

COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND

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All About the Capital Magnet Fund

2017 Capital Magnet Fund Outreach Presentation
May 10, 2017



How the Capital Magnet Fund fits into the larger mission of the CDFI Fund

- **Mission & Vision:** The mission of the Community Development Financial Institutions Fund (CDFI) is to increase economic opportunity and promote community development investments for underserved populations and distressed communities in the United States. Our long term vision is an America where all people have access to affordable credit, capital and financial services.
- **CMF:** The Capital Magnet Fund (CMF) is one of many CDFI Fund programs. The Capital Magnet Fund was created to spur private investment in affordable housing and related economic development efforts to revitalize neighborhoods across the country by serving low-income families and communities.



Capitalized terms not defined in the presentation are defined in the CMF Interim Rule (as amended February 8, 2016; 12 CFR Part 1807)

[Link to CMF Interim Rule](#)

Purpose of the Capital Magnet Fund



CMF provides competitively-awarded grants to CDFIs and eligible Nonprofit Organizations to attract private capital for and increase investment in:

- Development, Rehabilitation, Preservation, and Purchase of Affordable Housing – both homeownership and rental – targeted to Low-, Very Low-, and Extremely Low-Income families; and
- Economic Development Activities designed to stabilize and/or revitalize areas of economic distress such as renovated buildings that will house neighborhood businesses and Community Service Facilities.

CMF History & Funding



- CMF was established through the Housing and Economic Recovery Act (HERA) of 2008 (Public Law 110-289, section 1131).
- The source of funding for CMF comes from allocations from the government-sponsored enterprises (GSEs) – Fannie Mae and Freddie Mac.
- CMF conducted funding rounds in FY2010, FY2016 and another is expected in FY2017.



Leveraging Private Financing is Key



- CMF “primes the pump” for affordable housing and economic development.
- For every \$1 in CMF funding, Recipients are required to generate at least \$10 in Eligible Project Costs (CMF Award plus Leveraged Costs).
- FY2010 Recipients leveraged \$22 in total investment for every \$1 of CMF Award (reported).
- FY2016 Recipients are projected to attract – at minimum – over \$900 million in Eligible Project Costs.
- CMF spurs investment from banks, foundations, private investors, state & local governments.





Other CMF Priorities

Affordable Housing Financing that:

- Creates and preserves housing that is affordable to individuals and families with Low-, Very Low- and Extremely Low-Incomes.
- Expands homeownership opportunities for Low-Income families.

Economic Development Financing that:

- Helps to stabilize and revitalize cities and rural communities experiencing economic distress.
- Creates jobs by investing in community facilities and physical structures in which neighborhood-based businesses operate.

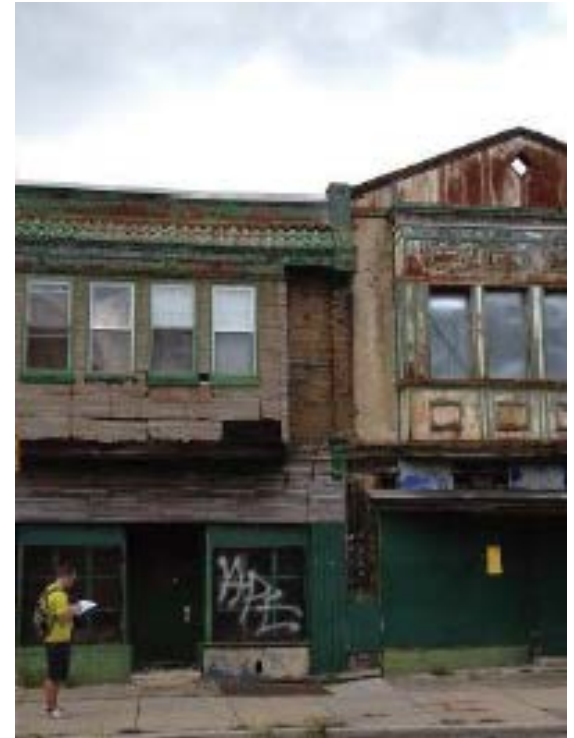
Geographic Diversity throughout the country

- Ensuring that CMF Recipients serve diverse geographic areas, including Metropolitan and Non-Metropolitan areas as well as multiple states.

Targeting Areas of Economic Distress



Recipients are encouraged to use their grants to assist areas of economic distress. This will be further described in the FY2017 CMF NOFA.



