Community Development Bankers Association
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March 1, 2021

Mr. Daniel Aiello
Program Manager, Capital Magnet Fund
Community Development Financial Institutions Fund
U.S. Department of the Treasury
1500 Pennsylvania Avenue, N.W.
Washington, DC 20220

RE: Comments concerning: The Capital Magnet Fund (CMF) Application (Application), and reporting and record retention requirements of the CMF Annual Performance Report (CMF Performance Report).

Dear Mr. Aiello:

The members of the Community Development Bankers Association (CDBA) respectfully submit the enclosed comments on the Notice for Public Comment published on December 30, 2020 by the Community Development Financial Institutions (CDFI) Fund seeking comments on the application and online (AMIS) Performance Report for the Capital Magnet Fund (CMF).

CDBA is the national trade association of the community development banking sector, the voice and champion of CDFI banks and thrifts. CDBA represents Federal and State chartered banks, thrifts, and their holding companies that are certified by the CDFI Fund. CDBA members serve our nation's most distressed and credit-starved communities and are engines of economic inclusion throughout the United States.

Today there are 165 CDFI certified banks and thrifts and 125 certified bank holding companies. These mission-focused financial institutions are a specialized niche within the banking industry. CDFI banks are very important to the CDFI sector.

CDBA members appreciate the hard work of CDFI Fund staff to support the CDFI industry. CDBA thanks the CDFI Fund for the opportunity to comment on the CMF application and reporting requirements. We fully appreciate the agency's efforts to continuously improve all of its programs. We look forward to working with the CDFI Fund to ensure its programs are responsive to the needs of communities and the institutions that serve them.

GENERAL RECOMENDATIONS

The need for affordable housing is acute. The National Low Income Housing Coalition estimates there is a need for 7.2 million housing units for extremely low income families and 500,000+ people are homeless on any given night. In the 2020 round of CMF there were 137 applicants requesting $642.2 million; yet, the CDFI Fund made only 48 awards totaling $175 million. Like the NMTC Program, the CMF evaluation process discourages new participants by awarding very large awards to a small number of previously successful applicants. There is great need for affordable housing nationwide. We urge the CDFI Fund to consider adding maximum award caps to ensure more applicants and communities can benefit. In addition, we urge the evaluation process to maximize the participation of depository CDFIs that have tremendous capacity to leverage resources for affordable housing that other applicants cannot. We note only five depository CDFIs received CMF awards (4 banks, 1 credit union) received awards in 2020.

COMMENTS ON SPECIFIC QUESTIONS:

CMF Application

Impact
We support the proposed examples of desirable outcomes. This section, however, can be enhanced by making it more flexible. One enhancement is to allow applicants to identify alternative impacts within the application (i.e. more specific, or new impacts) that are appropriate to their target market.

We recommend the CDFI Fund add to its list of "baseline" impacts the value of developing affordable housing outside of low- and moderate communities. We agree that avoiding the negative impact of dislocation is an important goal. While we believe it is vital to increase the volume of quality housing stock in lower income areas; there are also benefits to building new affordable housing in moderate income communities. The benefits of mixed income housing and neighborhoods on individuals and families is well documented, including psychological benefits for low-income residents and the education, health and behavioral benefits for children.[1]

In considering impact, the CMF program must acknowledge the different roles that lenders and developers perform. Housing authorities and nonprofit developers exercise primary control over a project's design, and therefore its impact. Lenders may demonstrate some control, primarily by choosing whether or not to provide financing for projects that have already been planned. However, in a market with limited resources or opportunities, the choice may be between one project and zero. In this case, the existence of the project is itself demonstrative of impact. A local CDFI bank ought to be recognized for its contribution and not be penalized for entering into a project after it has been designed.

Entity Types
While we appreciate the efforts of CDFI staff to accommodate all CDFI entities, CDBA members report that guidance offered to CDFI banks is often verbal, discrete, and not necessarily documented. This is helpful in the moment, but verbal guidance is subject to change, and it is not disseminated within the field. Bank-specific written guidance, or FAQs, will help continue and perhaps expand CDFI bank participation in the CMF.

Areas of Economic Distress (AEDs) and High Opportunity Areas (HOAs)
We recommend High Opportunity Areas be included in the Application. A narrow focus on AEDs limits the CMF's reach. Lower-income communities will benefit from greater access to affordable housing if HOA's are given priority. The FHFA definition of HOA is adequate. The definition of HOA includes areas identified by state Qualified Action Plans (QAPs), and is therefore responsive to the needs of local markets. To the extent possible, we urge the CDFI Fund to rely on existing definitions to avoid complexity arising from overlap, contradictions, and confusion.

[1] Housing Matters, "Mixed-Income's Anticipated and Realized Benefits," June 16, 2016, housingmatters.urban.org/research-summary/mixed-incomes-anticipated-and-realized-benefits

Areas of Economic Distress Data Sets
CDBA agrees it is appropriate to make periodic changes to AED data sets to the extent any changes, as well as acknowledge and support the long-term planning needs of CMF participants.

Priorities
As with AEDs, it is appropriate to provide periodic changes to scoring priorities to the extent any changes, as well as acknowledge and support the long-term planning needs of CMF participants.

