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OFFICE OF GENERAL COUNSEL

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TO: FHFA, Office of General Counsel
400 Seventh Street, S.W., Eighth Floor,
Washington, D.C. 20219

FROM: George Allen, CPM Emeritus, MHM Master
Consultant to the Factory-built Housing Industry,
the Land Lease Lifestyle Community Real Estate Asset Class, &
Community Owners (7 part) Business Alliance, or COBA7

SUBJ: COBA7 Response to 'Chattel Pilot RFI' re: DTS Stakeholders....

REF: a) FHFA Listening Session on 25 January 2017 in Chicago
b) FHFA Booklet titled: 'Fannie Mae & Freddie Mac Support for Chattel Financing of Manufactured Homes. R for I @ Jan 2017'

ENCL: 1) 'Historical Perspective to FHFA's DTS Rulemaking Challenge to Fannie Mae & Freddie Mac' (Blog #430 @ community-investor.com
2) Cost & Size Comparisons re New MHS & Shipment Percentages
3) 18th annual 'National Registry of ALL Lenders'...SSRD
4) COBA7 brochure
5) 'Pre-Qualification Worksheet ('PQW') As Screening Tool', Spencer Roane, MHM.
6) Manufactured Housing Manager or MHM brochure
7) Industry Briefing Sheet SSRD: 'Decade 2015-2025 of Housing...'
8) '28th annual ALLEN REPORT SSRD

In response to encouragement to reply to a Request for Input ('RFI'), made at the FHFA Listening Session in Chicago (reference a); and in accords with guidelines provided in FHFA's GSEs booklet (reference b), this 'Chattel Pilot RFI' document, and comments contained therein, is submitted for your consideration, and hopefully, use.

The Community Owners (7 Part) Business Alliance ('COBA7') was represented, and made a presentation at the aforementioned Listening Session in Chicago on 25 January. Much of what was contained in that verbal presentation is contained too in this written response to 'Chattel Pilot RFI'.

It is the opinion of this 35 year veteran observer of the manufactured housing industry, to properly 'look forward' into the near and interim future of this

business model, where chattel financing of HUD-Code manufactured homes on-site in land lease communities is concerned, one must also 'look back', to ensure no one repeats errors of the past, i.e. *circa* 1970s & 1990s - especially as we close in on yet another new decade, the 2020s.*1
To that end, I recommend executives at FHFA, Fannie Mae, and Freddie Mac read: 'Historical Perspective to FHFA's DTS Rulemaking Challenge to Fannie Mae & Freddie Mac'. See enclosure # 1.

One avoids beginning, by pointing out an error, but here it must be done. On page # 2 of the FHFA booklet (reference b), this statement is made: "In 2015, nearly 18 million Americans lived in manufactured homes. Eighty percent of new manufactured homes placed in 2015 were titled as chattel. Thirty four percent of these were located in manufactured housing communities...." 'Working the numbers' = 70,544 new HUD-homes shipped during 2015 (X) .8 (80%) (X) .34 (34%) = 19,188 new homes, or 27.2% of new HUD-Code homes going into land lease communities. I beg to differ. The manufactured housing industry was at approximately 25% by year end 2009, when total shipments numbered but 49,789 new homes. By year end 2014 = 33%; and, 2015 = 34% - or higher, given MHIndustry anecdotal evidence. In the meantime, see enclosure # 2 chart.

Sources of Chattel Loan Financing, page # 5

COBA7 researches and publishes 12+ Signature Series Resource Documents ('SSRD's) annually, for its' affiliates in all segments of the manufactured housing industry. A copy of its' 18th annual **'National Registry of ALL Lenders'** serving the Manufactured Housing Industry and Land Lease Community Asset Class is attached as enclosure # 3, to this Chattel Pilot RFI for your reference. The 19th annual registry is now being researched, and will be distributed as a lagniappe in the March 2017 edition of the *Allen Letter* professional journal. For a complete list of SSRDs, see enclosure # 4, a COBA7 brochure.

