Housing Assistance Council
1025 Vermont Ave., N.W., Suite 606, Washington, DC 20005, Tel.: 202-842-8600, Fax: 202-347-3441, E-Mail: hac@ruralhome.org
www.ruralhome.org

May 5, 2009

Deputy Director of Policy and Programs
CDFI Fund
U.S. Department of the Treasury
601 13th St., N.W.
Suite 200 South
Washington, DC 20005

Re: Capital Magnet Fund

Dear Sir or Madam:

Thank you for the opportunity to comment on the design, implementation, and administration of the Capital Magnet Fund.

The comments of the Housing Assistance Council (HAC) focus largely on the questions related to the geographic diversity of Capital Magnet Fund activities. HAC is a Community Development Financial Institution (CDFI) and intermediary, established 38 years ago to provide financing, information, and technical services to nonprofit, for-profit, public, and other providers of rural housing. Created to meet the housing needs of the poorest of the poor in the most rural places, HAC fulfills its mission by working in close partnership with local organizations in rural communities throughout the nation. These relationships provide us with first-hand knowledge of issues impacting rural areas.

Geographic Diversity

Defining Rural

The CDFI Fund asks how to define rural for the Capital Magnet Fund. Government agencies and private sector organizations, including HAC, use a variety of definitions of rural. Based on its own research analyzing several of the definitions most commonly used in relation to the provision of affordable housing for rural areas,[1] HAC recommends that the Capital Magnet Fund target rural areas by incorporating the definition of rural utilized by the U.S. Department of Agriculture (USDA)'s Rural Development (RD) arm for its rural housing programs. RD's "eligible areas" definition is inclusive, geographically detailed, and familiar to rural housing practitioners working in local communities.

---

[1] *What is "Rural"? Working Towards a Better Programmatic Definition* (Washington, DC: Housing Assistance Council, 2008).

> As used in this subchapter, the terms "rural" and "rural area" mean any open country, or any place, town, village, or city which is not (except in the cases of Pajaro, in the State of California, and Guadalupe, in the State of Arizona) part of or associated with an urban area and which
> (1) has a population not in excess of 2,500 inhabitants, or
> (2) has a population in excess of 2,500 but not in excess of 10,000 if it is rural in character, or
> (3) has a population in excess of 10,000 but not in excess of 20,000, and
>> (A) is not contained within a standard metropolitan statistical area, and
>> (B) has a serious lack of mortgage credit for lower and moderate-income families, as determined by the Secretary and the Secretary of Housing and Urban Development. For purposes of this subchapter, any area classified as "rural" or a "rural area" prior to October 1, 1990, and determined not to be "rural" or a "rural area" as a result of data received from or after the 1990 or 2000 decennial census shall continue to be so classified until the receipt of data from the decennial census in the year 2010, if such area has a population in excess of 10,000 but not in excess of 25,000, is rural in character, and has a serious lack of mortgage credit for lower and moderate-income families. . . .
> 42 U.S.C. §1490.

HAC does not recommend using the Office of Management and Budget (OMB) designation of places that are "Outside Metropolitan Statistical Areas" (nonmetropolitan) to identify rural areas for this program. OMB's definition has become a much less reliable indicator of rural character than it was in the past. Because metro and nonmetro areas are drawn along county lines even when parts of a county have very different characteristics, and because OMB has placed additional emphasis on commuting patterns, these categories are not (and are not intended to be) a careful delineation of rurality. More people live in communities under 2,500 (the Census Bureau's definition of rural) within OMB-classified metropolitan areas than in nonmetropolitan areas.

There is no perfect definition of rural. All the major definitions of rural have both pros and cons associated with their methodologies and practical applications. On balance, HAC believes the USDA Rural Development definition is the most inclusive and precise measure of rural character among the major definitions that are commonly utilized.

Special Populations with High Needs

The CDFI Fund asks whether there are special populations facing economic distress or with high housing needs. In rural America, poverty and substandard housing are particularly pervasive in Central Appalachia, the Lower Mississippi Delta, the Black Belt across the Southeast, the colonias along the U.S.-Mexico border, and Native American lands, and among migrant and seasonal farmworkers. These rural areas and populations have experienced decades of poor social and economic conditions. Many of the conditions in these high need areas originate from historical patterns of exploitation, including unsustainable use of land and natural resources and a lack of capital investment. These systemic problems have been further exacerbated by decades of neglect and continued disinvestment, which produce a cycle of poverty that is extremely hard to break.

This high and persistent poverty is the most notable characteristic shared by these areas. They can be identified using the designation of Persistently Poor Counties developed by USDA's

Economic Research Service (ERS). Persistently poor counties are those (urban and rural) with poverty rates of 20 percent or higher in 1970, 1980, 1990, and 2000.

ERS has also developed a Housing Stress classification for counties. This category includes many urban areas and some that currently have high poverty rates but are not persistently poor. HAC suggests the Fund target assistance to places that are either persistently poor or have housing stress, as designated by ERS.[2]

Additional Criteria of Distress

The Fund asks whether it should consider additional criteria of distress. HAC believes two of the suggested indicators are not appropriate. First, targeting based on "the ratio of renters to homeowners in a community" would assume that homeowners do not have housing problems, and that renting is itself a housing problem. Neither of those assumptions is true. For example, Charlottesville, Virginia, a university town with a noticeable student population, has a 46 percent homeownership rate, compared to 67 percent nationwide. In contrast, Lee County, Virginia, a persistent poverty county in the Appalachian Mountains with a 24 percent poverty rate, has a 71 percent homeownership rate. In fact, rural areas as a whole have higher homeownership rates than the national rate, but homeowners in places like Lee County may experience affordability or quality problems.

Second, a high "percentage of vacant properties in a community" does not indicate whether the vacant units are available for rent or purchase, are in livable condition, are affordable to local residents needing housing, or meet the needs of local residents related to accessibility, number of bedrooms, or the like. A low vacancy rate may indicate either a stable, settled community or an area with inadequate housing stock.

Eligible Grantees

The Fund asks how to define the types of nonprofit organizations eligible to apply for Capital Magnet Fund resources. HAC suggests that certain categories of nonprofit organizations should be made automatically eligible, such as those certified as Community Housing Development Organizations (CHDOs) under HUD's HOME Investment Partnerships Program, and those receiving grants under USDA's Section 523 self-help technical assistance program.

HAC believes that applicants should not be required to have extensive track records. There may be few or no nonprofit housing organizations with track records in a particular location – this is the case in some remote rural areas with high housing needs – so new organizations should not be shut out of the program. They should be required to show only that they have staff or consultants with the necessary expertise.

---

[2] More information, including lists of counties in each category, is available at
http://www.ers.usda.gov/Briefing/Rurality/Typology/

The Housing Assistance Council looks forward to implementation of the Capital Magnet Fund, a potentially important source of financing for addressing housing needs developing as a result of our nation's current economic crisis as well as those that predated it.

Sincerely,

Moises Loza
Executive Director