

August 2, 2016

Marcia Sigal
Capital Magnet Fund Program Manager
Community Development Financial Institutions Fund
U.S. Department of the Treasury
1500 Pennsylvania Avenue NW
Washington, DC 20220

RE: RIN 1559-0036

Dear Ms. Sigal:

Opportunity Finance Network (OFN) appreciates the opportunity to comment on the Capital Magnet Fund (CMF) Application and Annual Report, RIN 1559-0036.

OFN is the leading national network of community development financial institutions (CDFIs) investing in opportunities that benefit low-income, low-wealth, and other under-resourced communities across America. Our Members offer responsible financial products and services in all types of communities—urban, rural, and Native—across the U.S, connecting communities to capital that creates jobs, supports small business, builds affordable housing, cultivates healthy food and energy efficiency, and promotes safe borrowing and lending.

OFN is excited that the CMF is once again available to support the development, preservation, and rehabilitation of affordable housing and related economic development activities. OFN was one of the leading advocates for the creation of the CMF in the Housing and Economic Recovery Act of 2008 (HERA), and nine OFN Member CDFIs were awardees in the 2010 round of Congressionally-appropriated funding.

The CMF program is particularly valued for its enterprise-level support for CDFIs and affordable housing developers. The flexibility of its capital is one of the program's greatest strengths. We commend the CDFI Fund for making this critical resource available as our nation faces an unprecedented and growing affordable housing crisis that is especially pronounced in communities of color. We look forward to a continued partnership with the CDFI Fund to ensure the CMF is a success.

OFN would like to offer feedback on several aspects of the CMF Application:



Proposed Affordable Housing Activities and Economic Development Activities

Question #4 requires applicants to identify their proposed affordable housing activities and economic development activities. The categories of affordable housing and economic development activities listed should be expanded to include “providing equity” as an eligible activity. In addition, to ensure flexibility for applicants, the application should include an “other” category as well as a narrative section for applicants to provide any additional explanation related to the proposed activities.

Service Areas

Question #5 asks applicants to identify the proposed service area for their CMF-financed projects. For national CDFIs, it was challenging to designate a service area of only up to seven states in the application. This provision could limit the ability of CDFIs to deploy capital to qualified projects in their entire geographic target market rather than a limited market of seven states. A possible solution is the inclusion of a narrative section, allowing applicants to describe their service area in greater detail.

Areas of High Housing Need

Per OFN’s comment letter submitted on May 6, 2016 in response to RIN 1559-AA00, OFN supports the CDFI Fund’s efforts to channel CMF dollars into targeted investment areas that ensure affordable housing is developed where needed most. However, we are concerned the definition of “High Housing Need” used in the NOFA may be too narrow. The definition used in the NOFA narrowly defined High Housing Need as census tracts where: at least 20 percent of households are very low-income renters paying more than half their income for rent; are high poverty neighborhoods where greater than 20 percent of households have incomes below the poverty rate with a rental vacancy rate of at least 10 percent; or are underserved rural areas.

The use of census tract-level data does not allow for a comprehensive, neighborhood-centered approach to creating and preserving affordable housing, and will limit the flexibility of the CMF grant dollars. In addition, applicants must use the “High Housing Need” data to project financing activities for five years, which ignores the fact that this data represents a snapshot in time, and does not allow for flexibility to adjust activities to reflect changes in neighborhoods, housing patterns, income levels, and other macroeconomic factors.

OFN supports the Housing Partnership Network’s recommendation of using zip codes, which cover a larger geographical area, instead of census tracts. Additionally, the NOFA indicates that an applicant will score more favorably to the extent its strategy proposes affordable housing in areas of High Housing Need. OFN encourages the



CDFI Fund to clarify the proposed method to determine how applicants will “score more favorably”, whether through priority points or some other method.

Pipeline and Leverage

The questions on projected pipeline and leverage were also problematic for some CDFI applicants. CDFIs often prepare funding applications based on an anticipated pipeline of investments. With disbursement of CMF funds coming months after the submission of the application, a CDFI may not invest the CMF award dollars in the same projects it identified at the time of application. OFN agrees with the Housing Partnership Network’s recommendation that allowing a more general pipeline for CDFIs would provide a better depiction of the types of deals the CDFI would like to finance with CMF without requiring false precision, and would allow greater flexibility for CMF award recipients.

The application also requires organizations to identify their sources of leverage at the time of application. However, in most cases, it will not be possible or practical to know all the sources of leverage at the time applications are submitted. In many cases, a grantee will make financing products available after receiving awards, and these financing products will provide only a portion of the total financing for projects. The specific projects (and other financing sources) will be determined only after that point. Similar to our recommendation related to pipeline, OFN recommends the CDFI Fund allow additional flexibility for applicants in the leverage portion of the application and clarify the formulas and definitions used to calculate leverage.

