GREAT LAKES
Capital Fund

www.capfund.net | Contact us at any of our locations:
877.FOR.GLCF | 877.367.4523

May 5th, 2009

Deputy Director of Policy and Programs
CDFI Fund, U.S. Department of the Treasury

RE: Request for Public Comment, Capital Magnet Fund

Great Lakes Capital Fund is pleased to submit the attached comments for the Capital Magnet Fund program. As way of background information, we are including a brief organizational history in this cover letter to help you understand our role in community development financing.

Michigan Capital Fund was formed in 1993 as a not-for-profit foundation dedicated to improving the neighborhoods and communities in the state of Michigan. Renamed Great Lakes Capital Fund (GLCF) in 2003 after expanding to Indiana, GLCF has grown to an organization with over 50 employees with offices in four states and has invested over $1 billion in communities throughout the Midwest. Most recently, GLCF has expanded to upstate New York. Our mission is to create sustainable communities by supporting the development of quality affordable housing and by supporting community planning, economic development and youth leadership development in revitalization areas.

Capital Fund Services (CFS), a subsidiary of Great Lakes Capital Fund, was established in 2002 to assist housing and economic development entities with the goal of improving the quality of life for low-income individuals and revitalizing distressed area neighborhoods. In 2007, CFS received designation as a CDFI. As a GLCF affiliate, CFS has been able to utilize a preexisting relationship with a socially motivated institutional investor to leverage $15 million of investments throughout the communities we serve. Designation as a CDFI has allowed CFS to expand the following services: a permanent active mortgage program; provide loans ranging from $50,000 to $500,000 to housing and business entities all located in NMTC eligible areas; pre-development lending; and small business lending. CFS has become an increasingly independent of GLCF. Currently, CFS is in the process of securing $2 million of funding through several Michigan based foundations to leverage federal NSP funds to provide loans for city-owned properties. Additional funding opportunities made available by the CDFI Fund will allow CFS to continue expansion of services.

Lansing | Corporate Headquarters
1000 South Washington Avenue
Lansing, Michigan 48910-1647
517.482.8598 fax

Detroit
1906 25th Street
Detroit, Michigan 48216
313.841.3758 fax

Indianapolis
320 North Meridian, Suite 1011
Indianapolis, Indiana 46204
317.423.8855 fax

Madison
16 North Carroll Street, Suite 300
Madison, Wisconsin 53703-2716
608.260.0051 fax

Willowbrook
7223 South Route 83, PMB 227
Willowbrook, Illinois 60527-0000
630.654.3715 fax

Cap Fund New Markets LLC, a subsidiary of GLCF, was established in 2002 as a resource to direct NMTC investments throughout Michigan, Indiana, Wisconsin and Illinois. In April 2009, Cap Fund New Markets submitted a NMTC application, seeking a $125 million allocation. Cap Fund New Markets LLC proposes to use the funds to finance commercial, mixed-use and/or manufacturing real estate projects in our four state Midwest footprint. The NMTC equity will be used to provide equity investments or below-market interest rate loans to projects that would not be financed by conventional lenders without the NMTC incentives. Additionally, 20% of the NMTC fees and 100% of residuals will be used to capitalize a Rural Revolving Loan Fund that will be administered by Capital Fund Services. The loan fund will provide traditional below-market rate gap financing as well as bridge financing for smaller rural commercial developments that do not qualify for NMTC, or are unable to find financing elsewhere.

The ability of the Great Lakes Capital Fund, in partnership with Capital Fund Services and Cap Fund New Markets LLC, to expand and improve our services has been greatly enhanced by the opportunities offered through the CDFI Fund. Please accept our sincerest appreciation for the opportunity to provide you with the enclosed comments regarding the design, implementation and administration of the Capital Magnet Fund. We are excited about the new program and we feel that it addresses a need in the community development financing field. Should you have any further questions regarding these comments, please do not hesitate to contact me to discuss.

Sincerely,

Jerome Sullivan

Jerome Sullivan
Senior Vice President

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Great Lakes Capital Fund
Response to Request for Public Comment

CDFI Fund
Capital Magnet Fund

What definition should the CDFI Fund use to assess what constitutes ''affordable housing?'' What affordability thresholds or restrictions (if any) should the Fund require, and for how long a period should these be in place?

