I'M HOME
Innovations in Manufactured Homes

June 7, 2017

Mr. Mel Watt
Director
Federal Housing Finance Agency
400 7th St SW
Washington, DC 20024

RE: Comments on the Duty to Serve Evaluation Guidance 2018-2020 Plan Cycle

CFED is pleased to submit comments to the Federal Housing Finance Agency (FHFA) on the FHFA's Duty to Serve Evaluation Guidance for the 2018-2020 Underserved Markets Plan (UMP) Cycle. The guidance will be FHFA's and the public's primary way to determine how Fannie Mae and Freddie Mac (the Enterprises) are meeting their duty to serve (DTS) underserved markets, as identified by Congress, which include rural housing, affordable housing preservation and manufactured housing. The establishment of this obligation recognizes that these large and influential entities are in a unique position to significantly improve the economic robustness of these markets.

CFED 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, CFED 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. The National Consumer Law Center also joins in these comments on behalf of its low-income clients.

The primary function of the evaluation guidance must be to evaluate, measure and score the impact that the Enterprises' DTS plans have in meeting the credit needs of underserved markets. However, as currently constructed, the guidance is too complicated to be useful to some stakeholders, which undercuts the guidance's utility. The measurements may also have the unintended consequences of limiting the ongoing development and implementation of meaningful DTS plans.

We will provide comments on specific components of the guidance, as well as respond to some of the Questions for Public Input FHFA listed in Chapter 3 of the guidance.

The rating scale in Step 1, which quantifies how an Enterprise met its objectives in its UMP, is not designed in such a way to accurately measure objectives. While preliminary reviews of the UMPs suggest the Enterprises are committed to making impactful products and investments in the markets, the gaps in the scores of 0, 3, 6 and 10 could incentivize an Enterprise to pursue easier, though less transformative goals. A scale of 0, 1, 2, 3 and 4 is more appropriate.

In Step 2, implementation and impact should be scored separately. While implementation is fundamental to ensure the best use of Enterprise resources, the impacts of the Enterprise's activities are ultimately what matters. The proposal to determine impact scoring by averaging the ratings of activities and then assigning a weighted score may wrongly punish smaller-scale efforts that can have meaningful value, especially in the early years of the UMPs. For example, while loan purchases are rightly given the most weight, as these are the most impactful, the Enterprises are not currently positioned to purchase personal property manufactured home loans. The Enterprises must first conduct comprehensive outreach and research, as well as make investments and grants to test new products and innovations in the manufactured home loan market. These factors must be considered in the FHFA's review of Enterprise activities.

Furthermore, impact scores should be assigned, then either reduced or increased after accounting for implementation. This could work in a way similar to the guidance's proposed extra credit assessment.

A 60-point scale also seems an odd proposal for a scoring regime with just six possible ratings. The scale should be adjusted.

Responses to Questions for Public Input (Chapter 3)

Chapter 2: Evaluation Process for Scoring Enterprise Performance

1. *Should FHFA make partial credit available for objectives that are not fully accomplished? If so, are the levels of partial credit appropriate (6 points for substantial and 3 for moderate accomplishment of the objective)? Is the partial credit approach for loan purchase and investment objectives, which relies on baseline measures set by the Enterprises, an effective method? If not, how should FHFA make partial credit available for objectives not fully completed?*

    a. Yes, partial credit should be made available. However, as noted above, the scale should be adjusted so as not to discourage meaningful activities.

2. *FHFA proposes setting the score needed to receive a passing rating under Step One at 70 percent. Is the proposed threshold of 70 percent too low or too high?*
    a. Over time, the passing grade should be raised to reflect the improvement of the work. FHFA should be open to revisiting what is a passing grade, based on revisions to the scale and how the markets are served.

3. *Has FHFA clearly articulated the implementation and impact criteria in a reasonable way in Appendix B? Should FHFA consider different or additional evaluation criteria?*
    a. The criteria are somewhat confusing—FHFA should consider consolidating some of the criteria or ensure that the criteria are more easily understandable.

Simplifying would make it more transparent for outside observers, such as nonprofit organizations who are interested in knowing the market plans in their area.

b. As noted above, in Step 2, the impact and implementation evaluations should be distinct.

4. *Should FHFA assign individual scores at the objective level as proposed under Step Two, or should FHFA instead assign a single score under Step Two for all actions undertaken by an Enterprise in each underserved market? How should FHFA balance providing clear guidelines to the Enterprises with minimizing complexity?*
   a. Although there is value in seeing how each component rates, an overall score would more likely encourage a comprehensive approach by the Enterprises to meet their obligations.

5. *FHFA proposes to create concept scores at the Plan development stage which would then serve as a guide for assessing the achievements toward objectives at the evaluation stage. Is this proposal an effective approach? When should FHFA share a preliminary concept score with an Enterprise?*
   a. It is unclear if a concept score adds value to evaluation process. The FHFA should consider addressing weaknesses in the Underserved Markets Plans prior to January 1, 2018 in order to ensure the plans meet the statutory obligations and are shaped to effectively address market failures.

6. *Once FHFA assigns a score for each objective, FHFA proposes to average the scores of all of the objectives within an evaluation area (outreach, loan products, loan purchases, investments and grants) and produce a single score for each evaluation area. FHFA would then calculate a weighted average for all of the Enterprise's objectives in a particular underserved market. Should FHFA weight objectives by evaluation areas? Has FHFA proposed to weight the evaluation areas appropriately?*
   a. See comments above. In the early years, weighted scores could discourage smaller, yet vital, activities.

7. *Has FHFA selected appropriate activities for which to award extra credit? Has FHFA appropriately calibrated the size of the extra credit adjustment?*
   a. A chattel pilot is considered extra credit, but we are concerned that the proposed guidance does not adequately account for difficulty of developing a secondary chattel market, nor does it fully appreciate that chattel loans are approximately 70% of the single-family market. We believe a chattel pilot, even as extra credit, should be weighted higher than currently proposed.

8. *Has FHFA appropriately limited extra credit only to those objectives achieving a Step Two final score of at least 40? Should extra credit be available for objectives receiving a Step Two final score of 30 or less?*
   a. Extra credit should be available for objectives receiving a final score of below 30 as it may encourage the development and expansion of chattel pilots. If the Enterprises fail to develop a meaningful pilot, they will not have met their duty to serve in this market.

9. *Are the cut-offs for determining whether an Enterprise qualifies for each of the four passing ratings appropriate?*
    a. We feel the scoring regime is too complicated, in part due to the scales and other factors. Therefore, we are unable to offer an appropriate cut off for a passing rating.

10. *How might the overall evaluation process (Steps One, Two, and Three) be revised to strike an appropriate balance between providing simplicity and specificity in evaluating the Enterprises' Duty to Serve activities?*
    a. See above comments on the scales, the need to separate impact and implementation and related points.

We appreciate the FHFA taking the time and effort to thoughtfully construct evaluation guidance that seeks to establish fair and precise measures to determine whether and how well Fannie Mae and Freddie Mac are meeting their duty to serve obligations. We are grateful for the opportunity to provide the FHFA with recommendations on how the guidance can be simplified and improved to encourage Enterprise activities that we believe are necessary to adequately serve the manufactured housing market. We look forward to seeing how the evaluation guidance will evolve after FHFA consideration of public feedback.

Sincerely,

Doug Ryan
Director of Affordable Homeownership Initiatives
CFED – Corporation for Enterprise Development

California Coalition for Rural Housing
National Consumer Law Center
National Manufactured Home Owners Association