I'M HOME

July 10, 2017

Mel Watt
Director
Federal Housing Finance Agency
Constitution Center
400 7th Street, SW
Washington, D.C. 20219

Re: Request for Public Input on Fannie Mae's and Freddie Mac's (the Enterprises) proposed Underserved Markets Plans (Plans)

Dear Director Watt:

Prosperity Now (formerly CFED) is pleased to submit comments to the Federal Housing Finance Agency (FHFA) on Fannie Mae's and Freddie Mac's (the Enterprises) proposed Underserved Markets Plans. The Plans are the most comprehensive means to date for the Enterprises to detail how they plan to meet their duty to serve (DTS) underserved markets, as identified by Congress, which include rural housing, affordable housing preservation and manufactured housing. Prosperity Now appreciates the opportunities offered by the Enterprises and the FHFA to engage in the ongoing dialogue on the implementation of the DTS rule.

Prosperity Now is a national, nonpartisan nonprofit organization based in Washington, D.C., that works to expand economic opportunity for all Americans by promoting and advocating asset-building policies and programs. Since 2005, Prosperity Now has convened the I'M HOME Network, a nationwide coalition of service providers, lenders, intermediaries and advocates working together to improve access to mortgage financing for manufactured homes, ensure that chattel financing is fair and affordable, promote resident ownership of manufactured home communities and provide a voice for manufactured homeowners on policy issues.

These comments will focus on the Plans' activities and objectives, which aim to improve the manufactured housing marketplace. However, the three markets addressed in the Plans overlap considerably, and manufactured housing cannot be addressed in a vacuum. We strongly encourage the Enterprises and the FHFA to encourage innovations that can impact multiple markets. For example, owners of older mobile homes in Appalachia pay disproportionately high utility costs, which threaten their housing stability. Effective Enterprise strategies to replace these homes with highly energy-efficient manufactured homes would support both the rural and manufactured housing components of the Plans, as well as help standardize underwriting for energy efficiency, a serious need in today's mortgage market.

We also believe that Freddie Mac and Fannie Mae need to help the market better value energy efficiency in manufactured housing and other markets in the Duty to Serve Plans. This would at once broaden the potential purchase market and enhance appreciation. It would also improve loan performance by encouraging the purchase of homes with lower operating costs, ultimately leading to stronger safeguards for the Enterprises.

Any chattel product, to truly meet the Duty to Serve, must include loan and land lease terms for tenant protections. In addition, to fully meet the needs of the market, effective real estate and chattel products should also facilitate the purchase of existing homes, which will enhance appreciation for the sellers of such homes.

Both Plans are comprehensive in defining the need for research and outreach. Due to the nature of the market, there is a significant lack of data and research in this space. The Enterprises should support new research by existing experts in the field, build off past research and develop new capacities internally. As examples of existing work, we direct the FHFA and the Enterprises to the 2013 report, Toward a Sustainable and Responsible Expansion of Affordable Mortgages for Manufactured Homes, and the 2016 report on Mobile and Manufactured Homes in Central Appalachia and Alabama.

Expanding research and building new loan products require access to loan data. Unfortunately, the Enterprises have yet to receive meaningful chattel data from the largest lenders in this space. We encourage the FHFA to work with industry to address this significant shortcoming.

While we believe the Enterprises can do better, we also recognize the constraints in place that are defined by a lack of product understanding among conventional market players and policymakers, the (undeserved) poor image of manufactured housing, lack of data, discrimination in zoning, valuation, and competing interests within and outside of the industry.

The Plans identify the challenges in this market. These include:

- Unit supply
- Lack of lenders
- Weak titling law
- Lack of mortgage insurance or other credit enhancements
- Appraisal challenges
- Lack of loan data, especially from existing, large single-family loan portfolios

Finally, while not a component of the Plans, we believe the FHFA must address the Enterprises' ability to retain meaningful mortgage portfolios. Without such a portfolio, it will be extraordinarily difficult for an Enterprise to support innovation in manufactured housing lending, since this market is small and constrained and has long operated outside the standards of a secondary market.

