association of Realtors (NAR) indicates that over the past decade, homeowners have become 40 times wealthier than renters.[4] The CMF has the proven ability to bolster wealth attainment for an LMI homeowner by easing the ability of a CDFI to use this resource for homeownership purposes.

A closer look at the demographic data of homeowners in the United States will show that this wealth attainment is not equally applied to all races and ethnicities. 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.[5] According to the Federal Reserve's Survey of Consumer Finances, the median wealth of white households is $188,200, compared to only $24,100 for Black households and $36,200 for Hispanic households.[6]

Furthermore, 72.7% of White households own their own homes, a statistic that exceeds the Asian American and Hispanic populations, who own 62.8% and 50.6% of their homes, respectively. The biggest disparity in homeownership is reflected in Black households, of which only 44% are homeowners.[7] This gap is further emphasized by the inability of many non-white households to access affordable housing. NAR's findings conclude only 43% of Black Americans and 54% of Hispanic Americans can afford to buy a typical home, compared to 63% of white Americans.[8] As such, the Fund's emphasis on homeownership-related activities, as outlined in the RFI, aligns with the Alliance's focus on narrowing this concerning trend, ensuring the program's support of renters is not at the detriment of prospective LMI homeowners and homebuyers of color.

A robust and equitable federal homeownership strategy must include geographies outside of the urban core. Utilizing federal resources to promote affordable homeownership in rural areas is

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[3] Agency Financial Report - Fiscal Year 2022, (Jan. 2023). CDFI Fund, U.S. Department of the Treasury.
[4] Study: Homeowner Wealth Is 40 Times Higher Than Renters, (Apr. 2023). NAR Realtor Magazine.
[5] Closing the Gaps – Building Black Wealth through Homeownership, (Nov. 2020). Housing Finance Policy Center, Urban Institute.
[6] Disparities in Wealth by Race and Ethnicity in the 2019 Survey of Consumer Finances, (Sept. 2020). Board of Governors Federal Reserve System.
[7] More Americans Own Their Homes, but Black-White Homeownership Rate Gap is Biggest in a Decade, (Mar 2023). National Association of REALTORS®.
[8] Snapshot of Race and Home Buying in America, (Feb. 2021). National Association of REALTORS®.

crucial for fostering social, economic, and community development.[9] 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.[10]

Affordable homeownership is critical for fostering stable, thriving neighborhoods, as well as for nurturing the well-being, educational opportunities, and financial prosperity of families across geographies. CDFIs and non-profits bolstered by flexible federal resources offer a solution by facilitating homeownership, promoting local economic development, creating job opportunities, and advancing growth in historically underserved communities.

CMF Homeownership Purchase Price Limitation

The most significant hurdle to homeownership within the CMF program is prompted by the Fund's adoption of HUD's HOME Investment Partnerships Program (HOME) purchase price limit requirements. These regulations constrain the price of homes that may be purchased with HOME funds to less than 95% of the area median home price, as determined by HUD.[11] These value limits have unnecessarily limited housing choices, undermined the effectiveness of CMF, fostered over-subsidization, and harmed prospective LMI buyers, without ultimately enhancing compliance.

Recently, surging home prices have transformed this long-standing impediment to fair housing into an insurmountable obstacle. In light of the COVID-19 pandemic, prices have escalated to the extent that, despite a surplus of qualified buyers below 80% AMI, there simply are not 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 10% (620) of the 6,330 homes listed under contract or sold between June and August 2023 were priced below the $323,000 HOME price limit, and less than 3% were priced below $280,000. Similarly, a study conducted by Homewisdom,[12] analyzing MLS data, revealed that fewer than 9% of homes sold in Albuquerque during the same period in the previous year were priced below the then-applicable $200,000 HOME value limit. Eliminating the 95% area median home price requirement under CMF would deter the escalating imbalance between the number of qualified borrowers and the supply of eligible homes.

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[9] Rural Development Policy Toolkit: Providing Well-Placed Affordable Housing in Rural Communities, (Apr. 2017). Smart Growth America.

[10] What is a Native CDFI? Native CDFIs and the communities they serve, (2023). Native CDFI Network.

[11] 12 CFR 1807.402

[12] Homewisdom.

The homeownership purchase price rule can also limit the size of the house that a family can purchase. If a household is seeking a home with several bedrooms or a larger size to accommodate family members, they may be restricted to lower-quality homes, assuming they can find an eligible unit. This limitation persists even if an eligible family could afford a higher-valued home. This restriction often becomes evident in rural areas where homes typically situated at the outer edges of the community are often priced higher. It is also important to note that the 95% purchase price limitation applies to manufactured housing units, in addition to traditional site-built homes.