> **In general, the funds from the Capital Magnet Fund will be combined with other sources of federal and local governmental financing, and private financing, all of which have their own affordability requirements. These additional sources will achieve the leverage sought by the CDFI Fund under the Capital Magnet Fund program. However, the combination of different financing sources results in more expensive and complicated transactions when each of those financing sources has its own affordability guidelines. Therefore, we recommend that the restrictions and affordability thresholds should include a minimum term and restriction (i.e. less than 80% AMI for 10 years) OR the restrictions of the other funding sources, whichever is more stringent.**

How should ''primarily'' be defined, as such term is used in Section 1339(c)(l)? What are the appropriate minimum levels of targeting that each project should be required to achieve (e.g., 50 percent of housing units are affordable to low-income persons, 20 percent of housing units are available to extremely low-income persons, etc.)?

> **We recommend that the Fund target a higher percentage of units at a higher target income (i.e. 60% of the housing units would be affordable to families and individuals at or below 60% AMI) and provide <u>additional</u> preference points for restrictions at lower levels.**
>
> **The issue with mandating a target to extremely low-income persons is that most of those persons do not have the capacity to financially contribute to their housing costs, including the maintenance cost of the housing, While the need to house extremely low-income persons is high, it is generally not achievable without combining initial subsidy with on-going financial support to the low-income persons such as HUD Housing Choice Vouchers or project-based Sec. 8 subsidies.**

How should ''preservation'' be defined, as such term is used in Section 1339(c)(1)? Should it include the refinancing of single- or multi-family mortgages as eligible activities?

> **Preservation, is defined by other federal and state agencies as the rehabilitation of existing developments that have current restrictions on tenant income and affordability such as HUD Section 8, 236, and Low**

Income Housing Tax Credits, that are enforced by means of financing agreements and deed restrictions. These developments are most likely the ones that will be financed by the Capital Magnet Fund. We recommend that the Fund adopt the same definition as HUD and other state/federal agencies to maintain consistency.

How should ''rehabilitation'' be defined, as such term is used in Section 1339(c)(1)?

The IRS requires a minimum rehabilitation cost standard for the Low Income Housing Tax Credit Program is $6,000. Many State Housing Finance Agencies require a Capital Needs Assessment of the improvements that will be needed over a 15 year period to determine the cost of rehabilitation rather than establishing a minimum rehab per unit figure. Because Capital Magnet Fund dollars will be leveraged with other federal, state, local and private funds, all of which have their own rehabilitation requirements, we recommend a minimum rehabilitation amount of $6,000 with additional preference points provided for higher investments and for energy efficient design or incorporation of renewable power generation.

Capital Magnet Fund grants may be used to finance economic development activities and/or community service facilities ''in conjunction with affordable housing activities.''

What restrictions (if any) should the CDFI Fund place on the percentage of award dollars that an awardee may apply towards economic development activities and/or community service facilities (e.g., no more than 20 percent of a total award)?

We recommend that the percentage of award dollars that grantees be allowed to apply to economic development activities and/or community service facilities be about 25% - 30% of total grant award. While there is a minimal amount of funding available for these types of facilities, the program's main purpose is improving affordable housing.

Should the CDFI Fund support economic development activities/community service facilities in conjunction with affordable housing activities financed by sources other than Capital Magnet Fund grants (e.g., Low- Income Housing Tax Credits; Hope VI; or private sources) or solely in conjunction with Capital Magnet Fund grants?

Yes, Great Lakes Capital Fund is a strong believer that community development is much more than housing development. Community facilities are important to stabilizing low-income communities and there are not many funding sources available to help build community facilities. Allowing the Capital Magnet Fund grants to support community facilities developed in conjunction with affordable housing activities financed with other funding sources will be very helpful to building healthy communities.

How should the CDFI Fund define ''in conjunction with''? For example, does this mean on the same premises, in a separate property adjoining the premises, contiguous to or within the census tract where the premises is located, or within a certain distance from the premises?

We recommend defining "in conjunction with" in terms of the income of persons served or the percentage of employees residing in the census tract that includes the affordable housing.

How should the CDFI Fund define ''concerted strategy''?