Manufactured housing accounts for about 7% of the nation's housing stock and is home to about 18 million Americans. It is by far the largest source of unsubsidized affordable housing in the nation. If designed and implemented effectively, the Enterprises' Plans could go a long way to encourage innovation, expand the use of manufactured housing as affordable housing beyond its current role and encourage responsible homeownership.

We will address the components in the Plans as identified by the Enterprises.

Fannie Mae

A. Regulatory Activity: Manufactured homes titled as real property

Loans on manufactured homes titled as real estate account for a small share of the overall market, ranging between 10% and 15% of annual sales. Fannie Mae's expanded presence in this market will help increase both overall sales and the share of real estate loans.

Objective 1: Continued outreach and research will help support the market. One key area, as noted in the Plan, is to explore challenges. Prosperity Now and its partners assert, as supported by research, that many borrowers unnecessarily take out chattel loans even though the collateral is titled as real estate or could be treated as real estate. Expanding real estate mortgages to eligible borrowers will expand Fannie's role in this space.

We appreciate Fannie's support of the field through its participation in conferences, convenings and other events, and look forward to continuing to work with Fannie in these programs. Prosperity Now is a key resource to assist Fannie in engaging lenders in this work.

Objective 2: Fundamental to improving the real estate loan market is improving existing products and offerings. For all loan products and those designed to serve the affordable market, such as HomeReady, there should equal treatment of gifts and grants for downpayments and subordinated financing such as Community Seconds for a combined loan to value (CLTV) of 105%. Fannie should also equalize loan-to-value ratios and mortgage insurance requirements across housing types. Fannie Mae should also support construction conversion with a single close, which will help facilitate the installation of homes on borrower-owned land. And because single-section homes are among the most affordable of all housing types, Fannie should eliminate its unnecessary discrimination against such homes, including the restriction of single-section units to certain Planned Unit Developments.

The challenge of appropriate foundation systems also needs to be addressed. Too often, lenders or agencies prescribe needlessly complicated and expensive systems, which are at once too expensive and over-engineered for the location. Particular consideration needs to be given to homes in communities. Fannie should support state-devised standards, which would comply with federal law while also addressing the various climate and soil conditions that exist across the United States.

Since so much of the manufactured home loan market operates outside the secondary market, Fannie Mae, as it suggests, should develop flexible processes to quickly offer variances to increase real estate purchases.

Objective 3: Developing and marketing Fannie Mae's dormant MH Select product is vital to the market. To make it truly effective, it should track site-built products as much as possible, as noted above. The target should be purchasing at least 750 loans, which is the upper limit outlined in the plan in years 2 and 3.

Objective 4: This is the most straightforward of the objectives, and should generate increased real estate loan purchases quickly, especially if built from the lessons of Objective 1. Since this objective is based on existing Fannie product offerings, we expect that with effective marketing and lender engagement, the Enterprise could exceed its planned years 2 and 3 loan purchases.

Specifically, we see great opportunities with state housing finance agencies, many of which are existing Fannie seller/servicers. While not all state HFAs offer manufactured home loans, many have effective and well-performing products that would benefit from enhanced Fannie efforts. We highlighted many of these products in the 2013 manufactured home mortgage report cited and linked above.

Objective 5: An analysis of Fannie's Mae manufactured home loan portfolio will be instructive and will take time. That said, we encourage the Enterprise to share insights, data and challenges as the project develops, including in year 1. This will improve the likelihood of Fannie Mae exceeding its loan purchase goals and enhance product development.

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B. Regulatory Activity: Chattel. Loans on manufactured homes titled as personal property

To meaningfully meet its Duty to Serve the manufactured housing market, Fannie Mae must develop products and processes that increase liquidity to the chattel market. This market, however, is fundamentally flawed, largely uncompetitive and shaped by the practices of the dominant lenders. As noted, the Enterprises have yet to secure meaningful data from the largest chattel lenders, which is key to any successful program.

A chattel product, to truly meet the Duty to Serve, must include loan and land lease terms for tenant protections.

Objective 1: These outreach and research objectives are reasonable and we look forward to continuing to work with Fannie to make them meaningful. Specifically, we see great value in lender engagement in the chattel space. We have significant relationships with innovative community development financial institutions (CDFI) and credit unions that currently make chattel loans.

