



FY 2023 Capital Magnet Fund Outreach Presentation

Module 3: Attracting Capital Through the Capital Magnet Fund

COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND

www.cdfifund.gov

Eligible Activities Supported by CMF



CMF Awards are used to finance and support Affordable Housing Activities and/or Economic Development Activities through the following eligible activities:

- To capitalize Loan Loss Reserves;
- To capitalize a Revolving Loan Fund;
- To capitalize an Affordable Housing Fund;
- To capitalize a fund to support Economic Development Activities;
- For make Risk-Sharing Loans;
- To provide Loan Guarantees; and
- For Direct Administrative Expenses (no more than 5%).

Source: CMF Interim Rule (as amended February 8, 2016; 12 CFR Part 1807).

How Capital Magnet Fund Attracts Capital



- The Capital Magnet Fund (CMF) provides grants to organizations to generate additional investment in affordable housing and economic development.
- CMF Awards are made to Community Development Financial Institutions (CDFI) and eligible Nonprofit Housing Organizations.
- Each CMF Award must result in Eligible Project Costs (CMF Award dollars plus Leveraged Costs) in an amount that equals at least 10 times the amount of the CMF Award.

Leveraging Capital



- In community development finance, the term “leverage” means the ability to attract capital from other sources to maximize public resources.
- CMF Recipients are required to leverage their CMF Award at a ratio of least ten to one. For example, an Award of \$5 million must generate at least \$50 million in Eligible Project Costs.
- Sources of capital leveraged by the CMF Award may be loans from banks, program-related investments from foundations, Low Income Housing Tax Credits (LIHTCs) investment, funds contributed by the Recipient, state or local governments, or any number of other private or public sources.
- The combination of the CMF Award and the Leveraged Costs make up Eligible Project Costs for the CMF Program.

Types of Leverage:

Enterprise Level Leverage



Enterprise Level: Capital earned, borrowed, or raised by the Applicant, which is designated for the Applicant's use and ultimately used to pay for Leveraged Costs, but is not initially restricted for use for specific properties at the time it is earned, borrowed, or raised.

- **Private Leverage:** Capital raised from private sources which is invested in or loaned to the Applicant and allocated to a CMF-related housing fund or similar financing activity. Examples include loans from financial institutions, program-related investments (PRI) from foundations, retained earnings, or equity.
- **Public Leverage:** Grants, loans, or other investments to the Applicant from state, local, or other federal government programs, which is loaned or contributed to a CMF-related housing fund or similar financing activity.

Types of Leverage:

Reinvestment Leverage



Reinvestment: Redeploying repaid CMF Award dollars and/or Enterprise Level capital redeployed into Projects that achieve Project Completion during the 5-year Investment Period.

- Recipients are required to reinvest any principal/equity repayments of CMF Award dollars into eligible activities during the five-year Investment Period.



Types of Capital: Project-Level



Project-Level Leverage: Capital used to pay Leveraged Costs that is restricted to a specific project when it is raised. Project-Level leverage can, among other things, include mortgages secured by the property, proceeds from the sale of bonds, equity investment raised through LIHTC, deferred developer fees, loans and grants from local and state government made directly to a specific project. Project-Level leverage does not include Enterprise-Level Capital or Reinvestments.

Private Investment: Capital raised from third party sources which is invested in or loaned to a specific project. This could include loans from financial institutions, secured by the real estate and investments through the sale of LIHTCs.

Public Investment: Grants, loans or other investments for a specific project from state, local or other federal government programs.

Creative Ways to Use CMF



There are many diverse ways to use a CMF Award, including the following examples:

- Many Recipients set up loan funds that may be used for predevelopment funding, construction loans, bridge financing or permanent debt.
- Some Recipients blend the CMF Award with a larger financing pool, bringing down the overall interest rate to borrowers.
- Others use the CMF Award as a Loan Loss Reserve or subordinate gap financing to reduce the risk to private investors.
- Some provide down payment and closing cost assistance to first-time home buyers.

Questions?



- Submit a Service Request in the CDFI Fund's Awards Management Information System (AMIS) - *This method is strongly preferred and ensures the fastest routing.*
- E-mail cmf@cdfi.treas.gov
- Contact the CDFI Fund Help Desk at: (202) 653-0421; Option 6
- Current data sets may be found at: <https://www.cdfifund.gov/programs-training/programs/cmf/apply-step>