

Capital Magnet Fund

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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 FY16)

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

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

Funding: In FY16, \$91.47 million was awarded to 32 organizations. NLIHC estimates there might be approximately \$100 million for the CMF in FY17.

Also see: *Community Development Financial Institutions Fund*

The Capital Magnet Fund (CMF) provides competitive 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 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) 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). However, in the fall of 2008, 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 (HTF) 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 began on January 1, 2015 and were distributed to the CMF and HTF 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 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 \$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 for high-performing nonprofits 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 eligible project costs must be for units for households with income below 120% of AMI; at least 51% of housing eligible 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. 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 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 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 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.

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 designed to come from 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 enterprise's new business, with the CMF receiving 35% and the HTF 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 and the assessment has been collected for the last two calendar years. Sixty days after the close of 2016, Treasury is to distribute funds to the CMF and HTF.

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 2017

The overwhelming interest from applicants in the first round of funding demonstrated the appeal of this capital magnet model for expanding the nation's supply of housing for low and moderate income families in a cost-effective manner. If there is housing finance reform in 2017, the CMF could be affected.

WHAT TO SAY TO LEGISLATORS

If housing finance reform debate does return in 2017, advocates need to support provisions like those in the 2014 legislation drafted by former Senate Banking Committee Chair Tim Johnson (D-SD) and former Ranking Minority Member Mike Crapo (R-ID) which would provide funds for the CMF and the HTF.

FOR MORE INFORMATION

The CDFI Fund, 202-622-6355, www.cdfifund.gov
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