

May 2, 2017

Annie Donovan
Director, CDFI Fund
Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

Dear Director Donovan,

The undersigned organizations appreciate the work that was done by you and your team to re-start the Capital Magnet Fund (CMF) program in 2016. It is clear that a great amount of thought and effort went into the implementation and selection process, and we are generally pleased with the regulations, application materials, and award agreements. And as awardees or organizations that represent awardees, we are committed to ensuring the best and highest use of programmatic award dollars.

That being said, there are two areas of concern we all share with respect to the 2016 round that we wanted to bring to your attention.

Recent Changes in Market Conditions:

Broadly, we are concerned that the current uncertainty in the Low Income Tax Credit (LIHTC) market caused by discussions of tax reform in Congress is impacting the timing of deals and deployment of capital for many CMF recipients. The sudden shift in pricing and demand for LIHTC deals was not foreseeable when we submitted our applications last year and no one knows how long this unrest will continue. We are monitoring the situation and considering solutions to ensure that all of our CMF funds are deployed in an effective and efficient manner. We do not have a specific recommendation on how to address this at this time, but wanted to make sure you are aware of this unexpected change and request that we keep the lines of communication open to discuss alternative deployment strategies for affected CMF awardees should the changes in the tax credit market persist.

Requirements Relating to the Reinvestment of Program Income.

Our second area of concern involves the requirements relating to the reinvestment of CMF program income, as provided for in Section 3.8 of the award agreement. As you are aware, this provision of the award agreement requires that:

- 1) with limited exceptions, any program income earned in the form of equity or principal repayments of the CMF award during the first four years of the award agreement must be reinvested in other eligible affordable housing activities, and to a limited

extent in economic development activities (unless a recipient has already used 30% of its CMF award for economic development activities);

- 2) the reinvested proceeds must be invested in activities that also meet each of the specific requirements specified in Section 3.2 of the award agreement (e.g., with respect to targeting low, very low, and extremely low income families; serving areas of high housing need; serving rural communities; and achieving minimal levels of private sector leveraging); and
- 3) projects funded with the reinvested program income must satisfy affordability requirements for an additional 10 years after such projects are placed in service.

We have no objections with item #1 above. We appreciate the flexibility that the CMF award dollars offer, and recognize that with this flexibility, there is also an obligation to ensure that returned funds flow to additional eligible housing or economic development activities. This is consistent with the leveraging concepts inherent in the CMF statute, and also with other Federal community development programs.

However, we believe that, in instances where the awardee has already satisfied through its initial investments the requirements contained in the assistance agreements, the obligations imposed through items #2 and #3 above are not only unnecessary from a programmatic standpoint, but:

- are excessive in their scope when compared with other CDFI Fund programs, as well as with community development programs at other Federal agencies;
- may unduly heighten incidences of non-compliance, since the awardee will be: (1) required to line up the perfect mix of projects (with respect to geography, income targeting, leveraging, etc.) in a compressed reinvestment period, and (2) subjected to an extended compliance period of ten years beyond the placed in service date of the newly financed projects, which could in theory extend the life of the award agreement by an additional nine years; and
- may cause awardees to modify investment behavior in a non-productive manner in order to minimize risks of non-compliance (e.g., by artificially lengthening the term of initial investments; or by selecting projects based on readiness more than subsidy need).

The compliance concerns for many awardees extend beyond the CMF program. Many CMF awardees are CDFIs that are also applicants for Financial and Technical Assistance awards, NMTC allocations, and CDFI Bond Guarantee financing. Because non-compliance in any one CDFI Fund award program can disqualify an applicant from receiving funding under another program, it is quite possible that an issue as simple as the timing of a CMF reinvestment could prevent a CDFI from receiving other awards from the CDFI Fund.

For these reasons, and only for organizations that have satisfied all of the provisions of their award agreement through their initial CMF investments, we are recommending that the CDFI

Fund amend the program income requirements in the award agreements such that the awardee shall only be required to reinvest program income in projects that qualified as eligible affordable housing or economic development projects at the time of investment. We believe that this will sufficiently ensure that CMF award dollars are continually used to satisfy programmatic objectives throughout the five year award period, while not subjecting awardees to unreasonable compliance burdens and a heightened risk of noncompliance. We would respectfully ask that this policy be reflected in the FY 2017 award agreements, as well as applied retroactively through blanket amendments to the FY 2016 award agreements.

Thank you very much for your consideration on both of these issues. We look forward to working with you in the hopes that we can address these areas of concern. Please contact Matt Josephs with LISC (mjosephs@lisc.org) or Shannon Ross with the Housing Partnership Network (ross@housingpartnership.net) if you have any additional questions.

Sincerely,

Atlanta Neighborhood Development Partnership, Inc.
Boston Community Capital
CDFI Coalition
Century Housing Corporation
Cinnaire
Community Investment Corporation
Disability Opportunity Fund
Enterprise Community Loan Fund
Forward Community Investments
Genesis LA
Housing Partnership Network
Local Initiatives Support Corporation (LISC)
Low Income Investment Fund (LIIF)
Massachusetts Housing Investment Corporation (MHIC)
Mercy Loan Fund
New Hampshire Community Loan Fund
Ohio Capital Finance Corporation
Reinvestment Fund
Rural Community Assistance Corporation (RCAC)
The Community Builders
The Community Development Trust
Volunteers of America

cc: Marcia Sigal, Program Manager
Jeff Merkowitz, Senior Advisor