Objective 2: Acquiring loan data from multiple sources is essential. We will continue to connect Fannie Mae with mission-driven lenders. However, as noted, the major lenders must participate in this process as well.

Objective 3: Establishing a meaningful chattel pilot is necessarily for Fannie Mae to meet its Duty to Serve the market. Without it, a permanent chattel program cannot be launched. We believe the steps detailed in Fannie Mae's Plan are reasonable, and $25 million in loan purchases in each of plan years 2 and 3 would help establish a foothold for the chattel secondary market.

We detailed our ideas on a chattel pilot in our March 21, 2017 comment letter on the subject.

We believe that FHFA has the authority to authorize the chattel pilot without requiring a proposal to gain approval as a new product. A chattel pilot, by definition not a widely available new product, will be limited, and needs a reasonable approval process to achieve its goals within the three-year plan.

C. Regulatory Activity: Manufactured housing communities (MHC) owned by a governmental entity, non-profit organization, or residents

Objective 1: Fannie appropriately identifies research and outreach as fundamental to meaningfully expanding its role in funding community purchases (or refinances) by mission-driven owners. Within the I'M HOME network, there are numerous government-related, nonprofit and resident owners of manufactured housing communities that would welcome the opportunity to participate in the proposed meetings.

More research on the long-term stability of communities owned by mission-driven organizations is needed. Existing research does underscore that resident ownership leads to lower lot rents, higher resale prices and shorter sales periods when compared to local investor-owned communities.

This research, as well as information from the field, supports how mission-driven preservation of communities can support the larger Duty to Serve. Fannie Mae will recognize the appeal of single-family lending in these communities.

Objective 2: Recognizing that Fannie Mae's experience in this space is limited, we expect the Enterprise to work with existing lenders, owners and operators to determine what approach works well and what enhancements are needed to improve the market. The undersigned and our partners would be a valuable resource as Fannie revises and supplements its guidelines and documentation to facilitate MHC loan purchases.

The commitment to purchase nonprofit/government entity-owned community loans with 200-300 units in years 2 and 3 of the plan is important, though entry into the marketplace will likely spur interest from local governments and nonprofits, which could offer Fannie the opportunity to exceed these targets.

Objective 3: An additional approach to support the preservation of MHC is for Fannie Mae to fund resident ownership. Resident ownership is a proven means to preserve affordable homeownership and enhance family control over assets. One of the challenges in expanding the model has been access to financing. Fannie's commitment in year 2 to purchase five resident-owned community (ROC) loans and in year 3, seven loans is important. However, with Fannie Mae entering the space, there will be likely more opportunities to participate. In the first six months of 2017, for example, ROC USA has facilitated ten conversions to resident ownership.

Objective 4: Fannie Mae's production of white papers and other products have benefited the industry.

Objective 5: The undersigned and its partners have experience as or with CDFIs, nonprofits and other organizations dedicated to sustainable and affordable models of MHC preservation. A pilot to invest in such organizations, including existing financing structures, would enhance preservation, community stability and homeownership for LMI families. As noted with the chattel pilot, we believe that FHFA should authorize a pilot outside of new product guidelines.

D. Regulatory Activity: MHC with certain pad lease protections

Objective 1: Approximately 90 percent of manufactured home communities are operated by investor-owners or other for-profit entities. To transform the market, and to encourage responsible community ownership, the Enterprises need to purchase loans that fund these ownership models.

Fannie Mae has extensive experience in purchasing loans that fund MHCs, albeit without the lease protection requirement. In its March 2016 comment letter on the proposed Duty to Serve regulations, Prosperity Now detailed the universe of such protections in each of the states. At the time of writing, no state required all of the lease protections identified in the proposed rules. Some states, however, are clearly more tenant-oriented than others and offer Fannie Mae an opportunity to influence the market. We will continue to identify and work with responsible community owners, highlight best practices and work to improve security for homeowners. Even in states that have few statutory requirements for pad lease protections, the enterprises can improve the market by encouraging community owners to incorporate pad lease protections into residential leases as proposed.

Freddie Mac

Freddie Mac's opening discussion of the manufactured housing market is helpful and underscores the challenges borrowers and lenders face.

