Capital Magnet Fund Policy Recommendations

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Capital Magnet Fund Policy Options Memo for the Homeownership Alliance

The Capital Magnet Fund was created in 2008 to be a source of flexible capital for affordable housing developers and community development financial institutions (CDFI) to leverage with other funds. It is funded by a fee on new business generated by two Government Sponsored Enterprises (GSEs), Fannie Mae and Freddie Mac, which went into receivership right after the legislation was enacted. There was one round of Capital Magnet Fund (CMF) awards in 2010 funded by appropriations through the Recovery Act, but beginning in 2016 when the GSEs had returned to profitability, there have been awards made every year. To date, CMF has helped develop over 77,000 rental homes and has created over 9,000 new homeowners. In the latest round of CMF grants, the awards are projected to create 20,700 affordable rental units and create 1,700 new homeowners. Approximately 90% of CMF funds benefit rental projects with 10% benefiting homeownership.

CMF funds can be used to provide loan loss reserves, capitalize revolving loan funds or affordable housing funds, to provide risk-sharing loans or loan guarantees, or to capitalize a fund to support economic development or community service facilities. Organizations that receive these funds must leverage them at least 10:1 with funds from other sources, and grantees frequently exceed the 10:1 requirement. To date, for every CMF dollar awarded, there has been $31 in other capital invested, well above the statutory requirement.

CMF funds can be used for affordable rental housing or for homeownership with preference for projects that serve lower income residents. In the latest round of CMF grants, 100% of the homeownership units were for families with incomes less than 80% of the Area Median Income (AMI). CMF grants are awarded by a competitive process administered by the CDFI Fund, and every funding round has been oversubscribed.

The Homeownership Gap Is a Key Driver of America's Wealth Gap

America's growing racial wealth gap and homeownership gap are well documented. According to Federal Reserve's Survey of Consumer Finances (Sept. 2020) the median wealth of White households is $188,200 compared to only $24,100 for Black households and $36,200 for Hispanic households. And according to the Urban Institute, while 68% of White households own their own home, only 42% of Black households and 46% of Hispanic households are homeowners. The correlation between the racial wealth gap and the homeownership gap is also well understood and is receiving more and more attention from researchers, policy makers, and local communities. A 2015 report released by Brandeis University's Institute for Assets & Social Policy and the public policy organization, Demos, shows that the homeownership gap is the most significant driver of the racial wealth gap, more significant than unequal incomes and access to higher education.

There are several ways the homeownership gap drives the wealth gap. The first driver is simply the gap in homeownership rate itself. Because homeowners typically have equity in their homes, they have more wealth than renters. According to Federal Reserve's Survey cited above, the median wealth of a homeowner is $255,000, over 40 times that of a renter's net worth of only $6,300.

The second driver is how early in one's life someone purchases a home. According to the Brandies report cited above,

> [T]he number of years a household owned their home explained 27 percent of the growing racial wealth gap. Because White families are more likely to receive inheritances and other family assistance to put a down payment on a home, they are often able to start acquiring home equity many years earlier than Black and Latino families, offering a valuable head start on wealth-building.

The third driver cited in the study is that the homes owned by Black and Hispanic households do not deliver the same 'wealth returns' to their owners compared to the 'wealth returns' White homeowners gain. Much of this discrepancy is explained by the conditions of the neighborhoods where Black and Latino own homes.

> While redlining was officially outlawed by the Fair Housing Act of 1968, its impact in the form of residential segregation patterns persists with households of color more likely to live in neighborhoods characterized by higher poverty rates, lower home values, and a declining infrastructure compared to neighborhoods inhabited predominantly by white residents.

If America is going to make progress in closing its racial wealth gap, it must close its homeownership gap. And in closing the homeownership gap, we not only have to help more people of color purchase homes, but purchase homes earlier in their lives and in neighborhoods of their choice.

Using CMF to Help Close the Homeowership Gap

The Capital Magnet Fund and the Affordable Housing Trust Fund (AHTF) were created by legislation that added a fee generated by the new mortgage business of Fannie Mae and Freddie Mac. Of the total fees generated, 65% of the revenue is allocated to the AHTF and 35% to the CMF. Nearly 100% of AHTF funding is restricted to supporting low-income rental housing and is distributed by HUD to the states (although states are allowed to use a maximum of 10% of their allocation for homeownership, requirements for income targeting and affordability make it unlikely that AHTF funding will be used for homeownership). The other 35% of the fees generated from GSE mortgage activity that goes to CMF can be used for rental or ownership housing, but in the last three funding rounds only about 10% of the units CMF has funded have been for homeownership. From a total pot of money that has been generated for GSE homeownership mortgage activity for AHTF and CMF, only about 4% of that funding is being used to help close the homeownership gap.

