



October 15, 2012

The Honorable Timothy Geithner
Secretary of the Treasury
1500 Pennsylvania Avenue
Washington, DC 20220

Dear Secretary Geithner:

As you continue your deliberations on the future of the secondary market for mortgages, we are writing to urge you to include funding for the Capital Magnet Fund in any legislative proposal the Administration submits on housing finance reform.

The Community Capital Coalition advocates on behalf of mission-driven housing developers, owners and managers, and Community Development Financial Institutions (CDFIs) who are working to strengthen neighborhoods. We have developed, financed and preserved hundreds of thousands of affordable homes, and raised and invested billions of dollars in capital in small businesses and community facilities as part of strategies to revitalize communities. We are the critical drivers for affordable housing and community development in many areas of the country, and our combination of mission focus and business discipline brings a new capacity to deal with longstanding neighborhood needs.

Our overarching concerns are about access to affordable homes by low-income households and the impact of changes to the system on low-income neighborhoods. We believe that housing finance reform needs to maintain a diverse array of lenders and different channels for capital to finance housing and community improvements. Limiting diversity and choice will result in a weaker system. CDFIs, nonprofit lenders, small community banks, credit unions, regional banks, large national banks, the Federal Home Loan Bank System, state housing finance agencies, and a robust secondary mortgage market are all needed in a liquid, transparent, and durable housing finance market.

We completely agree with the way this Administration framed the need for dedicated funds for targeted homeownership and rental affordability in the report to Congress, *Reforming America's Housing Finance Market*:

"Although FHA and other federal affordable housing policies do a great deal to provide access and affordability, we recognize that a more balanced system will require additional resources to address clear gaps. The Administration will thus advocate for a dedicated, budget neutral financing mechanism to support homeownership and rental housing objectives that current

policies cannot adequately address....We would scale up support for proven nonprofit partnerships for affordable housing production and preservation that can attract much larger amounts of private capital. “¹

We urge you to follow through on this statement of principle and include funding for the Capital Magnet Fund in your housing finance reform proposal. The Capital Magnet Fund can provide that scaled up support for “proven nonprofit partnerships.” As you know, the Capital Magnet Fund (CMF) was authorized by Congress through the Housing and Economic Recovery Act of 2008 (HERA) and provides a source of funding for CDFIs and nonprofit housing developers to finance affordable housing and related economic development activities. The funds are awarded competitively by the CDFI Fund and must be leveraged at least 10:1 with other funding.

When the CMF was created, it was intended to be funded by an assessment on the GSEs, which were put into government conservatorship shortly thereafter, and thus there was no funding for the CMF. For this reason, the Treasury requested appropriated funding for the CMF in the FY2010 budget request. The budget request stated, “The budget requests \$80 million in funding to begin this important program, which will stimulate the economy in the nation’s most distressed neighborhoods.”² Congress complied with this request and the CDFI Fund was able to make an initial round of CMF grants in 2010.

There is much we can learn from the initial round of CMF grants. The CDFI Fund received applications from 230 organizations requesting over \$1 billion in grants under the CMF. On October 1, 2010, the CDFI Fund made 23 awards totaling \$80 million to organizations serving 38 states. The grantees were 13 nonprofit housing organizations, 9 CDFIs, and 1 Tribal housing authority. 14 awardees serve non-metropolitan areas. Awardees have used their CMF grants to leverage and fund thousands of affordable multifamily and single-family housing units across a range of projects including: 67 multifamily rental units in Skid Row for extremely low-income individuals, 56 units of low-income senior housing in Puerto Rico, 50 new units for seniors in Shreveport, LA, and 4 manufactured housing parks converted from investor-owned to resident-owned communities.

Some of the members of our coalition who have received CMF grants have reported on their experiences from the initial CMF funding round. The lessons from the first round include:

- Demand for affordable housing capital is strong, and the CMF is particularly valued for its enterprise-level support for CDFIs and affordable housing developers.
- For many, the CMF has increased an awardee’s access to capital and the ability to innovate to meet local affordable housing needs. Non-profit affordable housing developers have valued the newly acquired ability to lend and will likely retain this lending capacity.

¹ *Reforming America’s Housing Finance Market*, page 21.

² Department of the Treasury, *Budget in Brief FY2010*, page 32.

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- Almost all awardees have begun disbursing their awards, some have already recycled their awards.
 - CMF is frequently used for predevelopment, acquisition, and some construction projects.
 - As annual income verification requirements are very similar, many awardees are using CMF for Low Income Housing Tax Credit projects.

Unfortunately, this has been the only round of CMF funding. We urge you to make sure that your housing finance reform proposal includes funding for the CMF, either through a small fee on every secondary market transaction or appropriated funds, depending on the overall structure chosen for the reformed housing finance system. We believe that there continues to be a strong demand for this type of funding, and that many extremely qualified CDFIs and non-profits are poised to put these funds to effective use. Applicant scoring data from the 2010 funding round provided by the CDFI Fund indicates that 91 organizations, requesting a total of \$467 million, scored in a range that placed them in a highly qualified pool. This would suggest that \$350 million is a minimum starting point for the amount of funding that could be utilized in this program on an annual basis going forward. As the program becomes more established, certainly many other qualified organizations will also want to apply for funding, so this suggested funding level could grow. It is anticipated that this \$350 million would leverage over \$3.5 billion of total project financing.

Funding for the CMF helps high performing nonprofit housing developers and lenders scale up and make a bigger impact. If we want the reformed housing finance system to work effectively in diverse geographies from rural counties to underserved urban areas, the system needs mission-focused housing developers and lenders to serve customers in all segments of the market. The government has a significant and necessary role to play in fostering a liquid, accessible mortgage credit market that offers affordable and sustainable rental and homeownership products on fair terms. The Capital Magnet Fund includes program design features like leveraging and accountability for performance that make it an important component of a redesigned housing finance system that serves America's housing needs well. We encourage you to include it in your proposal.

Thank you for considering our views. Please feel free to contact any of our organizations if you have any questions or need further clarification.

Sincerely,

CFED
Enterprise Community Partners
Housing Partnership Network
Institute for Community Economics
Leading Age

Local Initiatives Support Corporation
Low Income Investment Fund
Mercy Housing, Incorporated
National Housing Conference
National Housing Trust
National Housing Trust Community Development Fund
Opportunity Finance Network
Stewards of Affordable Housing for the Future
The Community Builders

CC:

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