The Homeownership Alliance again urges the CDFI Fund to reevaluate the utility of HOME value limits in light of their potential to foster segregation, stunt upward mobility among program participants, and create yet another unnecessary barrier to homeownership.[13] These limits are not required by CMF statute and make CMF funds far more difficult to deploy on behalf of qualified borrowers. Instead, the CDFI Fund should consider alternative approaches for establishing price limitations on affordable owner-occupied housing. This could involve adopting the same mortgage revenue bond benchmark employed by State Housing Financing Agencies for homeownership programs[14] or utilizing underwriting criteria instead of relying on sales price limits. It should also be noted that the removal of HOME value limits from the CMF program will not undermine compliance. This is because other program conditions, such as income limits and the existing reporting requirements imposed on grantees, ensure that public funds will not be used to purchase a luxury home, rendering price limits both unnecessary and redundant.

Additionally, the CDFI Fund should work to address the existing barriers that may discourage organizations from using CMF to support homeownership activities. Specifically, the CDFI Fund should consider modifying or adjusting the existing geographic restrictions to encourage development in all areas and communities. Furthermore, the CDFI Fund should acknowledge that inflationary pressures, combined with limited housing stock across markets, display significantly distorted perceptions of a homebuyer's purchasing power. This further reinforces the argument for the complete elimination of the 95% average home price limit.

Aligning CMF with Other Federal Affordable Housing Assistance Programs

Homeownership Alliance members expertly leverage federal programs that support LMI owner-occupants and the health of their surrounding communities. Some include Community Development Block Grants (CDBG), HOME, funding administered by HUD's Office of Native American Programs (ONAP), New Markets Tax Credits (NMTC), the Low-Income Housing Tax Credit (LIHTC), a variety of programs under the United States Department of Agriculture (USDA), and of course, programs operated within the CDFI Fund's jurisdiction. Homeownership Alliance members have utilized CMF grants to support new construction, provide affordability subsidies,

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[13] In June 2022, the Homeownership Alliance issued a letter to the CDFI Fund, requesting a 12-month waiver to this regulation to better support CDFIs seeking to maximize affordable homeownership in their communities. Capital Magnet Fund regulations and waiver request, (Jun. 2022). Homeownership Alliance.

[14] US Housing Finance Agency Single-Family Housing Methodology, (Oct. 2019). Moody's Investors Service.

capitalize affordable housing funds to finance single-family homeownership, and operate down payment assistance programs, among other uses.

Homeownership Alliance members agree that the CDFI Fund can better align with other financing sources, and consequently should broaden its eligibility criteria for CMF to include affordable housing projects funded by other federal programs. The most relevant programs for the Homeownership Alliance membership include LIHTC, NMTC, HUD programs (HOME, CDBG, ONAP grants), and USDA's 502 program, among other federal affordable housing programs targeting LMI households. Given the persistent surge in housing costs, the ability to easily combine diverse funding sources when disbursing CMF dollars becomes imperative to successfully undertake affordable housing initiatives. If the various federal funds contributing to an affordable housing project align their requirements, the application and reporting process would be greatly simplified. This would enable the completion of more projects, ultimately increasing the inventory of affordable housing options and expanding opportunities for LMI homeownership.

As the Fund aligns the CMF program with other significant federal affordable housing programs, it is crucial to take into account the unique needs of rural, tribal, suburban, and urban communities when making any necessary adjustments. Manufactured homes and single-family scattered site homes, particularly in rural communities, should be retained as an eligible use of funds and further emphasized within the CMF program. These housing types represent viable alternatives to traditional homeownership, making available more affordable housing options. However, careful consideration of property requirements and geographic restrictions is vital to ensure the program remains accessible and effective. Property requirements should align with the standards set by state housing finance agencies, as these standards serve as a valuable reference for ensuring compliance and harmonizing expectations across multiple funding sources.

Concerning the income limit definitions applicable to CMF-funded projects, Homeownership Alliance members emphasize the significance of aligning these definitions with those used in other federal housing programs. Programs such as HOME, CDBG, or LIHTC should ideally conform to these definitions. In particular, CMF should consider adopting a low-income target below 60% AMI, in line with LIHTC standards, as opposed to the existing threshold of 50% AMI. Another beneficial approach to income limit definitions could be to allow the selection of one of the existing definitions among different federal funding sources, thereby reducing the regulatory burden.