In answer to question # 2 in this section of the booklet (i.e. 'Do manufactured housing communities fund their community-financed chattel loans?'), the answer is YES & NO! YES, among those land lease communities that comprise the 500+/- known property portfolios domiciled throughout the U.S., and to a lesser extent, Canada, as well as within large (e.g. 200+ rental homesite properties) with enough vacant rental homesites to support a dedicated salesperson or staff to fill said sites with new and resale home placements. But NO, in general, for many of the 85% of 50,000+/- LLCommunities nationwide that contain fewer than 100 rental homesites apiece. Yes, these properties too have vacant rental homesites to fill, but oft lack staff expertise, product knowledge, sales experience, and seller-financing 'know how' to remarket, sell, and seller-finance' new HUD-Code homes on-site in their communities.

Origination of Chattel Loans, pages # 5 & 6.

Relative to question # 7 re: 'Should the Enterprises value chattel-financed homes using an appraisal, the manufacturer's invoice plus cost of appurtenances...the National Appraisal System facilitated by the National Automobile Dealers Association guide data, or other methods? YES. Reach out to DATACOMP in Grand Rapids, Michigan. Theirs is a 'market value' system rather than the 'book value' approach used by NADA guides. DATACOMP can be reached via (800) 365-1415. Ask for Dan Rinzema &/or Darren Krolewski.

Relative to housing counselors, be aware there are worthy in-house (i.e. in-land lease community) programs and customized forms that accomplish tenant (or as I prefer to say/write: homebuyer/site lessee) screening in very good fashion - resulting in minimal loan defaults. Look through enclosure # 5: the 'Pre-Qualification Worksheet ('PQW')' perfected by Spencer Roane, MHM.*2

Borrower and Tenant Protections, page # 6.

Looking at questions # 13 & 14 together, I'd like to offer a Rule of Thumb, unique worksheet, and a statistical measure, as tools:

- ensuring an appropriate balance of site rent with other forms of multifamily rental housing in the same local housing market

- ensuring prospective homebuyers/site lessees (moving into LLCommunities) buy only the amount of house they can truly afford, based on Area Median Income for the local housing market, &/or Annual Gross Income of the homebuyer/site lessee

- ensuring the combined monthly PITI & site rent payment does not exceed a widely-accepted measure of housing affordability among multi-family rental properties.

In the first instance; since the late 1970s, among knowledgeable and successful owners of (then) mobile home parks, then manufactured home communities, and now land lease communities, the Rule of Thumb, for most local housing markets (except exceedingly high land value local housing markets, due to location, rent control & other factors), rental homesite rates, on the average, can often be pegged at one third the amount charged for the rental of 3BR2B conventional apartments or townhouses, e.g. $900/month apartment rent = $300/month LLCommunity site rent (assuming allocation of utility expenses is same in both instances)

In the second instance, become familiar with the methodology presented in the strangely-named 'Ah Ha! & Uh Oh! Worksheet' (enclosure #6). There are two identical sides to this worksheet. Examples are 'worked' using $51,229 AMI (or AGI when dealing with a prospective homebuyer/site lessee), close to the national average AMI; and, on the other side of the worksheet, using $36,000 AMI (or AGI), closer to, but not the $22,000 AMI cited by a Listening Session speaker as being akin to today's LLCommunity resident. For those two AMI/AGIs, it's possible to compute four housing price point scenarios: Home & Realty 'fee simple' & 'affordable' (i.e. withholding 25% of HEF or Housing Expense Factor to pay monthly utility bills); Home & Realty 'fee simple' & 'risky' (i.e. not withholding any $ for monthly utility bills). And the final two columns similarly track a 'Home in LLCommunity on 'leased site' & 'affordable' (i.e. again, with 25% of HEF withheld for monthly utility expenses); Home in LLCommunity on 'leased site' & 'risky' (i.e. again, not withholding any $ for monthly utility bills). See how dramatically different the results are on all four 'bottom lines' when worksheet methodology is completed in all instances? NOTE. Contemporary manufactured housing chattel financing tends to follow the line of reasoning described in the 'Home in LLCommunity on 'leased site' & 'risky' perspective. Perhaps it's time to formally switch to 'leased site' & 'affordable' thinking....

