

## Capital Magnet Fund

*Community Developments Fact Sheets* are designed to share information about programs and initiatives of bankers and community development practitioners. These fact sheets differ from OCC bulletins and regulations in that they do not reflect agency policy and should not be considered regulatory or supervisory guidance. Some of the information used in the preparation of this fact sheet was obtained from publicly available sources. These sources are considered reliable and current, as of September 2019, but the use of this information does not constitute an endorsement of its accuracy by the OCC.

This *Community Developments Fact Sheet* summarizes certain aspects of the Capital Magnet Fund (CMF) for national banks and federal savings associations (collectively, banks) and explains how the CMF may be used to support a bank's affordable housing and community development strategies.

### Overview

The CMF, administered by the U.S. Department of the Treasury's Community Development Financial Institutions Fund (CDFI Fund), was created to spur investment in affordable housing and related economic development efforts that serve low-income families and low-income communities across the country.

Entities certified as community development financial institutions (CDFI), including designated banks or qualifying nonprofit affordable housing organizations, are eligible to receive competitively selected CMF awards through the CDFI Fund. The

awards may be used to finance affordable housing activities, as well as related economic development activities and community service facilities, with the objective of attracting private capital to economically distressed communities, including underserved rural areas.<sup>1</sup>

Organizations that receive CMF awards are required to produce housing and community development investments at least 10 times the size of the award amount.

Banks that are not eligible to receive CMF awards may partner with organizations that have received awards.

### Fund Description

The CMF was created as part of the Housing and Economic Recovery Act of 2008.<sup>2</sup> The statute directs Freddie Mac and Fannie Mae to set aside a specified portion of the unpaid principal balance of their new business purchases and to annually allocate a share of those amounts to the CMF.<sup>3</sup>

<sup>1</sup> Refer to the CMF regulation at 12 CFR 1807.100 and 1807.301.

<sup>2</sup> Pub. L. No. 110-289, 122 Stat. 2654, section 1131 (2008). See also 12 CFR 1807 (CMF regulations).

<sup>3</sup> The statute allows the Director of the Federal Housing Finance Agency (FHFA), under certain circumstances, to temporarily suspend these allocations. Refer to the [FHFA's website](#) for historical information on CMF allocations.

The CDFI Fund distributes CMF awards through a merit-based, competitive application process. The CDFI Fund publishes a Notice of Funds Availability, instructions, and supplemental material for each award round. Priorities in selecting awardees are articulated in the Notice of Funds Availability. No single applicant may receive more than 15 percent of the total funds available for grants in any year, and the CDFI Fund strives to fund activities in geographically diverse areas of economic distress, including metropolitan and underserved rural areas across the United States.

Awardees may use funds to create financing tools, such as loan loss reserves, revolving loan funds, risk-sharing loans, and loan guarantees. Previous bank recipients have used the funds to write-down the interest rate on loans to eligible borrowers or capitalize an affordable housing loan pool that provides first-loss capital to eligible affordable housing projects.

Each CMF award must result in eligible project costs<sup>4</sup> in an amount that equals at least 10 times the amount of the CMF award or any higher standard established by the CDFI Fund in the mandatory agreement between the awardee and CDFI Fund. For example, an award of \$5 million should generate at least \$50 million in eligible project costs. Sources of capital leveraged by the CMF award may include loans from banks, program-related investments from foundations, low-income housing tax credit investments, funds contributed by the awardee, and funds from state or local

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<sup>4</sup> “Eligible projects costs” means costs funded directly by a CMF award plus costs for affordable housing activities and economic development activities that exceed the dollar amount of the CMF award. See 12 CFR 1807.500.

<sup>5</sup> See 12 CFR 1807, subpart D.

government or other private or public sources.

CMF awards may be used to finance affordable rental housing or housing for sale to homeowners.<sup>5</sup> Rental housing may be multifamily (five units or more) or single-family (four units or fewer). While most rental housing is developed as one property, scattered site development is permitted. Affordable housing projects intended for homeownership must be single-family housing, which includes a one- to four-family residence, a condominium unit, a cooperative unit, a combination of manufactured housing and lot, and a manufactured housing lot.

In any given application round, an awardee may use no more than 30 percent of a CMF award for economic development activities. “Economic development activities” develop, preserve, acquire, or rehabilitate community service facilities or other physical structures in which neighborhood-based businesses operate and, in conjunction with affordable housing activities, implement a concerted strategy to stabilize or revitalize a low-income or underserved rural area.