OFN offers the following additional comments on the NOFA and Application Process¹:

Overall Application

CDFIs in OFN’s network encountered issues when completing the CMF application. The CMF is open to different entity types, but the application materials do not account for differences in CDFI and non-CDFI applicants. As lenders, CDFIs have different recordkeeping systems and different relationships with end users of the funding than developers or housing finance agencies. The application, as well as any reporting instruments, should take into account the operational differences between CDFI and non-CDFI awardees.

The application system, AMIS, was also difficult for CDFI applicants, who found it unclear and confusing to navigate. Further, the compressed application period made it difficult to absorb the new AMIS application platform while processing changes to

¹Several aspects of the CMF application defer to the NOFA for guidance.



the regulations and the application in the same time period. The CDFI Fund should consider providing additional training and support on AMIS to improve the experience for applicants.

In addition, this year's overlapping timeline for several CDFI Fund program applications created challenges for many organizations. OFN urges the CDFI Fund to revise the timeline for award applications, allowing adequate time between each program application for thoughtful analysis of any changes to application materials, rules, or compliance that may impact an institution's decision making about applying for funding. This has a disparate negative impact on small CDFIs who have limited staff capacity and may not have the resources to complete multiple applications at once. These time and resource constraints could cause CDFIs to miss out on key funding opportunities, which can have lasting impacts on the organization's long term financial sustainability.

Unclear Policy Priorities

Another aspect of the application that caused confusion for OFN Members were seemingly conflicting policy priorities. The application indicates proposals will generally be scored more favorably to the extent they commit to produce a greater portion of total rental or homeownership units for low-income, very low-income, and extremely low-income families. As mentioned earlier in the letter, OFN supports directing CMF dollars to support affordable housing to areas that need it most. However, directing CMF dollars to areas with existing high levels of affordable housing could have the unintended consequence of deepening concentrated poverty in certain communities.

It also conflicts with Question #23 in the Additional Outcomes section, where applicants are asked to describe how they will ensure that affordable housing funded by CMF Awards: exists in mixed-income developments or communities; reduces geographic concentrations of poverty; and ensures that any residents dislocated from housing as a result of the Applicant's activities are provided with alternative housing solutions.

OFN Members found it difficult to reconcile these priorities of proposing strategies to reach areas of high housing need while also proposing strategies to increase residential economic diversity. Further, it was unclear how each of these priorities would be scored, and which one would have greater influence on application scoring. The CDFI Fund should provide additional clarity around how each section of the application will be scored in relation to one another, and whether some elements will score more highly than others.



Use of CMF Funds in Relationship to Other CDFI Fund Programs

Section 1807.102 of the Interim Rule defers to the Notice of Fund Availability (NOFA), Notice of Guarantee Authority (NOGA) or Notification of Allocation Authority (NOAA) for the restrictions on CMF's use with other CDFI Fund programs. The CMF NOFA prohibits the use of CMF funds in projects that are using funds received through any other CDFI Fund programs.

As we noted in our comments on May 6, 2016, the NOFA did not provide guidance regarding the use of CMF funds in an eligible project where another partner in the project also may be using other CDFI Fund program funds. Many of the CMF projects funded under the inaugural funding round included multiple partners, and OFN is concerned that this lack of clarity may have impeded organizations from developing applications that reflect the best strategies to meet CMF goals and priorities, such as identifying key partners that may be using other CDFI Fund dollars. OFN urges the CDFI Fund to reconsider this prohibition of the use of CMF dollars with other CDFI Fund program funds in future funding rounds in order to maximize awardee's flexibility with CMF funding and encourage robust partnerships. This would also better align with the rest of the application, which encourages the use of CMF funds with other federal programs like the Low Income Housing Tax Credit (LIHTC) and the HOME programs.

Annual Report Form and Reporting Requirements

CDFIs in our network expressed concern about applying for funds without a clear understanding of any potential burdensome and complicated reporting requirements. In future rounds, the CDFI Fund should make all relevant materials, including any rules around compliance, available to potential applicants at the beginning of the application period.

OFN does not currently have comments on the annual report form, as CDFIs in our network have not yet experienced reporting under the new assistance agreements and interim regulations. OFN does agree with the CDFI Coalition's recommendation that the CMF annual report data be made consistent with the reporting for CDFIs generally, whether for CDFI certification or for the Financial Assistance program. Participants in multiple CDFI Fund programs should not be expected to re-enter the same data multiple times in a year.

OFN looks forward to continuing to work with the CDFI Fund to implement the CMF and increase the supply of capital for affordable housing development in distressed communities across the country. We encourage the CDFI Fund to conduct outreach to applicants, receive and document feedback, and to incorporate that feedback into



future funding rounds to ensure the program is nimble enough to meet the continued challenges facing the communities we serve.

Thank you for your consideration of our comments on the CMF Application materials. We look forward to the continued success of the program. Please do not hesitate to contact me if you have any questions about these recommendations via email or phone at dwilliams@ofn.org; 215.320.4318.

Sincerely,

Dafina Williams
Vice President, Public Policy

cc: Liz Lopez, Executive Vice President, Public Policy
Nancy Santiago Negron, Chief External Affairs Officer