



March 1, 2021

Daniel Aiello
CMF Program Manager
CDFI Fund
U.S. Department of the Treasury
1500 Pennsylvania Avenue NW
Washington, DC 20220

RE: Request for Public Comment – Capital Magnet Fund Application and CMF Performance Report

On behalf of NeighborWorks America (statutorily the Neighborhood Reinvestment Corporation) I want to thank the CDFI Fund (“the Fund”) for the opportunity to provide comments regarding the Capital Magnet Fund (CMF) application. Please note that these comments have not been submitted to or approved by NeighborWorks America’s Board. They reflect the view of NeighborWorks America management and do not necessarily represent the views of its Board members, either collectively or as individuals.

NeighborWorks America is a Congressionally-chartered nonprofit organization established in 1978. We support a network of nearly 250 local and regional nonprofit affiliated housing and community development organizations. Since the program’s start in 2010, 23 network organizations have received CMF award funding in one or more years. Network organizations have received a total of 35 awards totaling \$70,592,150, with the majority going towards rental development and down payment assistance. The Network awardees include CDFIs and non-CDFI housing developers, providing both rental and homeownership housing across diverse geographies and populations. Communities served include rural communities, communities of color, and Native populations.

The average award amount received by NeighborWorks network organizations is smaller than the overall average. The average award for all years to network organizations is just over \$2 million, compared to about \$3.4 million for all awardees. This difference is largely driven by the fact that our organizations tend to be smaller, serving more localized areas, while many of the other CMF awardees are national organizations with multi-state service areas. One of the unique characteristics of these more localized groups is their ability to directly reach communities, including in places that are underserved by other systems. That said, NeighborWorks is actively working with network organizations to develop and pursue strategies to grow and scale their impacts, and attracting capital from the CMF and other sources is a key component of this work.

We appreciate the partnership that we have long enjoyed with the CDFI Fund, and we offer these comments on the FY 2021 Capital Magnet Fund application and Performance Report in that spirit.

Capital Magnet Fund Application:

NeighborWorks is concerned by the overall complexity of the application. By requiring such detailed information, the Fund creates unnecessary barriers to entry for many organizations who do not have the dedicated grant writing capacity to compete. This effect is counterproductive to the goal of attracting private capital to economically distressed communities, including underserved rural, tribal and areas of persistent poverty. By requiring so much information, the Fund has created a process which is simply too burdensome for many potential applicants, especially those smaller organizations with staff performing dual roles, to complete. Consultants offering advice and review (but not actually writing) can cost between \$5-15k, a prohibitive expense for many organizations. Particularly considering that only about a third of applicants receive awards, many organizations determine that the upfront investment and associated risk are simply too big to pursue.

We encourage the Fund to carefully consider each of the required fields and remove those that do not provide information critical to making funding decisions. For example, the Financing Activities section of the applications requires a detailed list of predevelopment, acquisition, construction, bridge loans, etc. Is it necessary for the Fund to collect this level of detail on top of the “eligible activities?”

NeighborWorks notes that past CMF awards have been heavily dominated by rental. For example, in 2020, out of 22,400 units funded, only 1,700, or about 8%, were for homeownership. Given the important role that both affordable rental and homeownership opportunities play in creating strong neighborhoods and opening pathways to wealth accumulation, we are interested in better understanding the reasons for this distribution. Is it reflective of the overall applicant distribution? NeighborWorks encourages the Fund to consider whether the application and scoring rubric should be adjusted to more appropriately assess homeownership projects.

The application could be clarified by better defining the various categories of capital. Presently, it can be difficult to distinguish the categories when the eligible activity is not straightforward development or when funds are moving through different eligible activities. For example, if an organization takes out a loan to buy land, then refinances that loan into a construction loan, and then pays off that loan and makes a permanent financing loan to a homebuyer, how should this be categorized? While it is the “same” dollar being recycled from one stage to the next, it transforms from one function to another, and this can be confusing to many applicants. Simplifying the various leverage categories as much as possible, and providing multiple examples from different eligible activity types, would help make the application more accessible, especially to smaller organizations.

Responses to Specific Questions:

(a) Impact:

1) In general, well-considered, comprehensive housing strategies have more than one impact. The proposed structure, which requires selection from a set list and does not award additional points

for multiple impacts, is somewhat limiting and misses an opportunity to incentivize higher quality projects. For example, a good homeownership strategy would facilitate financial security by stabilizing payments, prevent dislocation, improve disinvested areas, and build wealth (in addition to other indirect benefits). Applicants should be allowed to describe all the benefits of their strategy as long as they can support them with data.

2) Wealth creation, which is distinct from financial stability, should be added to the list of impact choices. Financial stability can be achieved simply by locking in a monthly payment, whether that be a rent or mortgage payment. Wealth creation goes beyond financial stability to help families build positive net assets.

3) NeighborWorks is concerned that introducing a standard set of metrics will create an overly prescriptive system. A standardized framework may unintentionally force applicants to tailor their projects to the metrics rather than designing a solution on the basis of community needs and resources. A more flexible system would allow each organization to explain how they will define their own metrics to track and measure their impact.