Awardees are required to redeploy income earned from principal and equity repayments for the approved, eligible CMF award uses as set forth in the agreement between the CDFI Fund and the awardee for the duration of the investment period.<sup>6</sup>

<sup>6</sup> “Investment period” means the period beginning with the effective date of the agreement and ending on the fifth-year anniversary of the effective date, or such other period as may be established in the agreement.

## Partnerships

Banks will often partner with CMF awardees. For example, a bank may review mortgage applications from individuals receiving down payment assistance or mortgage counseling from a CMF awardee.

In addition, national banks may make investments in connection with affordable housing or economic development projects or partnerships with CMF awardees. The OCC's public welfare investment (PWI) authority may permit such investments if they primarily benefit low- and moderate-income (LMI) individuals, LMI areas, or other areas targeted by a government entity for redevelopment, or if the investment would receive consideration under 12 CFR 25.23 as a "qualified investment" for purposes of the Community Reinvestment Act (CRA).<sup>7</sup> Further, the PWI regulation also requires that an investment not expose the bank to unlimited liability and includes notification procedures and investment limits for a bank investor. A national bank's aggregate outstanding PWIs may not exceed 15 percent of its capital and surplus.

While subject to different statutes and regulations containing different investment limits than national banks, federal savings associations may make public welfare

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<sup>7</sup> See 12 USC 24(Eleventh) and the implementing regulation, 12 CFR 24.

<sup>8</sup> In addition to their general lending and investment authorities, federal savings associations may use the following authorities to make public welfare investments: (1) 12 CFR 160.36; (2) section 5(c)(3)(A) of the Home Owners Loan Act (12 USC 1464(c)(3)(A)), as implemented by 12 CFR 160.30; and (3) 12 CFR 5.59.

<sup>9</sup> Refer to 12 CFR 25.22 (national banks) and 195.22 (federal savings associations).

investments that are designed to be generally consistent with 12 CFR 24.<sup>8</sup> Therefore, federal savings associations could form similar partnerships with CMF awardees.

## CRA Considerations

The CRA regulations provide the criteria and framework for assessing a bank's record of helping to meet the credit needs of its entire community, including LMI neighborhoods, consistent with the safe and sound operation of the bank. Banks that originate mortgage loans using CMF funds or in partnership with CDFI or nonprofit CMF awardees may potentially receive CRA consideration under the lending test.<sup>9</sup>

The following activities may meet the definition of community development:<sup>10</sup>

- Support of affordable housing for LMI individuals (including multifamily rental housing).
- Community services to LMI individuals.
- Efforts that revitalize or stabilize LMI geographies, designated disaster areas, or distressed or underserved nonmetropolitan middle-income geographies.<sup>11</sup>
- Activities that promote economic development by financing small businesses. Activities are considered to promote economic development when

<sup>10</sup> Refer to 12 CFR 25.12(g) (national banks) and 195.12(g) (federal savings associations).

<sup>11</sup> Eligible nonmetropolitan middle-income geographies are those designated by the OCC, the Board of Governors of the Federal Reserve System, and the Federal Deposit Insurance Corporation as being in distress or that could have difficulty meeting essential community needs (i.e., underserved). See "Community Reinvestment Act; Interagency Questions and Answers Regarding Community Reinvestment; Guidance," 12(g)(4)(iii) – 1, 81 Fed. Reg. 48506 and 48527 (July 25, 2016) (CRA Q&As).

they, for example, support permanent job creation, retention, or improvement for LMI individuals, in LMI areas, or in areas targeted for redevelopment by federal, state, local, or tribal governments.

In addition, community development loans or services and qualified investments made under the CRA must meet the geographic requirements of the regulations by supporting an organization or activity that serves the bank's assessment area(s) or an area that is larger than but includes the bank's assessment area(s). The bank's assessment area(s) need not receive an immediate or direct benefit from the bank's participation in the organization or activity, provided that the purpose, mandate, or function of the organization or activity

includes serving geographies or individuals located within the bank's assessment area(s). Qualifying activities in the broader statewide or regional area that do not serve the bank's assessment area may also be considered, as long as the bank has been responsive to community development needs and opportunities in its assessment area(s).<sup>12</sup>

## Resources

- Treasury Department's [CDFI Fund](#)
- Treasury Department's [Capital Magnet Fund Program](#)
- [OCC Community Developments Fact Sheet, "CDFI Certification for National Banks and Federal Savings Associations"](#)
- [OCC Community Developments Insights, "Community Development Loan Funds: Partnership Opportunities for Banks"](#)
- [OCC Public Welfare Investments Resource Directory](#)

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<sup>12</sup> Refer to 81 Fed. Reg. 48506, 48529, and 48530 (CRA Q&As, \_\_.12(h) – 6, \_\_.12(h) – 7).