

To: Deputy Director of Policy and Programs, CDFI Funds

From: Maryland Department of Housing and Community Development

Date: May 5, 2009

RE: CDFI: Capital Magnet Fund: Request for Public Comment

The Maryland Department of Housing and Community Development offers the following comments concerning the Capital Magnet Fund (the Fund) authorized through Section 1131(b) of the Housing and Economic Recovery Act of 2008 (HERA). Thank you for the opportunity to comment.

The Capital Magnet Fund provides a valuable vehicle for increasing affordable housing opportunities for extremely low and low income households – often households with disabilities and special needs. As we read the statute, the Fund has two purposes: (1) increasing housing opportunities for the very poor; and (2) economic development activities in low-income or underserved rural areas if the economic development is done in conjunction with affordable housing. We strongly recommend that the Fund not direct most of its housing activities to distressed geographic areas – instead we recommend increasing housing opportunities in areas with strong job markets and other indicators of health including strong school systems.

In our view, the Fund should be restricted to providing housing for households at or below 50% of the area median income and rental housing should be the primary housing supported by the Fund. We recommend that 75% of the Fund's resources be directed to rental housing, with at least 50% of the rental housing resources directed to areas with strong economic indicators. The remaining 25% of funding for rental housing could be directed to areas of low-income or to underserved rural areas to be developed or preserved in conjunction with economic development activities for the area. We recommend that no more than 25% of the Fund's resources be directed to economic development or homeownership opportunities.

Further, Treasury should facilitate the marrying of Capital Magnet funds with other existing affordable housing resources, particularly the Federal Low Income Housing Tax Credit (LIHTC) Program. Thus, the Fund should be structured so that compliance with LIHTC requirements satisfies the regulatory requirements for use of the Fund's resources with the exception that the amount of Capital Magnet Funding must be used for the development costs attributable to the units restricted for occupancy to households with incomes at or below 50% AMI. We would also recommend that Capital Magnet funds for rental housing be provided as recoverable grants – no repayment required unless the property ceases to meet the intended purpose – serving households at 50% AMI.

To the extent Capital Magnet Funding is used independently of other affordable housing resources, rent and income restrictions should be comparable to those required by the LIHTC program or other federal or State affordable housing programs. In our view,

Capital Magnet Funds should not be used to cover the development costs for any housing unit serving an income above 50% AMI. There are a number of other sources available to finance housing for households above 50% AMI. What is needed are additional resources to lower rents to levels affordable to households at or below 50% AMI. Additionally, the loan loss reserves allowed under the statute should include project-specific operating deficit reserves that will be needed to ensure that the property can meet the operating costs for the units while charging a rent affordable to households at or below 50% AMI.

The term “preservation” as used in Section 1339(c)(1) should be defined to cover all existing rental housing properties, including those properties already receiving public capital and/or operating subsidies (assisted housing) as well as rental housing properties without existing restrictions (unassisted housing) that will add affordability restrictions to all or a portion of its units as a condition for receiving Capital Magnet fund assistance.

Finally, in making awards of Capital Magnet Funds to eligible applicants (CDFIs and nonprofits whose principal purpose is the development or management of affordable housing), we recommend that incentives be given to eligible applicants who partner or can demonstrate strong working relationships with State Housing Finance Agencies or Housing Credit Agencies. Such partnerships will ensure that the Fund is utilized in a cohesive strategy that will ensure an appropriate leverage of public and private funding to achieve the ultimate purpose of the Fund – increased affordable and sustainable housing opportunities for households with extremely limited means. Incentives should also be provided to eligible applicants who forge strong partnerships with public housing authorities and demonstrate the competency to assist public housing authorities in preserving the quality and sustainability of their existing portfolio of public housing units.

We hope these comments are of assistance to you as you implement the Capital Magnet Fund.