There is already such a dearth of resources for homeownership activities that to have CMF, a program funded by fees on homeownership transactions, be so skewed against homeownership seems really inappropriate. We encourage the CDFI Fund to explore ways CMF can be deployed to more effectively help low-income households and disinvested neighborhoods benefit from homeownership. Below are some of the reasons that may be hindering CMF from more effectively addressing homeownership as well as some suggestions on how these barriers might be mitigated.

Application Priorities/Scoring

Under Part 2, Community Impact, the CDFI Fund should consider giving extra weight to applications that help beneficiaries accumulate assets and close the wealth gap. This would favor homeownership applications but would also favor rental projects that incorporate Family Financial Security type programs, matched savings accounts, and homebuyer education programs targeted to project tenants.

The current scoring system can put affordable housing and revitalization goals at odds with each other. Part 2 of the application, Community Impact, states that:

> The Applicant will also score more favorably to the extent that it: commits to producing a higher percentage and/or number of rental housing units targeted to Very Low-Income Families (if proposing to use CMF for rental housing); commits to producing a higher percentage and/or number of Homeownership units targeted to Low-Income Families (if proposing to use CMF for Homeownership);… and commits to producing a higher percentage of units in Areas of Economic Distress.

The effect of this language is that it favors applications that maximize both the percentage and/or number of Very Low-Income Families (in the case of rental) or Low-Income Families (in the case of homeownership) and these housing units are located in Areas of Economic Distress. The unintended consequence of this language is that it encourages the further concentration of the poor in Areas of Economic Distress and discourages the creation of housing options in 'opportunity neighborhoods'. Most people would agree that increasing the income mix in Areas of Economic Distress is conducive to revitalizing disinvested neighborhoods and that providing more Very Low-Income and Low-Income housing in 'opportunity neighborhoods' is conducive to increasing the upward mobility of the poor. The current language favors applications that put Very Low- and Low-Income housing in Areas of Economic Distress. It would be good to find a way that allowed for higher-income families (up to the allowed 120% AMI under CMF rules) to access housing in Areas of Economic Distress and for lower-income families to access housing in neighborhoods that do not suffer from economic distress.

One idea on how to address this issue would be to award points based upon the combined percentage of housing units targeted to Very Low-Income or Low-Income families plus the percentage targeted to Areas of Economic Distress, not to exceed a total of 100%. For example, a homeownership application that targeted 70% of its beneficiaries to Low-Income Families and 30% of its activity to Areas of Economic Distress would have a total score of 100%. An application with a 70%/20% split would score 90% and an application with a 90%/30% spilt would score the maximum score of 100%. Under this scenario there would be no incentive to maximize housing units for both Low-Income Families and in Areas of Economic Distress. It would allow for lower-income families to access housing outside of Areas of Economic Distress and attract higher-income families to Areas of Economic Distress.

Homeownership Price Limits

The CDFI Fund adopted home price limits of the HOME program which cap the price of homes that can be purchased with CMF assistance at 95% of the median price of homes in a given market. In other words, CMF funds are prohibited from being used on over 50% of the homes available in a given area. Given the fact that the most important factor in determining the value of a home is its location, the price limit requirement effectively disallows the use of CMF for homeownership in better-off areas and pushes buyers into lower-income, more disinvested neighborhoods. This outcome is contrary to the goal of helping lower-income households obtain housing in what HUD calls 'opportunity neighborhoods'.

While it is true that available down payment assistance will not enable a lower-income household to buy any home on the market (some home prices are too high for the subsidy to close the gap), the price limit does eliminate many home choices the household can afford. For example, of the homebuyers Homewise assisted last year in Albuquerque under a down payment program that did not have a home price limit, 24% of them purchased homes that would not have been allowed if the home price limits were in place. All of the buyers were below 80% of the Area Median Income.

The stated objective of the home price limit policy is to ensure the subsidies are only used to purchase 'modest' homes but in reality it is a form of modern day redlining. Because the main driver of home value is its location, what the limit actually does is require families to purchase in a less than average neighborhood, which can often mean a disinvested neighborhood with less opportunity for upward mobility. The policy reinforces economic segregation that plays a role in the racial disparities of homeownership. It's a policy that says "we will help you buy a home….but only in the worst half of all homes/neighborhoods."

If one of the goals of the price limit is to prevent excessive subsidy per homebuyer assisted, the CMF leverage requirement already addresses that issue. Because CMF requires a minimum of a 10-to-1 match of CMF funds, no more than 10% of a homeownership program or project can be funded by CMF. The CMF Assistance Agreement requires grantees to use a specific amount of CMF funds to serve a specific number of new homebuyers. In Homewise's current grant, the subsidy per buyer must average $13,000 or it won't meet the number of homebuyers required to be assisted. While some buyers might get more and some less, there has to be a prudent use of CMF funds in order to be in compliance with the Assistance Agreement.

Homewise is a New Mexico based nonprofit organization that helps people achieve financial stability through affordable and sustainable homeownership. We offer a comprehensive suite of homeownership services that includes financial education and coaching, real estate services, affordable mortgage lending and down payment assistance, loan servicing, refinance and home improvement lending.