



Sept. 5, 2023

Mr. Andrew Schlack
Program Manager
Capital Magnet Fund
Community Development Financial Institutions Fund
Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

RE: Capital Magnet Fund Notice and Request for Information

Dear Mr. Schlack:

The Low Income Investment Fund (LIIF) recognizes The Department of the Treasury's Community Development Financial Institutions Fund (CDFI Fund) for its ongoing commitment to administering and improving the Capital Magnet Fund (CMF). The CDFI Fund's latest Request for Information (RFI) will help to enhance and increase the impact of CMF, streamline or minimize the administrative burden on CMF Applicants and Award Recipients, as well as safeguard public funds. As a national CDFI – and a CMF applicant and awardee – we appreciate the opportunity to share insights that will help to strengthen the program.

An S&P-rated organization, LIIF funds healthy communities by providing innovative capital solutions. Since 1984, LIIF has deployed more than \$3.2 billion to serve more than 2.5 million people in communities across the country from its five offices in San Francisco, Los Angeles, New York City, Washington, D.C. and Atlanta. As a leading CDFI, lending is our primary engine of impact for building communities of opportunity, equity and well-being. We have received recognition for our leadership and being in the vanguard of innovative approaches to raising, structuring and deploying capital, with \$292 million in annual lending. LIIF relies on programs such as the CMF program to accomplish this impactful work and has a deep history supporting the program. Our former CEO and President, Nancy Andrews, was a thought leader in the industry who shaped capital programs for CDFIs. Her work greatly influenced federal policy, including the creation of CMF.

LIIF recognizes the CMF program as an important vehicle for ensuring all communities have access to the financial resources that advance affordable housing and economic development activities. The CDFI Fund's efforts are particularly essential to attracting capital to communities that face economic distress and historical underinvestment. We believe the CDFI Fund's approach to improving financing solutions will help address the barriers to equitable economic development opportunities. Specifically, we recognize the CDFI Fund's longstanding commitment to improving the CMF program's administration. To that end, we appreciate the opportunity to share our feedback on the current RFI to help inform CMF program revisions.

The CMF program centers on the development of VLI units and leveraging of private capital, with the goal of improving CMF Recipients' capacity and ability to reach communities that have historically been underserved. However, LIIF often encounters challenges when crafting an application due to the need to make commitments that are strong enough to win an award, but do not overburden the deployment team if awarded. LIIF offers the following recommendations to improve the CMF program and strengthen our collective economic impact. Specifically, we highlight how changes related to section A (Facilitate CMF Alignment with Other Federal Affordable Housing) and Section B (CMF Commitment Deadline) of the



RFI will improve economic development efforts in all communities. In addition to the recommendations listed below, we support the recommendations of the Capital Magnet Fund Coalition.

A. Facilitate CMF Alignment with Other Federal Affordable Housing

VLI Unit Ratios

The most appropriate federal program for CMF Affordable Housing units to align with is the Low Income Housing Tax Credit program. This typically results in a 60% Area Median Income (AMI) restriction, which is different from the current VLI restrictions. For some of the reasons noted below in section B, LIIF has been finding it increasingly more difficult to find projects that meet CMF's affordability goals, particularly the 50% AMI units. Rising construction costs are making it more difficult for developers to maintain a unit mix with larger amounts of VLI units as they seek both short-term and permanent financing. The 50% AMI targets outlined in the CMF guidelines run out of parallel with other federal programs like LIHTC, where projects generally have more units at 60% AMI. Alignment with LIHTC definitions of affordable units may make CMF more attractive as a resource for developers to consider in their capital stacks while also maintaining similar income restrictions to what CMF looks to establish with a LURA. For these reasons, LIIF would support the CDFI Fund's suggested consideration that LIHTC-funded projects be deemed categorically eligible for CMF purposes.

B. CMF Commitment Deadline

Commitment Deadline

LIIF would support any measure that allows for more flexibility in being able to meet the CMF commitment deadline. While LIIF has a robust affordable housing lending pipeline, some projects to which we have either committed CMF funds, or to which we expect to commit CMF funds, fall out of our pipeline due to project feasibility or other constraints. Depending on how much advance notice LIIF has, this can create urgency in needing to find an alternate deal to meet the commitment deadline.

One possible approach may be that the commitment deadline would be satisfied if, within two years, a Recipient committed the Award to one of the six Eligible Activities (i.e., capitalize a Loan Loss Reserve, Revolving Loan Fund, Affordable Housing Fund or a fund for Economic Development Activities; or make Risk-Sharing Loans; or provide Loan Guarantees), coupled with a new requirement that a commitment to a specific project must be made within three years after the Effective Date of the Assistance Agreement.

Project Completion Date

LIIF has encountered challenges with lack of flexibility in being able to adjust the project completion date, particularly in our current environment. Rising construction costs, supply issues and a more competitive tax credit landscape in general have regularly caused delays for projects receiving CMF commitments. While LIIF closely monitors the progress of all its projects, some affordable housing projects require additional time to procure funding sources to be able to close on construction financing and/or to experience delays during construction.

In addition, the relatively short timeframe effectively precludes us from using CMF to support predevelopment loans which are very early stage. Predevelopment loans are a critical product offered by LIIF and other CDFIs as bank lenders generally do not offer predevelopment funding due to its higher risk profile.

For both of these reasons, we recommend extending the current completion date requirement to five (5) years from the commitment date.



LIIF applauds the CDFI Fund's interest in making the CMF program more impactful. We especially appreciate the opportunity to provide feedback on our lenders' experiences with the program. LIIF hopes the information provided will inform the CDFI Fund's development of program, policies and administrative practices that will better support the activities of CMF recipients. We look forward to continued engagement on supporting the CDFI Fund's mission to expand economic opportunity for underserved people and communities by supporting the growth and capacity of a national network of community development lenders, investors and financial service providers.

Sincerely,

Daniel A. Nissenbaum
Chief Executive Officer
Low Income Investment Fund