Under the “Avoid dislocation” impact, homeownership and owner-occupied rehab should be recognized as tactics that helps people avoid dislocation. Production in these areas should be considered metrics for that impact.

(b) Entity Types:

2) NeighborWorks seeks to better understand the rationale for evaluating financing entity applications separately from affordable housing developer/manager applications. What would be the implications of allowing all applicants (including CDFIs) to self-identify based on the type of activity they propose to complete with CMF funds? Guidance would be needed if an applicant proposes both kinds of activities.

(c) Areas of Economic Distress and High Opportunity Areas:

1) NeighborWorks is very concerned about the Fund’s proposal to prioritize High Opportunity Areas. While we unquestionably share the goal of creating opportunities for LMI families to move to high opportunity communities, we are concerned that implementing this approach will not yield the intended results.

Presently, the CMF program actually incentivizes applicants to provide housing for low-income families in low-income areas. This happens in two ways: first, in homeownership, the maximum sales price limit of 95% of median home value prevents awardees from helping families buy in many higher cost neighborhoods. Even if the client can afford the home with the help of the CMF Awardee, the program limit prevents this. Secondly, the CMF program is very competitive, and applicants must try to maximize points. This encourages them to promise high affordability goals (e.g., 100% of units go to clients under 80% AMI) and to promise a high percentage in areas of economic distress. The result is that applicants are incentivized to provide housing for low income clients only, and only in low income areas.

To promote the goal of providing housing for LMI families in higher opportunity areas, the CMF program should address the constraints created by the home price limit. Second, the Fund should consider the two program goals of affordability and place-based revitalization separately so that applicants aren't rewarded for providing low income families with housing only in low income areas.

Utilizing the filter of defined high opportunity areas can prove especially problematic for strategies that are not new construction based. For example, in mortgage lending, owner occupied rehab, scattered site development/rehab, and loan loss reserves, the applicant has limited or no control over the location of the housing. When considering housing opportunity, all of these tools play an important role in creating sustainable homes that can both build wealth and enable meaningful housing choices for families. NeighborWorks encourages the Fund to be cautious about provisions that could have effectively devalue some of these approaches.

(3) NeighborWorks does not support use of the FHFA High Opportunity Area (HOA) definition. Consistent with our concerns about the application complexity having unintended equity consequences, we must note that the data are not readily accessible to the public as they are provided only in a text file listing the 74,000+ census tracts in the U.S. The file does not indicate states or counties by name. Most organizations would lack the technological capabilities to map these tracts and properly analyze them.

Incorporating the LIHTC Difficult to Develop Area criteria in the definition of HOAs is insufficient given that these designations address only construction costs, with little connection to the characteristics of the neighborhood. The QAP designations of high opportunity areas, the other component of the proposed HOA definition, are difficult to assess since they vary by state, but given that they are designed to serve the LIHTC system they are likely to apply more appropriately to rental development. Neither of these qualifications are tailored for other strategies such as homeownership lending, acquisition/rehab, owner occupied rehab, non-LIHTC rental, etc.

Based on our analysis of these tracts, it appears that they are largely concentrated in either very high cost areas or very remote areas. Middle neighborhoods, which are the prime neighborhoods that are realistically affordable with CMF-based subsidy and still offer the characteristics that create opportunity--good schools, access to transportation, public safety, proximity to jobs and retail--are not included. Additionally, there are large portions of the country where there are no HOAs, including all of Wyoming and Puerto Rico. Only one tract in all of North Dakota would qualify, and there are three other states with fewer than ten qualified tracts. Of the nation's 3,215 counties, there are 2,190 counties with no eligible tracts. Adopting a system for priority points that leaves out so much of the country is unfair and has the potential to create undesirable consequences for geographic distribution of CMF awards.

Additionally, the proposed HOAs and the maximum sales price limit are incompatible. Comparing the median home value (as reflected by Census American Community Survey 2019 5-year estimates) to the county/MSA home price limits from HUD shows that the median value is higher than the allowable purchase price in more than three quarters of the proposed HOA tracts, making

it unlikely that organizations would be allowed to help someone buy a home in these areas, even if it were financially feasible or desirable.

(4) The Fund should prioritize addressing the issues in the application, as previously identified, that act as barriers to organizations working to support housing in areas of opportunity. Removing these disincentives would go a long way. The definition of opportunity areas could be as simple as “areas that are not areas of economic distress.” Ultimately, beneficiary families should have choice as they know what they need to support their particular personal opportunities.

(d) Areas of Economic Distress Data Sets:

NeighborWorks believes that maintaining a static dataset over the course of multiple years is beneficial to organizations working to build a pipeline (or a program) with an eye toward future applications. This stability provides certainty and allows for future planning.

