ROC usa®
Resident Owned Communities
BETTER TOGETHER

August 12, 2024

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Attention: Duty to Serve 2025-2027 RFI
Federal Housing Finance Agency
Eighth Floor, 400 Seventh Street, S.W.
Washington, D.C. 20219

Re: Input on Fannie Mae and Freddie Mac 2025-2027 Duty to Serve Plans

1. Level the Playing Field for Resident Homeowners of Manufactured Housing Communities. Provide equal access to GSE-Priced Affordable Financing through equity investments in CDFIs:

ROC USA® has helped 329 resident groups acquire Manufactured ("Mobile") Home Communities (MHCs) in 21 states and secure 22,700 home-sites. The loan performance of these shared-equity, cooperative borrowers has been outstanding for more than 40 years. There is no risk-related reason to continue to deny credit to these communities, while simultaneously providing access to capital to private investor owners.

Increasingly since 2014 when Freddie Mac joined Fannie Mae in financing commercial MHCs, these aspiring Resident Owned Communities (ROCs) have competed with investors financed with lower-cost debt provided by the GSEs. The GSEs' purchase of MHC loans to private equity and investor-buyers of MHCs has contributed to a national crisis of severe rent increases, loss of home equity, and economic eviction of low- and moderate-income homeowners living in MHCs. To level the playing field, at a minimum, government-sponsored financing ought to be equally accessible by ROCs. There are two options for the FHFA to do so:

A) Reinstitute the GSEs ability to make equity investments and/or grants. Limited-equity MH ROCs that preserve affordable housing for low-income communities need subordinate financing to make community ownership possible. CDFI lenders of MH ROC sub-debt currently need their loans secured by the real estate because the providers of their capital require it. However, a special purpose vehicle (SPV) of equity and debt could be raised with significant leadership and investment from the GSEs first.

ROC USA® Capital, for one, will use this investment to bring to market an unsecured subordinate loan product that will allow MHC ROC borrowers to access the GSEs conventional first mortgage commercial financing. Since only conventional first mortgages can be placed into securities, unsecured sub-debt will make securitization for MHC ROC first mortgage loans possible.

B) Allow the GSEs to pilot a loan product for MH ROCs that can be held in portfolio by the GSEs. Prior to conservatorship, mission-rich investments and finance products that resolved conventional market gaps were possible. We need that type of investment to level the playing field for low-wealth communities to compete with aggressive private market consolidators.

The modest activity in refinance loans by the GSEs is possible because ROCs with equity in the property can be refinanced with a conventional first mortgage loan. We need to make that type of conventional financing available at acquisition when loan-to-value ratios exceed conventional requirements. To do otherwise is to harm rather than serve the very homeowners DTS is intended to serve. On average, 82% of ROC homeowners earn less than 80% of the area median income, 57% earn less than 50% of area median income, and 29% earn less than 30% of area median income. MHCs provide affordable homeownership for the lowest-income homeowners in the country.

RECOMMENDATION: FHFA permits the GSEs to make equity investments and/or grants in high-impact Duty to Serve activities like MHC ROCs.
RECOMMENDATION: FHFA require that both Fannie Mae and Freddie Mac commit to equity investments and/or grants in unsecured subordinate lending CDFI SPVs and raise their annual MHC ROC production to a minimum of 10 per year in the plan years of 2024-2026.
RECOMMENDATION: Both Fannie Mae and Freddie Mac are allowed to pilot portfolio-based lending programs for low-cost financing for acquisition of not-for-profit resident-owned communities. The acquisition loans would be underwritten with similar characteristics to the current portfolio of ROC USA® MHC acquisitions.

2. Standardized long-term leases sufficient for GSEs to finally make "home-only" mortgages or personal property loans available in MHCs.

We appreciate the FHFA's efforts to expand Tenant Site Lease Protections (TSLPs), however, these alone have not gone far enough to motivate the GSE's single-family underwriters to begin making residential mortgage or personal property loans in MHCs. Both GSEs buy mortgages on other leasehold properties. Scalable and standardized long-term leases are the lynchpin of a win/win for industry and consumers and could unleash new land lease MHC development to meet the demand for affordable homeownership. Since ROCs already provide permanent, proprietary leases and predictable, stable rent, and community agreements that make such financing possible, the MHC ROC sector will also be served by this innovation.

RECOMMENDATION: FHFA make residential mortgage or personal property financing available in MHCs by developing and implementing a standardized and scalable long-term MHC lease.

3. Improvements to the existing tenant protections

Current TSLPs are inadequate to protect homeowners from predatory practices.
First, and most importantly, there are no protections from steep increases in rent or fees, which have the effect of pricing homeowners out of their home and out of their neighborhoods.