Eligible Uses of CMF Award Dollars



- Affordable Housing Funds
- Loan Loss Reserves
- Revolving Loan Funds
- Economic Development Activities
- Risk-Sharing Loans
- Loan Guarantees

CMF Award Restrictions



- No single Applicant may apply for or receive more than 15% of the total award amount available under the FY 2017 application round.
- No more than 30% of a CMF award may be used for Economic Development Activities.



Applicant Eligibility Factors



- To be eligible to apply for a CMF Award, an Applicant must:
 - Be certified as a CDFI by the CDFI Fund; **OR**
 - Be a Nonprofit Organization having as one of its principal purposes the development or management of Affordable Housing.
- All Applicants must have been in existence as a legally formed entity for at least three years prior to the Application deadline.
- The Applicant must meet all eligibility requirements on its own behalf and may not rely on any Affiliates or Subsidiaries to meet this requirement.

Leveraging Capital



- In community development finance, the term “leverage” means the ability to use capital from other sources to maximize public resources.
- CMF Recipients are required to leverage their CMF award at a ratio of least ten to one. For example, an award of \$5 million should generate \$50 million in Eligible Project Costs.
- Sources of capital leveraged by the CMF Award may be loans from banks, program-related investments from foundations, Low Income Housing Tax Credits (LIHTCs) investment, funds contributed by the Recipient, state or local government or any number of other private or public sources.
- The combination of the CMF Award and the Leveraged Costs make up Eligible Project Costs for the CMF Program.



Types of Capital: Enterprise Level Leverage



Enterprise Level: Capital earned or raised at the organization level which is not restricted to specific projects.

Private, Third-Party Investment

Capital raised from third-party sources which is invested in or loaned to the Recipient organization and allocated to a CMF-related housing fund or similar financing activity. Examples include loans from financial institutions and program-related investments (PRI) from foundations.

Contributed Capital

Capital from the organization's own resources which is lent or contributed to a CMF-related housing fund or similar financing activity. Examples include retained earnings or equity.

Public Leverage

Grants, loans or other investments to the organization from state, local or other federal government programs which is lent or contributed to a CMF-related housing fund or similar financing activity.

Types of Leverage: Project-Level Leverage



Project Level: Capital raised to finance specific projects.

Private Investment

Capital raised from third party sources which is invested in or loaned to a specific project. This could include loans from financial institutions, secured by the real estate and investments through the sale of LIHTCs.

Public Investment

Grants, loans or other investments for a specific project from state, local or other federal government programs.



Creative Ways to Use CMF

There are many creative ways to use CMF funding:

- Many Recipients set up loan funds that may be used for predevelopment funding, construction loans, bridge financing or permanent debt.
- Some Recipients blend the CMF Award with a larger financing pool, bringing down the overall interest rate to borrowers.
- Others use the CMF dollars as a Loan Loss Reserve or subordinate gap financing to reduce the risk to private investors.
- Some provide down payment and closing cost assistance to first time home buyers.
- These are just examples of the many innovative ways the CMF Award may be used.



Investing in Affordable Housing

- One of the most critical objectives of the Capital Magnet Fund (CMF) is to finance Affordable Housing.
- CMF funding may be used to finance both rental housing and Homeownership.
- Rental housing may be multifamily (5+ units) or single family, and while most rental housing is developed as one property, scattered site development is permitted.
- Homeownership is usually single family housing (4 or less units). This may include single family-detached, condominium, co-operative and manufactured housing.



Targeting Low-, Very Low, and Extremely Low-Income Families



Another priority of the Capital Magnet Fund (CMF) is the development of housing that is affordable to families and individuals with Low-, Very Low- or Extremely Low-Income.

Low Income

Families with incomes at or below 80% of the Area Median Income (AMI)

Very Low Income

Families with incomes at or below 50% of the Area Median Income (AMI)

Extremely Low Income

Families with incomes at or below 30% of the Area Median Income (AMI)

**Maximum income for CMF funded housing is 120% of AMI



How is Affordability Met?



For housing assisted through a CMF Award, affordability must be met in several ways:

Income Limits

The maximum income level for residents may not exceed 120% of AMI.

Additional Income Targeting Benchmarks

Further income targeting may be established in the CMF NOFA. For example, the FY 2016 CMF NOFA required that 20% of the rental units in each CMF-financed project must be targeted to Very-Low or Extremely-Low Income Families and at least 20% of CMF-financed homeownership units must be targeted to Low-Income Families.