CMF Award Commitment Deadlines

Currently, Section 1339(c) of the Housing and Economic Recovery Act of 2008 (HERA) mandates that funds under CMF must be committed for use within two years after the award allocation.[15] While this deadline was initially established to ensure the timely disbursement of funds, many CMF award recipients encountered difficulties meeting it in time, particularly during and after the COVID-19 pandemic, when projects' progress slowed and federal funding streams prioritized

[15] Public Law 110-289, section 1131.

rescue and relief activities. However, as supply chains return to normal and projects resume their usual pace, members of the Homeownership Alliance believe the current two-year deadline is reasonable and adequate to commit funds, provided that the CDFI Fund is timely in distributing awards. Practitioners who provide direct home purchase assistance to eligible families can also secure a waiver of general applicability, which authorizes grantees to satisfy the evidence of commitment requirement by establishing an Affordable Homeownership Purchase Program.[16]

The CDFI Fund is also proposing a two-step alternative approach: within two years, the award would need to be committed to an eligible activity, and a commitment to a specific project would have to be made within three years after the effective date of the assistance agreement. The Homeownership Alliance is generally supportive of this two-step approach and believes that adding an additional year to commit funds to a specific project would increase flexibility and help recipients better meet project deadlines, adapt to unforeseen market changes, allow greater latitude for practitioners absorbing increased construction costs, among other benefits. If, however, the CDFI Fund detects cause for concern regarding the progress of a certain project, the Fund could consider instituting periodic progress reports to provide support for entities that may otherwise be falling behind.

CMF Leverage Requirements

HERA also requires that CMF awards yield a leverage ratio of 10:1 at a minimum. There are currently three types of leverage under CMF — Enterprise-Level, which is capital earned, borrowed, or raised by the recipient, and is designated to pay for leveraged costs; Project-Level, which is capital used to pay leveraged costs for a specific project; and Reinvestment-Level, which is the reallocation of repaid CMF award and/or Enterprise-Level Capital into new eligible activities within the established investment period — all of which are used to attract both private and public capital. Members of the Homeownership Alliance believe there are several issues with the current 10:1 leverage ratio requirement, including but not limited to its excessive burdens on new applicants, the amount of time and energy it takes to calculate such leverage, additional strain on rural housing projects in particular, and the inability to accurately reflect how much investment has been put into a particular project in a constantly-evolving housing market.

A core mission of CDFIs within the Homeownership Alliance is to engage in the development of housing-related activities, and funds are oftentimes recycled and repurposed for a variety of different projects throughout the community. This approach would be particularly advantageous for homeownership activities, as returned capital could be used to develop another home, or could source down payment assistance for the homebuyer.

The existing leverage calculation is onerous for housing practitioners receiving CMF dollars and often fails to accurately reflect the investment strength in a single project in comparison to other leverage metrics. As such, we urge the CDFI Fund to eliminate the Reinvestment-Level leverage,

[16] Guidance Related to Requirements to Make a Commitment of CMF Funds by a Resolution of the Board of Directors pursuant to the Waiver of General Applicability, (2018). CDFI Fund.

simplifying the calculation of leveraged costs. Homeownership Alliance members see this leverage requirement as extremely burdensome, particularly when recipients are already tasked with tracking the funds and re-deploying them upon meeting the maximum threshold. If the CDFI Fund elects to retain the Reinvestment-Level leverage calculation, the Fund should instead consider additional ways to ease the process. For example, the CDFI Fund could provide a template to help first-time applicants conduct their calculations, taking some administrative burden off individuals with fewer up-front resources.

Program Income, Loan Loss Reserve, and Loan Guarantee Rules

Program Income (PI) refers to revenue generated by recipients through investments made with a CMF award in a project or loan creation, including return from equity, repayment of loan principal, and any interest income. Principal and equity repayments acquired during the investment period — the first five years of the award — must be reinvested by the recipient, according to the specifics in the assistance agreement. The earnings generated through interests must be utilized only to further the recipient's mission and may support additional affordable housing activities.[17] [18]

Currently, the CMF requires the PI to be expended only in eligible activities under the assistance agreement. Homeownership Alliance members strongly advocate for the integration of all six CMF-eligible activities[19] into PI, as this expansion will increase flexibility and adaptability within the program. This change would allow recipients to reinvest resources throughout different project phases, within the 5-year investment period, maximizing the impact and efficiency of CMF. Additionally, Homeownership Alliance members propose the CMF expand PI eligibility to include counseling programs (both housing and post-purchase), funding for home warranties, direct expenses, and the utilization of PI to cover administrative and operational support. This latter adjustment is necessary for many Homeownership Alliance members, as the current 5% limit for these administrative expenses falls short of adequately supporting the program and its complexities over the 10-year period.

The CMF also requires a 36-month completion deadline for projects funded with PI. Homeownership Alliance members propose certain adjustments to this deadline to create more opportunities for expanding the impacts of the projects. These improvements include the creation of a deadline extension for unforeseen challenges and the alignment of the deadline with those of other project timelines to streamline the commitment process.

