Next Step®
Affordable Housing Done Right

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Federal Housing Finance Agency, Office of General Counsel
400 Seventh Street, SW, Eighth Floor
Washington, DC 20219

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RE: Duty to Serve Draft Underserved Markets Plans

To whom it may concern:

Next Step® Network appreciates the opportunity to submit comments to the Federal Housing Finance Agency (FHFA) regarding Freddie Mac's and Fannie Mae's (the Enterprises) proposed Underserved Markets Plans under the Duty to Serve rule.

Manufactured housing is the largest source of unsubsidized affordable housing in the United States and home to 18 million Americans. Roughly two out of three manufactured homes are located in rural areas, making them the de-facto source of affordable housing in many rural markets. In persistent poverty rural regions – such as parts of Appalachia, the Mississippi Delta and Native American lands – it may be the only viable housing option. Twenty-six percent of all low-income homeowners in rural areas own a manufactured home, almost half of all manufactured homes are occupied by a person age 50 or older, and 22 percent of manufactured home residents have incomes at or below the federal poverty level.

Next Step was created in 2010 with the mission to put sustainable homeownership within reach of everyone, while transforming the manufactured housing industry through consumer education, affordability and energy efficiency. We developed a system for delivering quality, energy-efficient manufactured homes to community-oriented nonprofit organizations across the country. In 2015, we created the SmartMH program with the goal of increasing access to ENERGY STAR® homes in Kentucky with better loans, homebuyer education and housing counseling services for prospective homebuyers. Building on the success of this program, Next Step partnered with Freddie Mac and eHome America in 2016 to implement a two-year pilot program in Kentucky – the first of its kind in service to Duty to Serve.

We appreciate the earnest and thoughtful work from the Enterprises, which reflects their dedication to building a larger manufactured housing market by extending credit to this underserved population. We value their outreach, field research and commitment necessary to truly understand this market. We believe it is important that FHFA allow the Enterprises to innovate in order to move this market, including the ability to portfolio loans to test, learn and accumulate valuable data.

In regards to the Enterprises' proposed Underserved Markets Plans, we recommend that the Enterprises set higher goals to make their purchase equal to seven percent of their portfolios, commensurate with the seven percent of all homes that are manufactured. This might not be achievable in the short term, but could serve as a long-term benchmark to help guide the Enterprises as they execute their Underserved Markets Plans. The Enterprises will need continuous and dedicated resources to address the constraints defined by the conventional market, to educate legislators and policy makers, and to shift the poor image of manufactured homes in the public sphere. Additionally, the Enterprises can help address the lack of data on manufactured homes, and end discriminatory practices in the zoning, valuation and lending practices for manufactured homes.

To address these discriminatory practices, stigma and poor image, we recommend that the Enterprises make significant investments in a national campaign to educate the public and key stakeholders about manufactured housing, and to remove the unfair stigma that exists in the marketplace. FHFA should consider coordination and collaboration between the Enterprises to achieve this goal.

We understand that the two million mobile homes in the US directly impact poor perceptions of this market. These aging homes were built before the HUD Code was enacted in 1976, and they are among the worst substandard housing in America. Collapsing floors, kerosene-heated interiors, aluminum wiring, and often not being installed on a permanent foundation, risks the health and safety of residents. These mobile homes are not only endangering residents' safety; they have deteriorated over time and are now energy sieves. It is not uncommon to find owners of mobile homes spending half their monthly income on utilities, and more than 90 percent of those residents have income levels below the national median.

Next Step commissioned a research study with Prosperity Now (formerly CFED) and Fahe to take a closer look at pre-HUD Code mobile homes in Central Appalachia. The Virginia Center for Housing Research at Virginia Tech conducted the study, which was funded by the Wells Fargo Foundation and NeighborWorks® America. The study was released in September 2016, and can be accessed online here. Findings include that low property values, high energy usage and high vacancy rates are all evidence of the low quality of the oldest mobile and manufactured homes in Central Appalachia. Many residents of these units are severely cost-burdened, earning low incomes and facing relatively high housing costs, with more than 70,000 households paying more than 30 percent of their income on utilities alone.

Therefore, we recommend that the Enterprises create a strategy to address lending needs in Central Appalachia and other rural and persistent poverty regions, such as the Delta, to replace pre-HUD Code mobile homes with affordable, energy-efficient housing. Ideally, this replacement program would be scaled nationally through industry channels across the country.

Furthermore, we believe that there should be no difference between loans for manufactured homes and any other affordable product, including underwriting, down payment, community seconds, construction conversion, single-close loans and pricing. We recommend that the Enterprises provide incentives for lenders to make high-touch, low-balance loans. We also recommend that the Enterprises allow loans for single-section manufactured homes, which accounted for 48 percent of the national market in 2016.

Our final recommendation is that the Enterprises support homebuyer counseling and education for manufactured homebuyers. The manufactured housing market is small, which should lend itself to a standardized curriculum and delivery. We recommend that homebuyer education support homebuyers seeking both chattel and real property loans.

Again, we are grateful for the opportunity to provide FHFA with our recommendations and views on the Enterprises' proposed Underserved Markets Plan. We look forward to seeing how the plans evolve after consideration of public feedback.

If you have any questions or need more information, please contact me at 502-694-1972 or s.epperson@nextstepus.org.

Sincerely,

DocuSigned by:

Stacey Epperson

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Stacey Epperson
President & Founder, Next Step Network