We suggest defining "concerted strategy" as a plan for a specific targeted area that encompasses housing as well as a community services facility. The strategy should provide a description of the housing as well as a relationship between the housing and the community services. The relationship should be fully explained, i.e., the incomes of the persons served by the facility, the number of residents in the housing that will be able to receive services in the facility, and whether residents will be required to pay a fee to participate.

Eligible Grantees

Section 1339(e) of the Act states that Capital Magnet Fund grants may only be made to: (a) A CDFI that has been certified by the CDFI Fund; or (b) a nonprofit organization having as one of its principal purposes the development or management of affordable housing. How should the CDFI Fund define ''principal purpose,'' with respect to determining whether one of an entity's principal purposes is the development or management of affordable housing?

We recommend that "principal purpose" be defined as a minimum of 75% of the activities of a nonprofit organization are devoted to the development or management of affordable housing. Because the grant funds are targeted to attracting private capital for and increase investment in the development, preservation, rehabilitation and purchase of affordable housing it is important to direct the grant funds to experienced organizations. Great Lakes Capital Fund has worked with many nonprofits that have very deserving intentions of developing affordable housing in their service area but because of a lack of experience, the proposed developments have never come to fruition.

Applications

The CDFI Fund welcomes comments pertaining to the content of the application materials, the timing of award rounds, and the application scoring and review protocols particularly with respect to the following questions:

Are there other competitive award programs, Federal or otherwise, upon which the CDFI Fund should model the Capital Magnet Fund's application scoring and review protocols?

Most state housing finance agencies have HOME and CDBG funds that are awarded as grants to nonprofit organizations, with eligible activities similar to those under the Capital Magnet Fund. We suggest contacting several housing agencies for their application and scoring criteria. Great Lakes Capital Fund has relationships with the state HFAs in Michigan, Indiana, Illinois, and Wisconsin, and would be happy to contact them on your behalf.

Should the CDFI Fund divide applicants among different pools so that they compete only among organizations at the same capacity level (similar to the Core and SECA designations for the CDFI Program)?

We recommend that applicants be divided into different pools similar to the Core and SECA designations. This will allow the organizations with affordable housing development experience to compete for larger awards, and the smaller emerging organizations to potentially partner with other experienced organizations.

Should the CDFI Fund accept applications on an annual basis or more often (e.g., twice a year)?

We suggest submitting applications on a yearly basis; however, this depends on the amount of funding per application. Due to the possibility of problems causing project delays, larger grant amounts may be difficult to disburse in one year.

Section 1339(j)(2)(D)(ii) requires ''a prioritization of funding based upon:

1. The ability to use such funds to generate additional investments;
2. Affordable housing need (taking into account the distinct needs of different regions of the country); and
3. Ability to obligate amounts and undertake activities so funded in a timely manner.'' With respect to this particular requirement:

How should the CDFI Fund quantify each of the three priority factors? For each of the three factors, what should applicants be required to present and/or address as part of their application materials?

We recommend prioritizing the criteria as follows:

1. Ability to generate additional investments: since the regulations require a 10:1 leverage, points should be awarded for leverage in excess of the minimum. Applicants should be required to provide letters of commitment of funding (dependent on receipt of CDFI funds) at the time of application.

2. Affordable housing need: use a combination of criteria: unemployment rates, single-family foreclosure rates, and CDBG criteria (% of population in a census tract that is low income). The unemployment rates are usually

available from the state department of labor by city; the foreclosure rates can easily be obtained from realtor and lender websites; and the CDBG eligible census tracts are published on HUD's website.

3. Ability to obligate amounts and undertake activities so funded in a timely manner: we suggest that all funds be disbursed to projects within one year; and 75% of the grant amount obligated at the time of submission of subsequent applications.

Should this prioritization be incorporated into the standard scoring of the application (e.g., by weighting certain questions more heavily) or should there be separate ''priority points'' specific to each of the three criteria?

There should be separate priority points specific to each of the three criteria, with points awarded for each criteria in the order listed above.

Geographic Diversity

The CDFI Fund welcomes comments on issues relating to geographic diversity, particularly with respect to the following questions:

What objective criteria of economic distress should the CDFI Fund adopt?