Dollars

100% of the total Eligible Project Costs (EPCs) must be attributable to units that serve those at incomes of 120% AMI and below. 50% of the EPCs must be attributable to units that serve those at Low-, Very Low- and Extremely Low- Incomes. Eligible Project Costs include the CMF Award dollars plus the Leveraged Costs.

Affordability Requirements (Continued)



In addition to income limits, income targeting benchmarks, and dollars, CMF has additional requirements which include:

Long Term Restrictions

Each Project funded must ensure affordability for at least 10 years. For rental housing, this is accomplished through deed restrictions, land covenants or other mechanisms which survive sale and transfer during the Affordability Period. For Homeownership, the Recipient must develop its own plan for achieving this 10 year affordability in the event of resale.

Rents

While families must meet the income limits at the time of initial occupancy, the rents control affordability. Rents are set using a formula similar to that used for LIHTCs.

Homeownership Cost Limits

The purchase price limits for Homeownership are capped at 95% of the median purchase price for the area as determined by HUD.

Requirements for Rental Housing



- CMF funds may be used to develop, acquire, renovate and preserve affordable, rental housing.
- Rental housing may be Multi-family or Single Family Housing.
- Mixed income development is allowed, with maximum income for CMF-assisted units at 120% AMI.
- Any rental property funded through CMF must retain its affordability for at least 10 years.
- Rents are controlled and must be set at levels affordable to the relevant income level. The rent levels are calculated using the same formula as that used for LIHTCs (found in 26 U.S. Code Section 42).



Requirements for Homeownership



- CMF funding may be used to help individuals and families buy a home, as well as to develop, preserve or rehabilitate homeownership units.
- Down payment loans, first and second mortgages, and other purchase assistance is allowed. In addition, CMF Awards may help support the development and construction of owner-occupied housing.
- Condominiums, cooperatives, mutual housing and manufactured housing all fall under homeownership.
- The purchase price is limited to 95% of the median price in the area, as determined by HUD.
- The property must stay affordable for 10 years. The program also has resale restrictions to ensure that the 10 years of affordability is achieved.

Economic Development Overview



- CMF Awards finance Affordable Housing Activities, as well as related Economic Development Activities (EDA), including the financing of community service facilities.
- Recipients can use no more than 30 percent of their CMF Awards for Economic Development Activities and Community Service Facilities. CMF Awards may only be used for the financing of projects and may not be used as grants or loans to businesses.



Examples of Eligible EDA Activities



Some examples of eligible Economic Development Activities include, but not limited to:

- Day care centers and schools
- Grocery stores
- Health clinics
- Food banks
- Community centers
- Workforce Development Centers



Integrating Economic Development with Affordable Housing



Economic Development Activities must be In Conjunction With Affordable Housing Activities, meaning that EDA must be:

1) Physically proximate:

- For a Metropolitan Area, being located within the same census tract or within 1 mile of the Affordable Housing.
- For Non-Metropolitan Area, being located in the same county or within 10 miles of the Affordable Housing.

AND

2) Benefit residents of Affordable Housing

EDA as Part of a Concerted Strategy



- Economic Development Activities, In Conjunction With Affordable Housing Activities, must implement a Concerted Strategy to stabilize or revitalize a Low-Income Area or Underserved Rural Area.
- Concerted Strategy: Formal planning document that evidences the connection between Affordable Housing Activities and Economic Development Activities.
- These documents include, but are not limited to, a comprehensive, consolidated, or redevelopment plan, or some other local or regional planning document adopted or approved by the jurisdiction.

Preparing to Apply for CMF



1. **Read the CMF Interim Rule** (as amended February 8, 2016; 12 CFR Part 1807)
2. **AMIS:** Applicants will submit most Application materials through the CDFI Fund's Award Management Information System (AMIS). If you don't already have an AMIS account, you can create one at amis.cdfifund.gov. Click the link for "Login" and then select "Join our Community."
3. **Grants.gov:** You will also need to submit certain Application materials through Grants.gov (the SF-424). To do so, you must have an active SAM.gov registration, as well as current and valid DUNS and EIN numbers.
SAM.gov: Apply for or verify you have an active and valid System for Awards Management (SAM) account (www.SAM.gov).
4. **DUNS and EIN Number:** Ensure that the named CMF Applicant has a current and valid Dun and Bradstreet Data Universal Numbering System (DUNS) number and Employer Identification Number (EIN).

Questions?



- Submit a Service Request in the CDFI Fund's Awards Management Information System (AMIS)
- Contact the CDFI Help Desk at (202) 653-0421
- Email cdfihelp@cdfi.treas.gov