Homeownership
Alliance

Capital Magnet Fund Policy Options Memo

The Capital Magnet Fund (CMF) was created in 2008 to be a source of flexible capital for affordable housing developers and community development financial institutions (CDFIs) to leverage with other funds. CMF funds can be used for affordable rental housing or for homeownership, with preference for projects that serve lower income residents. Affordable homeownership should be encouraged as a use of CMF funds. The CDFI Fund should to explore ways CMF can be deployed to more effectively help low-income households and disinvested neighborhoods benefit from homeownership.

CMF is funded by a fee on new business generated by two Government Sponsored Enterprises (GSEs), Fannie Mae and Freddie Mac, which went into receivership right after the legislation was enacted. There was one round of Capital Magnet Fund awards in 2010 funded by appropriations through the Recovery Act, but beginning in 2016 when the GSEs had returned to profitability, there have been awards made every year. To date, CMF has helped develop over 77,000 rental homes and has created over 9,000 new homeowners.[1] CMF grants are awarded competitively by the CDFI Fund through an application process. In the latest round of CMF grants, the awards are projected to create 20,700 affordable rental units and create 1,700 new homeowners. Approximately 90% of CMF funds benefit rental projects with 10% benefiting homeownership.

CMF funds can be used to provide loan loss reserves, capitalize revolving loan funds or affordable housing funds, to provide risk-sharing loans or loan guarantees, or to capitalize a fund to support economic development or community service facilities. Organizations that receive these funds must leverage them at least 10:1 with funds from other sources and grantees frequently exceed the 10:1 requirement. To date, for every CMF dollar awarded, there has been $31 in other capital invested, well above the statutory requirement. In the latest round of CMF grants, 100% of the homeownership units were for families with incomes less than 80% of AMI.

Below are some of the challenges with utilizing CMF for homeownership as well as some suggestions on how these barriers might be mitigated:

<u>Application Priorities/Scoring</u>

<u>Asset Building:</u>
Under Part 2, Community Impact, the CDFI Fund should award additional points for applications that help beneficiaries accumulate assets and close the wealth gap. One of the societal benefits of affordable homeownership is that homeowners accumulate equity by

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[1] https://www.lisc.org/media/filer_public/95/cf/95cf6bba-58ec-40b6-91e9-7d42a67619a1/112219_policy_briefs_capital_magnet_fund.pdf

paying down their mortgages, even if home prices don't appreciate. This leaves homeowners in a better position at retirement because they own their home. These benefits of homeownership should be rewarded in the scoring system for CMF applications.

A focus on asset building would favor homeownership applications, but there are also rental projects that would benefit. For example, rental projects would score well if they incorporated the Family Self-Sufficiency program, which allows residents with vouchers or project-based Section 8 to deposit rent increases due to higher incomes in escrow savings accounts. There are other ways that rental and homeownership programs can help residents build wealth such as matched savings accounts, resident services programs and homebuyer education programs and these also should be recognized in CMF scoring.

Application guidance:

The CDFI Fund's policy of creating separate CMF application pools for CDFIs and developers in proportion to their representation in the applicant pool has generally worked well. One of the strengths of the CMF program is that it was designed to accommodate many types of affordable housing in different geographies created by both lenders and developers. The Fund should carefully review the application materials and evaluation standards and consider whether there should be different questions and information required of rental and homeownership applicants as well. Differentiated applications and evaluation standards might both reduce the burden on applicants who struggle to answer questions not relevant to their project and make it easier for the Fund to fairly score applications.

Economic mobility:

The current scoring system can put affordable housing and revitalization goals at odds with each other. Part 2 of the application, Community Impact, states that:

> The Applicant will also score more favorably to the extent that it: commits to producing a higher percentage and/or number of rental housing units targeted to Very Low-Income Families (if proposing to use CMF for rental housing); commits to producing a higher percentage and/or number of Homeownership units targeted to Low-Income Families (if proposing to use CMF for Homeownership);… and commits to producing a higher percentage of units in Areas of Economic Distress.

The effect of this language is that it favors applications that maximize both the percentage and/or number of Very Low-Income Families (in the case of rental) or Low-Income Families (in the case of homeownership) **and** these housing units are located in Areas of Economic Distress. The unintended consequence of this language is that it encourages the further concentration of the poor in Areas of Economic Distress and discourages the creation of housing options in "opportunity neighborhoods." Most people would agree that increasing the income mix in Areas of Economic Distress is conducive to revitalizing disinvested neighborhoods and that providing more Very Low-Income and Low-Income housing in "opportunity neighborhoods" is conducive to increasing the upward mobility of the poor. The current language favors applications that put Very Low- and Low-Income housing in Areas of Economic Distress. It would be good to find a way that allowed for higher-income families (up to the allowed 120% AMI under CMF rules) to access housing in Areas of Economic Distress and for lower-income families to access housing in neighborhoods that do not suffer from economic distress.

One idea on how to address this issue would be to award points based upon the combined percentage of housing units targeted to Very Low-Income or Low-Income families plus the percentage targeted to Areas of Economic Distress, not to exceed a total of 100%. For example, a homeownership application that targeted 70% of its beneficiaries to Low-Income Families and 30% of its activity to Areas of Economic Distress would have a total score of 100%. An application with a 70%/20% split would score 90% and an application with a 90%/30% spilt would score the maximum score of 100%. Under this scenario there would be no incentive to maximize housing units for both Low-Income Families and in Areas of Economic Distress. It would allow for lower income families to access housing outside of Areas of Economic Distress and attract higher income families to Areas of Economic Distress.

Homeownership Price Limits

The CDFI Fund adopted home price limits of the HOME program which cap the price of homes that can be purchased with CMF assistance at 95% of the median price of homes in a given market. In other words, CMF funds are prohibited from being used on over 50% of the homes available in a given area. Given the fact the most important factor in determining the value of a home is its location, the price limit requirement effectively disallows the use of CMF for homeownership in better off areas and pushes buyers into lower-income, more disinvested neighborhoods. This outcome is contrary to the goal of helping lower-income households obtain housing in what HUD calls "opportunity neighborhoods."

While it is true that available down payment assistance will not enable a lower-income household to buy any home on the market (some home prices are too high for the subsidy to close the gap), the price limit does eliminate many home choices the household can afford. For example, of the homebuyers Homewise assisted last year in Albuquerque under a down payment program that did not have a home price limit, 24% of them purchased homes that would not have been allowed if the home price limits were in place. All of the buyers were below 80% of the Area Median Income.

The stated objective of the home price limit policy is to ensure the subsidies are only used to purchase "modest" homes but it further reinforces segregation and concentration of poverty. Because the main driver of home value is its location, what the limit actually does is require families to purchase in a less than average neighborhood, which can often mean a disinvested neighborhood with less opportunity for upward mobility and for wealth building.

If one of the goals of the price limit is to prevent excessive subsidy per homebuyer assisted, the CMF leverage requirement already addresses that issue. Because CMF requires a minimum of a 10 to 1 match of CMF funds, no more than 10% of a homeownership program or project can be funded by CMF. The CMF Assistance Agreement requires grantees to use a specific amount of CMF funds to serve a specific number of new homebuyers. In Homewise's current grant, the subsidy per buyer must average $13,000 or it won't meet the number of homebuyer required to be assisted. While some buyers might get more and some less, there has to be a prudent use of CMF funds in order to be in compliance with the Assistance Agreement.