Investors buying MHCs have raised rents and added fees to maximize profit from a captive audience. Those increases can be extreme; in Iowa we have seen the total cost increase at one park financed by Fannie Mae increase by 60% in just two years.[1] These types of extreme increases can mean a resident may be forced to sell their home or lose it entirely, often allowing the MHC owner to sell that home or sell a replacement for more money. In addition, in the event homeowners can sell the home, they will often get less for it, as the new buyer knows their ongoing costs of renting the pad site will be higher. That leaves these communities in a difficult situation where a rent increase decreases the value of homes in the MHC – stripping equity from the homeowner to increase ROI for an investor or an investment group. In addition, a 60-day notice of the closure of a MHC is a thin protection when you consider the immense disruption put upon low-income homeowners and families while simultaneously wiping any equity in the home and putting credit scores and histories in disarray.

RECOMMENDATION: As a condition of accessing GSE MHC financing, both Fannie Mae and Freddie Mac should require MHC borrowers to offer a GSE-approved lease to all homeowners living on the financed property.

4. Opportunity to Purchase

FHFA should work to protect homeowners and preserve public investment in affordable housing by requiring that homeowners have the opportunity to buy their MHC for any property that receives Duty to Serve credit. Resident ownership and control over the land under their homes gives homeowners long-term security and ensures any rent increases go toward capital improvements or other benefits the homeowners determine are necessary. As limited-equity cooperatives, ROCs preserve affordability forever, protect public investment, and create the conditions necessary for home-only financing. ROCs have demonstrated their investment rigor for more than 35 years without a foreclosure or re-sale to the speculative market.

RECOMMENDATION: As a condition of accessing GSE MHC financing, both Fannie Mae and Freddie Mac should require that when the owner is ready to sell the property, residents are given notice that the property is for sale and provided an opportunity to purchase the property ("opportunity" includes pricing equal to appraised value, commercially accepted due diligence, financing, and closing terms) for any MHC that would receive DTS credit.

5. Properly align Duty to Serve credit with protections for homeowners, preservation of affordable housing and preservation of public investment

FHFA should focus more of the Enterprises' support for MHCs on those properties that protect and preserve affordable homeownership and should align the level of DTS credit with the level of protections for the residents. For example, additional credit for sales to homeowner groups could

[1] https://www.desmoinesregister.com/story/news/local/waukee/2019/03/27/waukee-midwest-country-estates-mobile-home-park-havenpark-capital-utah-rent-increase-rates-iowa/3267410002/

encourage the Enterprises to do more to support those purchases. DTS credit should also be reserved for loans that provide homeowners with standard long-term leases that both protect homeowners from eviction and eviction-by-unaffordable-cost-increases and enable GSE-supported home-only financing, and for loans that preserve affordable housing and public investment.

RECOMMENDATION: The FHFA should be rigorous in the application of DTS credit, aligning the amount and awarding of credits with homeowner protections that provide standard long-term leases, predictable rent, an ability to access mortgage financing, and allow opportunity for homeowners to purchase their community upon sale. DTS credit should not be awarded for inadequate provisions to address eviction, price increases that strip equity from homes and force people to move, or closures that eliminate affordable housing and undermine public investment in affordable housing assets.

6. Public disclosure of MHCs backed by the Enterprises

For existing GSE investments there is a lack of public information about which MHCs are covered. In addition to creating confusion and doing less to protect homeowners in MHCs backed by the Enterprises, this makes oversight of the program by either Congress or the FHFA far more difficult. Requiring a full public list of the covered MHCs, including the date of purchase, would greatly improve our ability to assess the effectiveness of the TSLPs in protecting residents. Service to the manufactured housing market could also be enhanced by earlier disclosure of these transactions. This will have three primary impacts. First, it can improve resident awareness of a change in ownership of the park, where all too often they first find out when they're notified of a rent increase. Second, it could increase the chances for a resident-owned group or nonprofit to work to purchase the MHC. And finally, it will increase public information about what can be an opaque market.

RECOMMENDATION: FHFA should publish a full public list of existing MHCs financed by either Fannie Mae and Freddie Mac and report quarterly on any subsequent loans.

Fannie Mae has made a tremendous statement in its commitment to develop loan products and strategies that enable the future purchase of home loans in MHCs. We fully support this innovative work to bring home-only mortgage products into the MHC sector broadly, and the ROC sub- market specifically.

We believe the time has come for FHFA to realize the mission of DTS. It does not make sense to wait until conservatorship is over or to wait another 15 years for the GSEs to "earn" their way out. None of these recommendations asks the GSEs to make risky or unsecure loans. On the contrary, the GSEs know full well the strength of the MHC real estate market. Their work in this space could be transformational and lead to a significant increase in the development of new MHCs that offer both land security through long-term leases in tandem with affordable financing through access to conventional home-only mortgage loans.

At this stage of the country's affordable housing crisis, now is a crucial time to support a secondary market for ROC financing. By doing so, together we can dramatically expand the number of MHCs that deliver the benefits documented in Freddie Mac's landmark research, which concluded:

"MHROCs are one of the few sources of unsubsidized naturally occurring affordable housing in the country not subject to market-based rent increases." (2019, Freddie Mac, Spotlight on Underserved Markets, Manufactured Housing Resident-Owned Communities)

Thank you for giving us the opportunity to comment and for seriously considering our recommendations. We are available to answer any questions, provide additional information or data as requested, and to assist in the development of the products we recommend.

Sincerely,

Paul Bradley, CEO
ROC USA, LLC