(f) Economic Development Activities:

Organizations face several challenges when applying for CMF awards for Economic Development Activities (EDAs). One hurdle is the requirement to show that the activities are part of a concerted strategy guided by a local government’s economic development plan. In locales where no such plan is available, the Fund should consider alternate ways to show community buy-in. Another issue is the emphasis on track record. Because the CMF is primarily a housing program, applicants are likely to be primarily housing focused. Taking into account the possibility that their track record will be insufficient to support the EDA activities, they may decide not to risk their entire award by including it. This could be addressed by reducing the importance of track record in the scoring for economic development activities.

Applicants may be reticent to include EDAs in their project because of the complexity of compliance when combining two very different activity types. Another reason so few applicants include EDAs is that, while they pair naturally with new construction activities, they do not coordinate as well with the other eligible activities that are not place-based, such as mortgage financing and loan loss reserves that. Finally, the application seems to favor those groups that have existing pipelines in place. This can preclude an applicant from getting an award and then using it to intentionally design a project that includes economic development.

(j) Leverage:

(1) The current approach to gathering data about the various types of project leverage is not very clear, particularly when the proposed project is not straightforward development. NeighborWorks questions whether these distinctions are important or whether this section can be removed to simplify the application and reduce the associated burden.

(2) Requesting documentation of leverage would increase the complexity of the application. However, if the Fund believes it is necessary to collect additional documentation, NeighborWorks suggests that applicants could provide loan agreements, grant agreements, and loan sale agreements, similar to the matching fund requirements of the CDFI program.

(3) NeighborWorks encourages the Fund not to change its approach to capping consideration for leverage at a 10:1 ratio. Evaluating higher ratios more favorably would create strong incentives for applicants to stretch their projects to achieve higher leverage, and, while on its face this may seem desirable, it would actually diminish the usefulness of CMF awards. Due to their higher leverage ratios, projects that would be viable even without CMF will be favored over projects that could not be completed but for the CMF contribution. For example, an organization pursuing a mortgage financing strategy and using CMF for down payment assistance (DPA) would only be able to provide 10% of the home price (max) as DPA. At lower percentages, the DPA may not be sufficient to bring affordable homeownership within reach. The same would be true for development projects and other types of activities. High leverage factors are impressive at first blush, but, when too high, should raise questions as to whether the CMF contribution is actually having its intended catalytic effect and whether it is serving communities with great economic need.

(1) Streamlined Collection of Data on Track Record/Projections:

NeighborWorks is supportive of this change. The purpose of the table is to show that the organization has a track record. This goal can be achieved through reporting of cumulative totals, which lessens the overall burden of the application by removing some of the manual data entry.

CMF Performance Report:

NeighborWorks questions the efficacy and need for collecting ‘projected’ datapoints, which add significant burden to the application and can be especially vexing for the types of short-term projects (e.g., ownership, owner rehab, loan loss reserve, etc.) where projected and actual are reported at the same time. Applicants should be responsible for maintaining appropriate tracking systems to monitor their own progress toward completion. Removing these datapoints would be an effective measure to simplify the application.

Additional improvements could come through allowing for bulk data uploads and creating a system that includes the capability to allow data to simply be copied in instances where many projects are the same, requiring applicants only to enter that information which is unique. For annual updates, it would be very helpful to create a process through which the user can indicate which units have changes/updates and only update those units, leaving all others unchanged. NeighborWorks encourages the Fund to consider gearing reporting to the project type and only require applicable data. As currently constructed, the reporting format seems geared toward construction projects with long lead times. However, the full report is still required of organizations pursuing other types of projects for which the datapoints and annual updates are not applicable.

(a) Collection Changes:

If a bulk upload for projects is created, then the new datapoints would likely be feasible. However, if manual entry of each project is still required then these datapoints would add to the already

extensive burden. Consider that each unit is being added separately and manually and this can mean hundreds of units, each with its associated datapoints.

(b) Bulk Upload of Data:

Project records should be allowed to be created through a bulk upload. The manual entry of each project is incredibly time consuming, often requiring days of manual entry. Quality control searches for address or other unique features could help resolve the duplicates problem. When collecting data from network organizations, for example, NeighborWorks America's surveys allow for bulk upload and have QC procedures in place. We find that this system allows us to balance our need for information with the burden that it places on the organizations providing the data.

One of these reasons that manual entry is so incredibly time consuming is because there are so many questions to answer on each "project" yet many of these answers are the same from project to project. This presents a possible area for efficiency improvements.

(d) Data Collection Frequency:

The burden could be reduced by adding a feature that allows the user to affirmatively indicate which projects have had some change in status and then report only on those projects. Many projects with shorter timelines, such as homeownership or owner-occupied rehab, will have no change in the 5-year period unless there is an early pay-off or relocation.

We appreciate the opportunity to offer our feedback on the 2021 Capital Magnet Fund application and the CMF Performance Report. We are pleased to work with you towards our shared mission of providing economic opportunity, and, as always, look forward to continuing our partnership.

Sincerely,



Kirsten Johnson-Obey
Senior Vice President, Public Policy and Legislative Affairs