



July 7, 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:

The 2008 Housing and Economic Recovery Act (HERA) stated that the Enterprises needed to *"increase liquidity in mortgage investments and improve the distribution of investment capital available for mortgage financing for underserved markets, each enterprise shall provide leadership to the market in developing loan products and flexible underwriting guidelines to facilitate a secondary market for mortgages for very low-, low-, and moderate-income families"* in Manufactured Housing, Affordable Housing and Rural markets.

ROC USA® is a nonprofit social venture that represents the very owners of manufactured homes on which HERA is based. We support very low-, low- and moderate-income homeowners who democratically elect to form a resident corporation and acquire the Manufactured Home Community (MHC) in which their homes are sited. Once acquired, these MHC become Resident Owned Communities (ROCs).

ROC USA is scaling resident ownership through development services and financing and a significant post-purchase system that includes on-site and online training, community leadership development, marketing and member services.

ROC USA Network – a national Network of nine nonprofit Certified Technical Assistance Providers – now represents 206 ROCs and 12,800 homeowners. Ten of those ROCs have taken ownership thus far this year. In 2016, ROC USA Network helped 17 resident corporations acquire their communities and preserve 1,380 homes.

ROC USA's subsidiary Community Development Financial Institution (CDFI), ROC USA Capital, provides homeowners organized as a formal resident association with access to specialized financing for the purchase and improvement of their MHC. In 2016, ROC USA Capital financed eight of the 17 purchases with \$36 million of commercial mortgage financing.

In support of homebuyers in ROCs, ROC USA is also engaging existing private lenders as well as new bank, credit union and CDFI entrants in the chattel market in ROCs.

From both perspectives – commercial financing for ROCs and chattel financing in ROCs – ROC USA has specific responses to Enterprise plans in these two areas:

1. Chattel

We appreciate both Enterprises' embrace of chattel pilots under the terms proposed. While more is better, we do not have specific market data to refute or add to their plans. We will work closely with them to develop successful pilots.

2. MHCs owned by Residents

Both plans indicate interest in financing ROCs through pilots while citing no (Fannie Mae) to little (Freddie Mac) direct experience. We appreciate the Enterprises' interest in the market and will work closely with them to develop pilots that meet the needs of this expanding market.

- A. To serve the ROC market, we strongly recommend that FHFA focus on Fannie Mae's statement in Section C, Objective #5 and approve the Objective as a pilot.

To be clear: Investments in CDFIs is without question the most effective and efficient manner to *"facilitate a secondary market for mortgages for very low-, low-, and moderate-income families"* targeted for benefit in the HERA of 2008.

Enterprise investments in CDFIs for ROC purchase loans will expand the market and increase opportunities for the Enterprises to provide conventional senior mortgage financing at purchase. Moreover, a larger opportunity will be present at the time of refinance in 10 or 15 years when the Enterprises can, with few modifications, finance seasoned ROCs conventionally.

While, to my knowledge, Freddie Mac has no experience in direct investments in CDFIs, we recommend both Enterprises be held to the same performance measure. Such an addition to

Freddie Mac's plan would address one of the principal challenges they identified (p. 27); that "equity" and "equity like financing" makes the task of lending to ROCs "difficult".

Simply stated, serving the target homeowners requires highly subordinated debt of the sort that only the nonprofit and public sectors can provide. Both banks and insurers have found that certain CDFIs in the ROC market have the market and management expertise, development system and balance sheet that provide adequate security for balance sheet investments which in turn provide liquidity for subordinate debt lending that make MHC ownership possible for HERA-targeted homeowners.

These investments enjoy very strong minimum equity ratios in excess of 15% (and generally 20%) and parri-passu debt obligations that make up CDFI balance sheets as well as historic loss rates that are exceptionally safe and sound.

Further, we believe that Enterprise charters, HERA and the founding CDFI legislation all support Enterprise investments in CDFIs and that FHFA has the authority to authorize this pilot activity based upon a realistic assessment of serving target homeowners in this market.

We recommend:

Year 1: Outreach to CDFIs involved in financing ROCs, product development, and FHFA approval of the pilots.

Year 2: Each Enterprise should make at least \$25,000,000 of investments, including multi-year commitments, in CDFIs.

Year 3: Monitor investments for mission impact and financial safety and soundness.

- B. We also believe that the Enterprises can, as proposed, provide liquidity by acquiring ROC loans. Our outlook for production is more bullish than both Enterprises however we have not begun to see what underwriting and community standards will be so being conclusive is difficult.

Year 1: Design loan product and implement one pilot with at least one loan.

Year 2: Each Enterprise makes at least five ROC loans.

Year 3: Each makes at least seven ROC loans.

If as Freddie Mac states, the market potential is 25 ROC loans per year, simply proposing 10% of the market as acceptable in bringing liquidity to the market is insufficient. Fannie Mae's estimates are much more realistic at five and seven loans in years two and three respectively.

Each Enterprise should represent at least 25% of the market, at a minimum. We concur with Freddie Mac's estimate of 25 ROC loans per year over the next three years.

I am happy to discuss our input more fully with you. Thank you.

Very truly yours,

/ Paul Bradley /

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