And finally, there's the National Average Affordable Housing Market Rent benchmark. Presently at around $849/month, this is easy for apartment community operators to apply to their properties, adjusted for local housing market conditions and practices. However, for LLCommunities, the tool might be utilized as follows: Monthly site rent = $300/month; keep PITI to $500/month - *for two good reasons*. First, the $49 differential may be necessary to entice apartment dwellers to try manufactured housing in LLCommunities. Also, if the PITI is computed in 'risky' fashion per the 'Ah Ha! & Uh Oh! Worksheet' methodology, that $49 differential will be helpful when it comes to paying monthly utility bills; otherwise, PITI will need to be kept closer to $450/month, meaning the homebuyer/site lessee will be forced to buy 'less home'.

Chattel Loan Servicing, page # 7.

While not specifically addressing any one of the questions posed in this section of the booklet, it seems to be about the best place to make this recommendation:

Encourage professional property management training and credentialing when considering a land lease community for approval as a location for manufactured housing finance. The Institute of Real Estate Management ('IREM') via (800) 837-0706, has several tracks applicable here:

- Accredited Management Organization or AMO. This is a corporate designation not easily obtained. To date I know of maybe one AMO active in the land lease community realty asset class. While dozens of AMO firms claim affinity for 'mobile home parks', only a few are recognized national 'players', e.g. Newport Pacific, Eugene Burger Management, and the Boston Group, to name a few.

- Certified Property Manager or CPM. This is a multi year educational program, accompanied by an experience requirement, and peer approval.

156 CPMs claim affinity for this realty asset class comprised, again, of 50,000+/- land lease communities.

- Accredited Residential Manager or ARM. An educational program for the on-site property manager. Though designed for apartment and or condominium managers, it is a good career path beginning for the average to above average on-site LLCommunity manager.

- Manufactured Housing Manager. The only national home-grown, one day, property management training and certification program designed specifically for LLCommunity owners/operators. Presently, more than 1,000 MHMs own and or operate land lease communities throughout the U.S. and Canada. Uses *Land Lease Community Management* text as basis for the course.

The point being, professional property management gets short shrift throughout the manufactured housing industry and among land lease community owners/operators. It's high time, in this industry observer's opinion, more should be asked of owners/operators, in terms of education, experience, certification, and professionalism, than has been the case in years and decades past.

Additional resources will likely prove helpful as you work towards crafting pilot plans and programs to meet DTS requirements and expectations. These are:

- 'The Decade 2015-2015 of Housing & Community' Industry Briefing Sheet SSRD. Enclosure # 7. Most comprehensive collection of data and contacts available anywhere in the manufactured housing industry.

- '28th annual ALLEN REPORT (2017), a.k.a. 'Who's Who Among Land Lease Community Owners/operators Throughout North America!' Enclosure # 8

This concludes the COBA7 response to 'Chattel Pilot RFI' re DTS Stakeholders.

GFA/cc

End Note:

1. Land lease community or LLCommunity. Contemporary term describing what was once commonly referred to as a 'mobile home park' (*circa* 1970s-80s), and manufactured home communities (*circa* 1990s & 2010s). Today however, more than just pre-HUD Code 'mobile homes' and post-HUD Code manufactured homes are not the only type shelter sited in this unique income-producing property type. Today we commonly find modular homes sited therein, as well as 'park model RVs', 'RVs for a season', and in Florida after severe hurricanes, stick-built homes fabricated on-site to imitate manufactured homes in exterior appearance.

2. As a related aside, Mr. Roane makes the case that 'all chattel loans are not created equal'. Specifically, chattel loans made by lenders on homes sited within land lease communities oft involve a guarantee (of performance) of the loan by the property owners (e.g. 21st Mortgage Corporation's CASH Program); and as a consequence, have flawless default records, compared to chattel loans on home sites outside LLCommunities. Why? Homes sited within LLCommunities are less likely to be vandalized after repossession - as they don't have to be moved, and can be efficiently rehabilitated, then resold. Plus, LLCommunity owners are motivated to guarantee these loans because of the 'value' said home(s) add to the rental homesites.