1. Manufactured homes titled as real property: Regulatory activity

Objective A: According to the Plan, manufactured home loans as a share of Freddie's portfolio trended down in the last four years. While it is unclear why this is occurring, these loans accounted for just .32% of loans funded in 2016. We believe there are actions Freddie can take relatively quickly to improve.

Year 2 and 3 targets propose significant increases in loan purchases as a share of its portfolio relative to the baseline in 2016, but it is important to note that Freddie projects significant declines in its overall business. Therefore, even if met, it is likely that the Enterprises will support fewer actual loans than in 2016. Additionally, in the current market it is unclear if other market participants would make up the shortfall.

Therefore, we argue that the Enterprise should consider proposing actual increases in real estate loan volume.

We also call on Freddie to continue to explore the best practices of top state housing finance agencies in this space. Many, such as Oregon, Pennsylvania, Idaho and Tennessee, have excellent manufactured housing programs.

Objective B: Fundamental to improving loan volume is Freddie's commitment to revise practices, guidance and other restrictions on manufactured home loans. Any loan products, and especially those designed to serve the affordable market such as Home Possible and Home Possible Advantage mortgages, should be available to any single-family home loan borrower under the same terms and conditions.

These loans should have the same parameters, loan-level pricing and underwriting for manufactured housing as for any other property type. Current discrepancies can add costs to the loan, which are passed on to a low-income borrower. There should be equal treatment of gifts and grants for downpayments, subordinated financing such as the Affordable Second, lower mortgage insurance coverage and loan-to-value ratios. A construction conversion with a single close is key to siting units on private land. Finally, there should be no discrimination against single-section homes, including the restriction for planned unit developments. These smaller homes are a key source of affordable homes and should not be discouraged in the market.

As noted in the comments on the Fannie Mae plan, the challenge of appropriate foundation systems also needs to be addressed. Too often lenders or agencies prescribe needlessly complicated and expensive systems which are at once too expensive and over engineered for the location. Particular consideration needs to be given to homes in communities. Freddie Mac should support state-devised standards, which would comply with federal law while also addressing the various climate and soil conditions that exist across the United States.

Freddie Mac, as it suggests, should provide underwriting flexibility where appropriate. Developing a pilot to meet the needs of non-traditional borrowers will prove valuable as well. Many would-be borrowers of manufactured home loans operate outside the traditional credit parameters, and therefore may be exploited by predatory lenders. Freddie Mac's recognition of this could help mainstream these borrowers.

Objective C: We strongly support the partnership between Freddie Mac, Next Step and eHome America to bring high-quality homebuyer education to manufactured home buyers. We recognize that such programs improve loan performance and outcomes for families. We strongly encourage this program's expansion to other states, especially where our partners and networks operate, and can provide meaningful support and home purchase opportunities for families.

Objective D: Developing best practices for lenders and other practitioners will be important to move the market forward. As noted above, titling and appraisals are two significant challenges to borrowers and lenders, and just as important, these obstacles impede appreciation and value.

Working with experienced advocates, Freddie Mac can help educate appraisers, standardize practices and documents and attract new lenders to the market. We appreciate Freddie Mac's support of the field through its participation in conferences, convenings and other events, and look forward to continuing to work together in these programs. Prosperity Now is a key resource to assist Freddie Mac to engage lenders in this work.

2. Regulatory Activity: Chattel

A chattel product, to truly meet the Duty to Serve, must include loan and land lease terms for tenant protections.

Objective A: As noted above, the lack of loan data impedes the development of GSE chattel offerings. We encourage the Enterprise to continue to work with industry participants, including CDFIs, to gain access to loan performance data.

A key piece of research should focus on credit enhancement, a component missing from today's chattel market. Although mortgage insurance is unlikely to return to this market quickly, other tools, such as recourse, are worth exploring.

We also believe the Manufactured Housing Industry Taskforce (MHIT) is valuable and should be continued through the life of the plan.

Objective B: We appreciate that Freddie Mac has committed to researching how to design a chattel pilot. No Duty to Serve the manufactured home loan market can be met without a chattel program.

