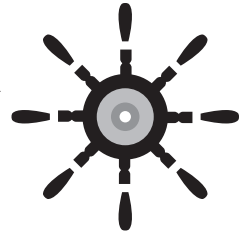


Chapter 8:

Community Development Resources



Capital Magnet Fund



By Shannon Ross, Director, Government Relations, Housing Partnership Network

Administering Agency: Community Development Financial Institutions (CDFI) Fund at the U.S. Department of the Treasury

Year Program started: 2008 (two funding rounds in FY10 and current round FY16)

Number of persons/households served: 6,800 affordable homes, 15 community facilities

Population targeted: Households with income below 120% area median income (AMI); at least 51% with income below 80% AMI

FY16 funding: NLIHC estimates that the Capital Magnet Fund will receive \$100.4 million in 2016.

Also see: *Community Development Financial Institutions Fund*

The Capital Magnet Fund (CMF) provides competitive grants to CDFIs and nonprofit housing developers to finance and develop affordable housing, as well as community facilities and economic development projects that support affordable housing. CMF grants are used to fund financing tools such as loan loss reserves or loan guarantees, and must be matched at least 10 to 1 with funding from other sources. Moving forward, the administration should support funding for the CMF under current law, and Congress should preserve the program as the housing finance reform system evolves.

HISTORY

The CMF was created as part of the Housing and Economic Recovery Act of 2008 to provide flexible public funds to attract private investment into affordable housing projects. As originally envisioned, the CMF (along with the National Housing Trust Fund) would have received funding through an assessment on new business of the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac). In the fall of 2008, however, financial losses at Fannie Mae and Freddie Mac caused them to be placed in conservatorship, and their obligation to contribute to the CMF and to the National Housing Trust Fund (NHTF) was

suspended. The suspension of contributions of assessments on new business of Fannie Mae and Freddie Mac was lifted at the end of 2014; contributions were to begin January 1, 2015, with funds to be distributed to CMF and NHTF in March 2016.

The legislation creating the CMF also allowed it to be capitalized through regular appropriations, which occurred in FY10 with an appropriation of \$80 million to kick off the program. Until the FY16 funding round, the FY10 round was the only round of CMF funding. During the FY10 round of the CMF, the CDFI Fund received applications requesting more than \$1 billion in grants. In October 2010, the CDFI Fund announced the inaugural CMF awardees. Out of 230 applicants, 23 organizations received awards; 13 awardees were nonprofit housing developers, 9 were CDFIs, and one was a tribal housing authority. According to the CDFI Fund, in the first two years of the CMF grants, each \$1 of CMF funding attracted more than \$12 in other capital for affordable housing. Thus, \$80 million in CMF grants created upwards of \$1 billion in investment in affordable housing and community facilities, creating more than 6,800 homes.

PROGRAM SUMMARY

The CMF is administered by Treasury's CDFI Fund as a competitive grant program to attract private capital and to increase investment in the development, preservation, rehabilitation, or purchase of affordable housing for low income families. Unlike other federal programs such as HOME, the CMF is not a block grant to state or local governments or housing authorities. The purpose of the CMF is to increase private investment in affordable housing built and operated by high-performing nonprofits. This improves the delivery system for affordable housing and community development.

A minimum of 70% of CMF money must be used for housing. One hundred percent of housing eligible project costs must be for units for households with income below 120% of the AMI; at least 51% of housing eligible project costs must be for units for households with income below 80% of

AMI. If CMF finances rental housing, then at least 20% of the units must be occupied by households with income below 50% of AMI. Maximum rent is fixed at 30% of either 120% AMI, 80% AMI, 50% AMI, or 30% AMI, depending on the household's income. For example, if an assisted household has income at 120% AMI, its maximum rent is 30% of 120% AMI. Assisted housing must meet the above affordability requirements for at least 10 years.

Eligible recipients are Treasury-certified CDFIs or nonprofit organizations that include the development or management of affordable housing as at least one of their purposes. Applications for the competitive grants are required to include a detailed description of the types of affordable housing and economic and community revitalization projects for which the entity would use the grant, and the anticipated timeframe in which they intend to use it. No institution can be awarded more than 15% of all capital magnet funds available for grants in a given year, and those receiving grants must spend the funds within two years of the date they were received.

In order to leverage funds, CMF dollars may be used to: provide loan loss reserves, capitalize a revolving loan fund or an affordable housing fund, or make risk-sharing loans. The CMF can also be used to finance economic development activities or community service facilities, such as day care centers, workforce development centers, and healthcare clinics, which in conjunction with affordable housing activities, implement a concerted strategy to revitalize low income or underserved rural areas.

Prohibited uses include political activities, advocacy, lobbying, counseling services, travel expenses, and endorsement of a particular candidate or party. Each grantee must track its funds by issuing periodic financial and project reports, and by fulfilling audit requirements.

The Secretary of the Treasury must submit a periodic report describing the activities for which these funds are being used to the Senate Committee on Banking, Housing, and Urban Affairs as well as to the House Committee on Financial Services.

FUNDING

The CMF's funding source was to be a percentage of new business for Fannie Mae and Freddie Mac. Under current law there is to be a 4.2 basis point assessment on each company's new business, with

the CMF receiving 35% and the NHTF receiving 65%. However, these assessments were been suspended due to the government conservatorship.

In December 2014, the Federal Housing Finance Agency finally lifted the suspension. The 4.2 basis point assessment on Fannie Mae and Freddie Mac new business began on January 1, 2015. Sixty days after the close of 2015, Treasury is to distribute funds to the CMF and NHTF.

As was the case in FY10, if authorized by Congress, the CMF is also able to collect funding from other dedicated revenue sources or receive appropriated funds.

FORECAST

The CDFI Fund released the application for the FY16 CMF funding round on February 2, 2016, applications were due March 30, 2016, and awards should be announced later this year. The CMF was designed to use a small government subsidy as a magnet to attract much larger amounts of private capital to support affordable housing and community development. The overwhelming interest from applicants in the first round of funding demonstrates the appeal of this capital magnet model for expanding the nation's supply of affordable housing in a cost-effective manner. Proposed housing finance reform legislation is unlikely to take place before 2017. There was no funding for the CMF in the administration's FY17 budget request.

TIPS FOR LOCAL SUCCESS

The CMF represents a significant source of capital to support affordable housing and related community economic development.

WHAT TO SAY TO LEGISLATORS

If housing finance reform debate does return in 2016, advocates need to support the provisions in the 2014 legislation drafted by former Senate Banking Committee Chair Tim Johnson (D-SD) and former Ranking Minority Member Mike Crapo (R-ID) that would provide funds for the CMF and the NHTF.

FOR MORE INFORMATION

The CDFI Fund, 202-622-6355, www.cdfifund.gov
Housing Partnership Network, 202 677-4292,
www.housingpartnership.org ■