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Cost & Size Comparisons:
New Manufactured Homes and New Single-Family Site-Built Homes
(2007 - 2015)

	2007	2008	2009	2010	2011	2012	2013	2014	2015
New Manufactured Homes									
All									
Avg. Sales Price	$ 65,400	$ 64,700	$ 63,100	$ 62,800	$ 60,500	$ 62,200	$ 64,000	$ 65,300	$ 68,000
Avg. Square Feet	1,600	1,565	1,530	1,520	1,465	1,480	1,470	1,438	1,430
Avg. Cost per Sq. Ft.	$ 40.88	$ 41.34	$ 41.24	$ 41.32	$ 41.30	$ 42.02	$ 43.54	$ 45.41	$ 47.55
Single									
Avg. Sales Price	$ 37,300	$ 38,000	$ 39,600	$ 39,500	$ 40,600	$ 41,100	$ 42,200	$ 45,000	$ 45,600
Avg. Square Feet	1,100	1,100	1,120	1,110	1,115	1,100	1,100	1,115	1,092
Avg. Cost per Sq. Ft.	$ 33.91	$ 34.55	$ 35.35	$ 35.59	$ 36.41	$ 37.36	$ 38.36	$ 40.36	$ 41.76
Double									
Avg. Sales Price	$ 74,200	$ 75,800	$ 74,500	$ 74,500	$ 73,900	$ 75,700	$ 78,600	$ 82,000	$ 86,700
Avg. Square Feet	1,775	1,765	1,735	1,730	1,705	1,725	1,720	1,710	1,713
Avg. Cost per Sq. Ft.	$ 41.80	$ 42.95	$ 42.94	$ 43.06	$ 43.34	$ 43.88	$ 45.70	$ 47.95	$ 50.61
Housing Starts vs. MH Shipments									
(Thousands of units)									
New Single Family									
Housing Starts	1,046	622	445	471	431	535	618	648	715
Percent of Total	92%	88%	90%	90%	89%	91%	91%	91%	91%
Manufactured Home Shipments									
Shipped	96	82	50	50	52	55	60	64	71
Percent of Total	8%	12%	10%	10%	11%	9%	9%	9%	9%
Total	1,142	704	495	521	483	590	678	678	786
New Single-Family									
Site-Built Homes Sold									
(Home and Land Sold as Package)									
Avg. Sales Price	$ 313,600	$ 292,600	$ 270,900	$ 272,900	$ 267,900	$ 292,200	$ 324,500	$ 345,800	$ 360,600
Derived Average Land Price	$ 84,268	$ 74,209	$ 67,718	$ 66,340	$ 59.950	$ 69,115	$ 75,071	$ 84,628	$ 84,316
Price of Structure									
Avg. Square Feet	2,479	2,473	2,422	2,457	2,494	2,585	2,662	2,690	2,745
Avg. Price per Sq Ft. (excl. land)	$ 92.51	$ 88.31	$ 83.89	$ 84.07	$ 83.38	$ 86.30	$ 93.70	$ 97.10	$ 100.65
Manufactured Home Shipments									
Total	95,752	81,907	49,717	50,046	51,618	54,881	60,228	64,331	70,544
Single-Section	30,737	30,384	18,568	20,373	25,291	25,629	28,239	30,218	32,210
Multi-Section	65,015	51,523	31,149	29,673	26,237	29,252	31,989	34,113	38,334
New Manufactured Homes Placed									
(for Residential Use)									
Located in Communities	26%	26%	22%	25%	26%	29%	30%	33%	34%
Located on Private Property	74%	74%	78%	75%	74%	71%	70%	67%	66%
Titled as Personal Property	64%	62%	67%	73%	75%	77%	78%	80%	80%
Titled as Real Estate	28%	28%	28%	21%	17%	15%	14%	13%	14%

Source: These data are produced by the U.S. Commerce Department's Census Bureau from a survey sponsored by the U.S. Department of Housing and Urban Development.