The CDFI Fund also requires any PI over $100,000 to be committed to a project in the following year. The Homeownership Alliance's initial recommendation would be to 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. Another alternative could be for the CDFI Fund to consider the exceeding income to be reinvested one year after the initial

[17] CMF Guidance for Reinvestment of Program Income, (Dec. 2020). CDFI Fund.

[18] Assistance Listing 21.011 Community Development Financial Institutions Capital Magnet Fund, (2023). White House.

[19] 12 CFR § 1807.301 Eligible activities

investment period (5 years), simplifying tracking by avoiding the need to repeatedly add repaid funds back into the $100,000 threshold.

Furthermore, CMF currently requires a 10-year affordability period for projects funded with PI. Homeownership Alliance members concur that an affordability period ranging from 5 to 10 years, particularly for homeownership, should be established, aligning with the requirements of other funding sources. 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.

The capitalization of Loan Loss Reserves and the provision of Loan Guarantees are also CMF-eligible activities.[20] Any dollars returned from these activities are considered PI and should, in turn, be considered principal or equity repayments. Loan Loss Reserves refer to the allocation of funds as cash or accumulated reserves, which would cover losses from loans from affordable housing or economic development activities.[21] Loan Guarantees provide private lenders insurance that a percentage of the loan will be repaid, in case of a borrower default, incentivizing these lenders to invest in affordable housing and economic development activities in low-income areas. Homeownership Alliance members assert that no additional guidance or rules, as well as no coverage limits, need to be established for recipients regarding Loan Loss Reserves or Loan Guarantees.

Manufactured Housing Guidelines Under CMF

Given the dire shortage of conventional affordable housing, many families look to manufactured housing (MH) as a viable option for establishing homeownership. MH has several unique advantages, including but not limited to its ability to be highly energy-efficient and more cost-effective than traditional site-building. Moreover, its accessibility as an alternative to traditional homeownership can be especially appealing to LMI families.

MH is currently the largest form of unsubsidized affordable housing in the United States, and it is often the most affordable option available for families seeking homeownership.[22] The federal government has stringent regulations for this type of housing to ensure all units are well-constructed, safe, and durable. Its unique ability to maximize both cost and efficiency has led over 22 million people to pursue this path to owner-occupancy, as this method can meet the needs of communities in all geographic regions, including both rural and high-cost metropolitan areas.[23] A recent study from the Joint Center for Housing Studies at Harvard University shows manufactured homes offer cost savings between 20-46%, even when factoring in the cost of a finished lot (land

[20] FY 2023 Capital Magnet Fund Outreach Presentation. Module 3: Attracting Capital Through the Capital Magnet Fund, (Jan. 2023). CDFI Fund.

[21] 12 CFR § 1807.104

[22] Manufactured housing: Elevating housing innovation, expanding attainable homeownership, (2020). National Housing Conference.

[23] Ibid

costs), compared to site-built housing equivalents.[24] Through a mission-driven, nonprofit delivery system, MH assists families all over the country in purchasing a home and creating generational wealth.

Currently, the CDFI Fund permits manufactured housing to be financed under CMF. Because manufactured housing is unique in that a unit may be owned by the occupant but the lot on which it sits may be rented, the CDFI Fund has struggled to best measure affordability in this sector, as stated in the RFI. It should also be noted that CDFI lenders cannot collect income verification for manufactured homeowners living in land-lease communities. In this scenario, homeowners do not provide the CDFI with income information since they are not deemed the formal borrower, further exacerbating difficulties in determining affordability in a respective MH area.

Members of the Homeownership Alliance believe the CMF has the potential to make a more pronounced impact on the MH industry and provide the following recommendations to enhance affordability measurements for these units:

1. Regarding new manufactured homes meeting the qualifications for Fannie Mae and Freddie Mac's fee-simple mortgage financing programs, MH Advantage and CHOICEHome respectively, the CDFI Fund should treat them the same as any other fee-simple family home transaction.[25] [26]
2. The Fund should work to automatically include the cost of land rent in the total price when determining the affordability of an MH unit.
3. Should the Fund elect to eliminate the 95% price purchase limitation per the Homeownership Alliance's recommendation, the Fund must ensure this regulatory easement also applies to manufactured homes.

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 at the NCST (ecoats@ncst.org). We appreciate the Fund's time and consideration of our perspectives.

Sincerely,

The Homeownership Alliance

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[24] Comparison of the Costs of Manufactured and Site-Built Housing, (Jul. 2023). Joint Center for Housing Studies at Harvard University.

[25] MHAdvantage, (2018). Fannie Mae.

[26] CHOICEHome Mortgage - The Next Generation of Factory-Built Housing, (2023). Freddie Mac Single-Family.