The objective criteria to determine economic distress should be a combination of unemployment, number of single-family foreclosures, and % of low-income familes in a census tract.

If the percentage of low income families is selected as an objective criterion of economic distress, what it the appropriate minimum level (e.g. census tracts where the median family income is at or below 80% of the applicable area median family income.

We suggest using the CDBG income restrictions which are based on 51% of the census tract being at or below 80% of Area Median Income.

If poverty rate is selected as an objective criterion of economic distress, what is the appropriate minimum level (e.g. census tracts with at least a 20% poverty rate)?

Same as above

If unemployment or underemployment is selected as an objective criterion of economic distress, what is the appropriate minimum level (e.g. census tracts with an unemployment rate of at least 1.5 times the national average)?

We suggest giving a preference to census tracts that have high unemployment, e.g., equal to or above the national average. Additional points could be awarded to census tracts with an unemployment rate 1.25

times the national average to prioritize the areas where the funds are most needed.

If ''blight'' or ''disinvestment'' is selected as an objective criterion of economic distress, how should they be defined?

"Blight" or "disinvestment" are nebulous terms and suggest that they not be used as a criterion of economic distress. However, if they are used, it should be an area so designated by a local unit of government such as a city, township, or county.

Are there additional criteria of distress, other than those specifically listed in Section 1339(h)(2)(B), that the CDFI Fund should consider? For example, is there a measure specific to housing that should be considered (e.g., the ratio of renters to homeowners in a community; percentage of vacant properties in a community; or percentage of substandard properties in a community)?

City-owned property, vacant property and buildings, and substandard properties in a community are good indicators of distress.

Are there special populations facing economic distress or with high housing needs that the Fund should consider? Are there particular measures that should not be used because they may inadvertently disadvantage certain populations? If so, provide examples of particular households or communities that would not qualify under specific definitions.

As discussed earlier, deep targeting of income eligibility generally results in properties that struggle financially Special needs tenants, many of whom have income solely from SSI, and many minority populations have high housing needs, but because of their very low incomes often need rental subsidies to keep rent affordable at 30% of their income.

How should the CDFI Fund define ''rural areas''? For example, is a rural area any census tract that is not located in a metropolitan statistical area (MSA)? Respondents should discuss how a particular definition would enable the program to best ensure funding to people in rural areas, and discuss whether there are particular measures that should not be used because they may inadvertently disadvantage certain populations (i.e., provide examples of particular households or communities that would not qualify under specific definitions).

We recommend using a state based criteria rather than a uniform national criteria. Applicants can define rural based on their state HFA criteria or areas that are designated by Rural Development.

Should the CDFI Fund ensure that, in any given award round, there is a project located in every state? Should the CDFI Fund ''skip over'' otherwise higher rated applicants to ensure that this geographic diversity goal is met?

We believe that the states with the highest need, e.g., 125% of the national unemployment rate should have priority over other states. Depending on the amount of total funding for the program, funding a project in every state could potentially result in awards so small that projects cannot be completed, or do not have an impact. The result may be counter-productive to the intent of the program.

Section 1339(j)(2)(D)(i) of the Act requires that ''funds be fairly distributed to urban, suburban, and rural areas.'' How can the CDFI Fund best achieve this outcome?

What is "Fair"? Because this is a national program, it would be infeasible to allocate certain percentages (set-asides) to urban, suburban, and urban areas. The program is targeted to areas that need investment, and have a need for affordable housing. By scoring applications according to the priority criteria outlined above, funds should be awarded to areas of greatest need, which can be located in urban, suburban, or rural areas.

Leverage of Funds

Section 1339(h)(3) of the Act states: ''Each grant from the Capital Magnet Fund awarded under this section shall be reasonably expected to result in eligible housing, or economic and community development projects that support or sustain an affordable housing project funded by a grant under this section whose aggregate costs total at least 10 times the grant amount.''

What documentation should be required to demonstrate a leveraging ratio of 10:1 of ''total aggregate costs''?

Require letters of financial commitment that may be conditioned upon receipt of Capital Magnet Fund dollars.

How should this 10:1 standard be measured (e.g., on a project-by-project basis for each project funded, or on a collective basis for all projects financed)?