Freddie Mac's proposal to consider buying existing portfolios is meaningful, but should be done as early as possible to inform its research.

Many existing chattel portfolios may include loans that will not meet typical Freddie Mac requirements, such as credit enhancement, credit scores, loan-to-value ratios and other components. Lenders that have such portfolios likely developed them to meet local needs, with no expectation of secondary market interest. Therefore, Freddie Mac should explore purchasing chattel loans.

We believe that FHFA has the authority to authorize the chattel pilot without requiring such a proposal to gain approval as a new product. A chattel pilot, by definition not a widely available new product, will be limited, and needs a reasonable approval process to achieve its goals within the three-year plan.

Objective C: A key reason that we believe a secondary market is vital to improve loan offerings for chattel borrowers is the lack of competition, which can be aggravated through the home buying experience. High-quality homebuyer education, including a program that focuses on the specifics of chattel lending, is needed in this market.

Lenders that require such programs could receive pricing discounts or other incentives from the Enterprise. A portion of the discount should be passed on to the end borrower as well.

3. Regulatory Activity: Manufactured housing communities (MHC) owned by a governmental entity, non-profit organization, or residents

Objective A: Freddie Mac proposes new research on community finance, with the goal to understand resident-owned communities. We believe such research can be useful, especially if it explores the value that resident ownership brings to homeowners, including better appreciation, lower lot rents and better sales prices, when compared to comparable investor-owned communities. Additional areas for research on the value of resident ownership should include better quality of life, better maintenance and other enhancements of the community that many homeowners attribute to ownership.

The Plan notes the relatively small share of ROCs in the MHC landscape. This is true, though we believe the entry of the Enterprises would generate more ROC conversions, better state law and more opportunities for Freddie Mac.

We also suggest that research include the nonprofit and government-entity market as well. These property types serve a valuable space in the market.

Objective B: Freddie's commitment to ROCs will lead to more interest in resident ownership and therefore the Enterprise should consider enhancing its plan to purchase two to four ROC loans by 2020. ROC USA, for example, has already closed ten ROC deals in 2017.

Freddie needs to reconsider its decision not to fund MHCs owned by nonprofits or governmental instrumentalities. Often these entities purchase communities to preserve workforce housing that would otherwise be lost, especially in states where residents do not have meaningful purchase opportunities. These purchases can also help transition communities to resident-ownership, a segment Freddie Mac plans to support.

4. MHC with certain pad lease protections: Regulatory activity

Objective A: Freddie Mac has experience in purchasing loans that fund MHCs, albeit without the lease protection requirement. The Plan notes Freddie Mac's 2015 survey of 11 states yielded no state that included all of the proposed Duty to Serve regulations. In its 2016 comment letter, Prosperity Now detailed the universe of such protections in each of the states and similarly found that none of the states required, at the time of writing, all of the lease protections identified in the proposed rules.

Additional research is important, but Prosperity Now's March 2016 letter meets Freddie Mac's stated goal. (We are unaware of any state adopting any additional so-called Duty to Serve tenant protections since the date of the comment letter.) Therefore a better use of outreach resources would be to survey existing and potential Freddie Mac MHC partners in the best-protected states to determine the appetite for adopting the remaining Duty to Serve protections in their community leases.

Objective B: Building off of Objective A, we believe that Freddie Mac should explore its pilot opportunities under this activity in the states with the best protections. These would likely offer Freddie Mac the clearest path to a realistic pilot launch and provide it with an opportunity to influence the market. We will continue to identify and work with responsible community owners, highlight best practices and work to improve security for homeowners.

We appreciate the FHFA taking the time and effort to thoughtfully review the Enterprises Underserved Market Plans that detail how they will meet their duty to serve obligations. We are grateful for the opportunity to provide the FHFA with recommendations on how the Plans can be improved to encourage Enterprise activities that we believe are necessary to adequately serve the manufactured housing market. We look forward to seeing how the Plans evolve after FHFA and Enterprise consideration of public feedback.

Sincerely,

Doug Ryan
Director of Affordable Homeownership
Prosperity Now

Stacey Epperson
President & Founder
Next Step

The National Consumer Law Center, on behalf of its low-income clients

The National Manufactured Home Owners Association