

Capital Magnet Fund

By Kristin Siglin, Vice President, Policy, Housing Partnership Network

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

Year Program started: 2008 (one funding round in FY10)

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

FY 14 funding: \$0

Also see: *Community Development Financial Institutions*

The Capital Magnet Fund (CMF) provides competitive grants to community development financial institutions (CDFIs) and nonprofit housing developers to develop and finance affordable housing, as well as community facilities and economic development projects that support affordable housing. CMF grants are used to fund financing tools like 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 enacted 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 assessment on Fannie Mae and Freddie Mac securities. In the fall of 2008, however, financial losses at the two Government Sponsored Enterprises (GSEs), the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) caused them to be placed in conservatorship and their obligation to contribute to the CMF and to the NHTF was suspended. 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. This has been the only round of CMF funding.

During the FY10 round of the CMF, the CDFI Fund received applications requesting over \$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, nine were CDFIs, and one was a tribal housing authority.

According to the CDFI Fund, in this first and only round of CMF grants, each dollar of CMF funding attracted over \$12 in other capital for affordable housing. Thus \$80 million in CMF grants created over \$1 billion in investment in affordable housing and community facilities, creating over 6,800 homes.

PROGRAM SUMMARY

The CMF is administered by the CDFI Fund at the Department of the Treasury (Treasury) as a competitive grant program to attract private capital for and 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 area median income (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 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, their 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 have as at least one of their purposes the development or management of affordable housing. 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 health care 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 and 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 a 4.2 basis point assessment on each company's new business, of which 25% must go to a reserve fund at the Treasury, with the remaining 75% divided between the CMF which receives 35%, and the NHTF which receives the other 65%.

However, these assessments have been suspended due to the government conservatorship. Fannie Mae and Freddie Mac have been quite profitable in recent years and have repaid the government funds that were necessary to keep them functioning. For this reason, 33 senators have sent a letter to the Federal Housing Finance Agency (FHFA), the regulator who manages the conservatorship, suggesting that the obligation to fund the CMF and the NHTF be reinstated. This matter is also the subject of litigation brought by NLIHC and Right to The City.

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 FOR 2014

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. The CMF could be funded if the FHFA decides to apply the assessment to the now profitable GSEs or if Congress passes housing finance reform. Proposed housing finance reform legislation by the leadership of the Senate Banking Committee does include an assessment on government guaranteed mortgage backed securities with 15% of the funds going to the CMF. There is no funding for the CMF in the Administration's FY15 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

Advocates should urge the Administration and Congress to press Fannie Mae and Freddie Mac's regulator (the Director of the Federal Housing Finance Agency) to impose the assessment required under current law to fund the CMF and the NHTF. Furthermore, as the debate on housing finance reform continues, advocates need to support the provisions in the legislation drafted by Senate Banking Committee chairman Tim Johnson (D-SD) and Ranking Minority Member Mike Crapo (R-ID) that funds the CMF and the NHTF.

FOR MORE INFORMATION

- The CDFI Fund, 202-622-6355, www.cdfifund.gov
- Housing Partnership Network , 202 677-4294 , www.housingpartnership.org