The match should be measured by the applicant providing a 10:1 match for the grant request. Providing a match on a project-by-project basis will be cumbersome and difficult to monitor.

Is there a timing consideration as to when the CDFI Fund should release its award dollars (e.g., not until all other sources of financing have been secured)?

The CDFI Fund disburses other program funds up-front after the funding agreement is fully executed. We suggest that funds be released in the same manner for the Capital Magnet Fund. This allows the grantee to have working capital to get the project started while indicating to other funders that the match dollars are available prior to their investment.

This will eliminate the problem of "who goes first?", or which funder will be the first to release funds.

Commitment for Use Deadline

Section 1339(h)(4) of the Act states: ''Amounts made available for grants under this section shall be committed for use within 2 years of the date of such allocation.'' The CDFJ Fund welcomes comments regarding how the term ''committed'' should be defined, and how it can be verified, for the purposes of this requirement.

A legally binding commitment showing terms of investment, signed by the investor and accepted by the grantee.

Prohibited Uses

Section 1339(h)(5)-(6) of the act lists prohibited uses with respect to grants awarded under this program.

Are there any additional prohibitions for limitations that should be applied? For example, there are not stated limitations regarding the portions of Capital Magnet Fund grants that may be retained by the awardee to cover operating costs. Should the CDFI Fund permit a set portion of awards to cover operating costs? If so, what percentage of the funds should be allowed? Should awardees be restricted in the level of fees they charge to sub recipients/end users?

We recommend that 15% of the total award be allowed for operating costs. Costs allowed for operating costs should be limited to the costs incurred by the grantee for operating the program. Eligible operating costs should not include any project costs.

Accountability of Recipients and Grantees

Section 1339(h)(8) of the Act provides for accountability standards with respect to tracking the use of award dollars, as well as remedies in the event that an awardee misuses funds. The CDFI Fund welcomes comments on how to administer awards and monitor the deployment of funds awarded under the Capital Magnet Fund, particularly with respect to the following questions:

What documentation should be required to demonstrate that funds awarded under the Capital Magnet Fund have been committed?

A legally binding commitment showing terms of investment, signed by the investor and accepted by the grantee.

What types of documentation should be required to demonstrate completion of projects?

The local jurisdiction's Certificate of Completion, Certificate of Substantial Completion, or Certificates of Occupancy are standard documents acceptable to funding entities to show project completion.

What types of documentation should be required to demonstrate satisfaction of the affordability requirement related to housing developed, preserved, rehabilitated, or purchased with the support of Capital Magnet Fund awards?

Where possible, use the documentation required by other funding sources for the project, such as the locality, housing agency, HUD, or other funders.

What support, if any, would applicants and awardees like to see from the CDFI Fund at the post-award stage?

We suggest the ability to fund energy/resource use analysis prior to finalization of contracts (earlier the better, so that the expense of adopting recommended changes is not too great). If energy model/water use model/water run-off studies are done and paid for prior to the CDFI award, we would like to see them as eligible reimbursable costs because they will make the long-term affordability much stronger and the long-term environmental impact much less.

What specific industry standards for impact measures (units produced, percentage of units affordable to low-income persons; time to complete; etc.) should the CDFI Fund adopt for evaluating and monitoring projects funded under the Capital Magnet Fund?

- **Measure of environmental impact: Energy use at 15% below that required under the International Energy Efficiency Code or water usage at 20% less than water-use model for this type of development**
- **Affordability measurement - # of units at or below 30% AMI, 50% AMI, 60% AMI, 80% AMI**
- **Cost per unit – reasonableness of costs – these should be defined at a state/local level if possible e.g., reasonableness standards established by the state HFA**
- **Number of units produced**
- **Length of time between receipt of award and occupancy of units**

General Comments

The Fund is interested in comments regarding the types of affordable housing projects or activities for which applicants anticipate applying under the Capital Magnet Fund. Please detail the specific activity (development, preservation, rehabilitation, purchase, etc.), the populations served by this activity, the applicant's role in the activity, the sources of finance used to complete each activity, and the preferred time frame of grants received under the Capital Magnet Fund.

> **We recommend the incorporation of renewable energy technologies that create affordable heat and/or electricity power to affordable housing projects as eligible uses.**