Rural Areas
We urge the CMF Program to be flexible -- particularly as relates to single-state service area CMF recipients -- to allow the pursuit of out-of-state projects. For example, many CDFI banks primarily serve one state, but are often presented with good affordable housing projects from out-of-state. The existence of these interstate opportunities demonstrates need -- especially for rural communities -- for this capital to move to where the demand exists. This circumstance reveals an opportunity for CDFIs to expand their reach and impact. Today single-state CDFI banks are prevented from responding to this need due to CMF's single-state service areas. CDBA urges the CDFI Fund to create a national rural service area that will allow CDFIs to invest in rural projects outside their traditional service area.

Non-rental, non-LIHTC affordable housing predominates in most rural areas. These areas will benefit if lenders are given flexibility when certifying to the long-term affordability of projects. Rural CDFI banks in particular report being unable to apply CMF funds for otherwise beneficial projects due to documentation requirements for rent rolls or other LIHTC documentation. We urge the CDFI Fund to work with lenders to identify alternative methods to document this certification

Leverage
CDBA understands the 10:1 minimum leverage ratio is statutory and the CDFI Fund must work with this requirement. Yet, we recommend that the CDFI Fund consider some modifications to the "one-size-fits-all" minimum leverage that considers different types of housing or economic development needs. For example, can the CDFI develop a "weighting system" -- similar to one used in the BEA Program -- which assigns different weights to different types of housing activities toward a minimum leverage calculation? Such a formula will compensate for the strong bias of the CMF toward only one type of housing and ensure the program works for different communities. Without some adjustment to the current minimum leverage ratio, many needy communities are shut out of CMF.

A single standard discourages applicants based on geography or the nature of the housing stock in a local community. For example, low-income communities have a need for affordable housing but the nature of the need is diverse. Based on the local need, many CDFI banks working in rural communities have been dissuaded from applying to CMF when they concluded that the currently configured 10:1 ratio is too difficult to meet in communities where single family housing is the most feasible and practical affordable housing solution. The CMF Program ought to provide tools for a broad range of community needs; a minimum ratio that is responsive to market conditions will help.

Program Income
Program income continues to challenge CDFI banks. Lining up a project that satisfies income, geographic, and leverage performance targets within the one year reinvestment period does not lead to best outcomes for communities. Instead, it incentivizes a narrow compliance mindset. We recommend greater flexibility for the timing of the reinvestment requirement.

Revising the reinvestment requirement can help the CMF respond to the diverse range of needs in low-income communities. To support this, we suggest the CMF allow reinvestment outside of service areas. This is logically and practically consistent with our recommendation to allow and incentivize participation outside of single-state service areas and in rural areas. This will help the CMF respond to the diverse range of markets and needs in low-income communities.

Streamlined Collection of Data on Track Record/Projections
We support the CDFI Fund's proposal to collect five years of cumulative data, rather than annual data. This is appropriate and will relieve compliance and reporting burdens.

Related, CDBA members report that the requirement to track interest income for program income requirements, even when interest income is not required to be reinvested in affordable housing projects, poses an unnecessary burden. A large part of the challenge is due to CMF funding often being blended with other sources of capital. Calculating a proportionate share of interest income is in these circumstances, not only time consuming, but often necessarily an estimate. We recommend eliminating this reporting requirement.

Alignment with other Housing Programs
CDBA members report that the majority of their CMF investments have been in LIHTC properties. Aligning with LIHTC and other housing programs will greatly ease reporting burden. To the CDFI Fund's specific question of how to reduce the burden on applicants "particularly related to requirements or reporting for tenant income determination," the CMF would benefit from allowing borrowers to align rents and incomes with LIHTC categories. LIHTC projects are already heavily regulated and monitored by state housing finance agencies and have a longer extended use period than is required under CMF. We recommend this be deemed satisfactory for affordability purposes. CDFIs can also ease the reporting burden on borrowers by accessing affordability data through state housing finance agencies.

Loan Loss Reserves/Guarantees
We do not support the CDFI Fund's proposal to require applicants to place loan loss reserves or guarantees in segregated accounts. We believe it creates unnecessary administrative work for small CDFIs. Rather than requiring this, we suggest that the CDFI Fund make this a strong recommendation akin to "best practices."

CMF Performance Report

Data Collection Changes
The "Fields Proposed for Deletion" are a good step to mitigate the reporting burden on CMF participants. However, the numerous new questions added to the Performance Report Fields roll this progress back, and do not adequately take into consideration the strategies and uses of funds employed by different types of applicants, e.g. CDFIs vs housing authorities and developers. Numerous fields are not clearly related to the act of providing financing, and are not clearly tied to the point in time at which a financing entity joins a project. We suggest that the CDFI Fund convene a separate working group of current and potential CMF financing entities (as opposed to housing authorities and developers), with a generous timeline, to review the existing and proposed performance data points together, and submit jointly considered recommendations for the content of this data.

Bulk Upload of Data
CDBA strongly supports allowing Recipients to use a bulk upload process to create new "project records" in the reporting system.

We thank you for the opportunity to comment and look forward to working with you on these important matters. If you have questions, please contact Jeannine Jacokes, Chief Executive Officer, at 202-689-8935 ext. 222 or jacokesj@pcgloanfund.org.

Sincerely,

Jeannine S. Jacokes

Jeannine Jacokes
Chief Executive Officer