



To: The CDFI Fund
From: The Homeownership Alliance
RE: Capital Magnet Fund regulations and waiver request
Date: June 30, 2022

The Homeownership Alliance respectfully requests a 12-month waiver to the provision in the Capital Magnet Fund regulations that prevent CMF funds from being used to purchase homes priced above 95% of the area median home price as determined by HUD for the HOME program. This memo first explains why such a waiver is urgently needed at the present time and then discusses broader concerns about the HOME value limits and their negative impacts on residential segregation and access to opportunity. We close this memo with the recommendation that the CDFI Fund revise the CMF regulations to delete this unnecessary and counterproductive requirement.

The Homeownership Allianceⁱ is a practitioner-led collaboration of nonprofits and CDFIs that advocates for more resources and better policies to increase affordable homeownership opportunities for American families. Several Homeownership Alliance members, including the Atlanta Neighborhood Development Partnership, Homewise, and Self-Help, are Capital Magnet Fund grantees that are struggling to deploy CMF funds on behalf of qualified borrowers because they cannot find homes that are priced below the applicable HUD HOME value limits. HUD's HOME value limits restrict 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.

As you know, these price limits do not have a basis in CMF statute. Rather, CMF regulations adopt these limits from HUD rules by reference at 1807.402 (a)(2). The authority to waive the limits for current CMF grantees is provided at 1807.105.

For many years, the HUD HOME value limits have unnecessarily limited housing choice for recipients of down payment assistance. Recently, surging home prices have transformed this long-standing impediment to fair housing into an insurmountable obstacle. FHFA's housing price index rose 18.7% between the first quarter of 2021 and the first quarter of 2022.ⁱⁱ Prices have escalated so much that, despite a surplus of qualified buyers below 80% AMI, there simply aren't 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 2 percent (120) of the 6,953 homes listed, under contract, or sold between March and June 2022 were priced below the \$281,000 HOME price limit. Similarly, fewer than 9 percent of homes sold in Albuquerque during the same period were priced below the then-applicable \$200,000 HOME value limit. The escalating imbalance between the number of qualified borrowers and the supply of eligible homes is why a waiver of this regulation is needed immediately.

In the longer term, we urge both HUD and CMF to re-evaluate 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. As we demonstrate below, many buyers who qualify for down-payment assistance (DPA) can afford to purchase homes priced above the HOME value limits. The price limits prevent these buyers from maximizing the benefits of their down-payment assistance by purchasing homes they both want and can afford. In so doing, the limits undermine the effectiveness of DPA as a means of financial and geographic mobility for low- and moderate-income households and have the unintended but very real consequence of “redlining” entire neighborhoods.

An analysis of 2021 MLS data for Albuquerque, Atlanta, and Cleveland conducted by Homewisdom, a research and policy project of Homewise, found that the HOME price limits excluded the vast majority of homes sold in 2021 from consideration by DPA recipients in all three cities. Only 18.9% of all homes sold during CY 2021 in Albuquerque were priced below the HOME value limits. In Cleveland and Atlanta, 34.4% and 29.5% of homes sold for prices below the applicable HOME value limits. These percentages would be closer to 50% if HOME value limits accurately reflected 95% of the median price as they purport to. As noted earlier, examination of data from the first half of calendar year 2022 suggests that the mismatch between HOME value limits and actual market conditions is worsening rapidly.

Homewisdom’s analysis also revealed that a substantial number of homes priced above the HOME price limit were potentially affordable to low-income buyers in all three cities. This was particularly true for buyers with little existing debt and incomes closer to the 80% AMI limit. Of the nearly 16,000 homes sold in Albuquerque during 2021, 9,333 or almost 59% were priced above the HOME value limit but below what was potentially affordable to a household of four with income below 80 percent AMI. In Cleveland, 9,456 properties, or 58% of all sales fell within this range and in Atlanta 46.7% of all home sales, over 37,000 properties, were priced above the HOME limit but below what was potentially affordable for a low income family.

These ‘affordable-but-inaccessible’ properties were more likely than properties priced below the HOME value limit to be located in lower-poverty areas with higher-performing public schools. For example, in Cleveland, HOME value limits prevented otherwise qualified borrowers from purchasing homes in 55 census tracts. Cleveland census tracts that included homes priced below the HOME value limit averaged 20.7% poverty, whereas the 55 affordable-but-inaccessible tracts had an average poverty rate of 7.7%. In Atlanta the disparity was even more striking. Poverty averaged 17.8% in tracts that included houses below the HOME limit and 6% in tracts that contained houses priced above the HOME value limit, but still potentially affordable to HOME recipients. In Albuquerque, 47 percent of affordable-but-inaccessible homes fed into ‘A’ and ‘B’ ranked public schools, while only 15 percent of homes priced below the HOME value limit fed into high performing schools and 72% fed into low-performing ‘D’ and ‘F’ schools.

The CMF’s adoption of HUD’s HOME value limits precluded access to higher-opportunity neighborhoods by DPA recipients, effectively restricting their housing options to

disinvested areas of concentrated poverty. This outcome is contrary to the stated goal of helping lower-income households obtain housing in what HUD calls “opportunity neighborhoods.”

It should also be noted that elimination of HOME value limits from the CMF program will not undermine compliance, because other program conditions, including income limits and the 10-to-1 leverage requirement, ensure that public funds will not be used to purchase a luxury home, rendering price limits both unnecessary and redundant.

In closing, we reiterate our request that the CDFI fund use the waiver authority provided at 1807.105 to grant an immediate 12-month waiver of the HOME value limits so that our members can deploy CMF homeownership funds on behalf of qualified borrowers. In the longer term, the Homeownership Alliance urges the CDFI Fund to amend the CMF regulations to delete the counterproductive and unnecessary HOME price limit requirement.

ⁱ <http://www.stabilizationtrust.org/homeownership-alliance/>

ⁱⁱ <https://www.fhfa.gov/Media/PublicAffairs/Pages/US-House-Prices-Rise-18pt7-Percent-over-the-Last-Year-Up-4pt6-Percent-from-the-Fourth-Quarter.aspx>