SELF HELP

CREATING OWNERSHIP AND ECONOMIC OPPORTUNITY

James Yagley
Capital Magnet Fund Manager
Community Development Financial Institutions Fund
Department of the Treasury
601 13th Street, NW., Suite 200 South
Washington, DC 20005
Via email: cdfihelp@cdfi.treas.gov

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Dear Mr. Yagley:

Self-Help appreciates the opportunity to comment on the proposed regulations for the Capital Magnet Fund (CMF). Aside from our strong exception to the 10 year affordability requirement, Self-Help is generally supportive of the proposed regulations and we commend the Fund for its swift implementation of the CMF.

The 10 year affordability requirement is of extreme concern to Self-Help. It appears the CDFI Fund has based its suggested affordability qualifications on HUD's HOME Program regulations. We believe this is an inappropriate proxy for CMF funding because it is far too limiting for the breadth of legitimate uses of funds. Self-Help provides a suggested alternative in this comment.

Affordability Requirement is a Barrier to Homeownership

While we appreciate and share the Fund's desire to help ensure long-term affordability, the 10 year affordability requirement is a serious barrier to the use of CMF monies for homeownership for a number of reasons. Attaching an affordability covenant to a particular loan will deter otherwise appropriate and qualified homeowners who are legitimately unwilling to accept such substantial restrictions on their ability to resell their home. In fact the requirement could place many homeowners at increased financial risk.

Consider the situation of a low-income family that might purchase a home under this program. If a change in situation such as a move or a job loss necessitates selling a house within 10 years, the affordability covenant severely limits the pool of potential buyers. With fewer buyers available, homeowners could be forced to sell the home at a loss or default on the loan. In today's housing market this scenario is not all that infrequent. Indeed we have experienced this situation when local governments place resale restrictions on homeowners. As a case in point, in one of Self-Help's recent real estate development partnerships that required affordability covenants, homes did not sell for extended periods of time. Eventually, the partnering municipality waived the covenant, the homes were sold to families of relatively modest means, and the neighborhood is benefitting from the increased occupancy and stability.

Furthermore, if the home's value appreciates significantly but the owner has to sell before 10 years, the homeowner would likely be forced to suppress the sales price in order for the home to be affordable (and meet the affordability requirement) for purchase by another qualified low-income family. So the affordability requirement runs counter to the goal of helping new, lower income homeowners build their net worth because it is implied that any sale price within ten years has to remain low enough for a low-income borrower to afford. (As an aside, it is unclear if the "new" borrower also must remain under a 10 year affordability requirement. If not, then the new borrower stands to gain the equity that the original borrower might have had to forego, which clearly would be unfair to the first borrower.)

Lastly, the affordability requirement goes against the goal of supporting mixed income neighborhoods. While concerns about over-gentrification are legitimate, a clear goal of providing low-income homeownership opportunities is to help families build equity and to help stabilize and improve neighborhoods. The 10 year affordability requirement artificially suppresses the value of a home, and by extension other neighborhood homes, by restricting the income eligibility of a new homeowner.

In effect, it makes no difference how much the value of a home rises in the first 10 years, because the only qualified borrowers will not be able to afford much above the original sales price. This is a very real problem for any low-income homeowner forced to sell before the affordability requirement expires.

Alternative Affordability Suggestion

Self-Help suggests the Fund remove the 10-year affordability covenant for each individual loan and instead require CMF grantees to redeploy loan funds to new borrowers that meet the same affordability requirements laid out in the grantee's application.

For example, if a CMF grant applicant commits to doing 80% of home loans to borrowers below 80% of AMI, then if any loans are paid off within 10 years the CMF grant applicant agrees to relend these recouped funds to similarly situated new borrowers and maintain that 80% of loan funds are being made to borrowers at 80% of AMI.

This relending alternative would effectively limit any systemic abuse of funds, would help spur additional lending to new low-income families and would ensure that borrowers are not harmed by an affordability covenant that discourages them from taking out a loan and could penalize them in the event they need to sell within 10 years.

We appreciate your consideration of these comments and look forward to the success of the Capital Magnet Fund. Please do not hesitate to contact me if you have questions or concerns about these recommendations.

Sincerely,

David Beck
Self-Help Policy Director
David.beck@self-help.org
(919) 956-4495