Chapter 8:
COMMUNITY DEVELOPMENT RESOURCES

Capital Magnet Fund

By Mark Kudlowitz, Federal Policy Director, Local Initiatives Support Corporation

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

Year Started: 2008 (with four funding rounds to date: FY10, FY16, FY17, and FY18)

Number of Persons/Households Served: To date, 11,700 rental units and 1,616 owner-occupied units, with more than 52,000 more rental units and 7,000 owner-occupied units committed.

Population Targeted: Households with income less than 120% area median income (AMI); at least 51% with income less than 80% AMI

Funding: In FY18, $142.9 million was awarded to 38 organizations.

See Also: For related information, refer to the *Community Development Financial Institutions Fund* section of this guide.

The Capital Magnet Fund (CMF) provides competitive enterprise-level grants to community development financial institutions (CDFIs) and nonprofit housing developers to finance and develop housing for low- and moderate-income households, as well as community facilities and economic development projects that support 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 (HERA) of 2008" to provide flexible public funds to attract private investment into housing projects for low- and moderate-income households. As originally envisioned, the CMF [along with the national Housing Trust Fund (HTF)] would have received funding through an assessment on new business of the Government Sponsored Enterprises (GSE) Fannie Mae and Freddie Mac. However, in the fall of 2008, financial losses at the GSEs caused them to be placed in conservatorship, and their obligation to contribute to the CMF and to the HTF was suspended. The suspension of contributions of assessments on new business of the GSEs was lifted at the end of 2014; contributions began on January 1, 2015 and have been distributed to the CMF and HTF since March 2016.

The legislation creating the CMF also allowed it to be funded 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 funding provided to the CMF. For the FY10 round, the CDFI Fund received applications requesting more than $1 billion. In October 2010, the CDFI Fund announced the inaugural CMF awardees. Out of 230 applicants, 23 organizations received awards; 13 were nonprofit housing developers, nine were CDFIs, and one was a tribal housing authority. According to the CDFI Fund, the $80 million appropriation for CMF grants resulted in each $1 of CMF funding attracting more than $22 in other capital for affordable housing. Thus, $80 million in CMF grants created upwards of $1.8 billion in investment in affordable housing and community facilities, creating more than 6,800 homes.

PROGRAM SUMMARY

The CMF is administered by the Treasury's CDFI Fund as a competitive grant program to attract private capital for high-performing organizations to develop, preserve, rehabilitate, or purchase 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.

A minimum of 70% of an awardee's CMF money must be used for housing. One hundred percent of housing project costs must be for units for households with income less than 120% of AMI; at least 51% of housing project costs must be for units for households with income less than 80% of AMI. If CMF finances rental housing, then at least 20% of the units must be occupied by households with income less than 80% of AMI. CMF award recipients normally commit to utilizing the award for deeper income targeting than the minimum standards described. For instance, 95% of all housing units to be developed from the FY18 CMF funding round are for households with income less than 80% 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. CMF funded housing must meet affordability requirements for at least 10 years.

In order to leverage funds, CMF dollars may be used to provide loan loss reserves, loan guarantees, capitalize a revolving loan fund or an affordable housing fund, or make risk-sharing loans. The CMF can also finance economic development activities or community service facilities, such as daycare 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.

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 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 CMF funds available for grants in a given year, and those receiving grants must commit the funds within two years of the date they were received. All projects funded with CMF awards must be completed within five years.

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.

FUNDING

The CMF's funding source was designed to come from a percentage of new business of Fannie Mae and Freddie Mac. Under current law there is to be a 4.2 basis point assessment on each enterprise's new business, with the CMF receiving 35% and the HTF receiving 65%. However, these assessments were previously suspended due to the government conservatorship. In December 2014, the Federal Housing Finance Agency lifted the suspension and the assessment has been collected for the last four calendar years. Sixty days after the close of the calendar year, the Treasury is to distribute funds to the CMF and HTF.

FORECAST FOR 2019

The Capital Magnet Fund faces both short-term and long-term threats. In the short-term, upcoming leadership changes at the FHFA may result in FHFA suspending the GSEs' contributions to the program. The FHFA has the authority to suspend GSE contributions based on certain criteria outlined in HERA. The program may also be at risk if, and when, Congress begins GSE reform efforts.

WHAT TO SAY TO LEGISLATORS

If housing finance reform debate returns in 2019, advocates need to ensure that any subsequent reforms of the housing finance system include a continued source of funding for the CMF. In addition, Congress should question any new nominee for the FHFA Director role on their commitment to sustaining contributions to the CMF and HTF.

FOR MORE INFORMATION

The CDFI Fund, 202-653-0421, www.cdfifund.gov.

Local Initiatives Support Corporation, 202 739-9279, http://www.lisc.org.