Federal Housing Finance Agency

Duty to Serve

FHFA presents Snapshots from Fannie Mae's & Freddie Mac's Duty to Serve Underserved Markets Plans for Manufactured Housing Communities

Effective December 14, 2018

Excerpts from Fannie Mae's and Freddie Mac's Duty to Serve Underserved Markets Plans: Manufactured Housing Communities

Compiled by the Federal Housing Finance Agency

FHFA has compiled excerpts from Fannie Mae's and Freddie Mac's Duty to Serve Underserved Markets Plans addressing activities that support manufactured housing communities owned by government entities, nonprofit organizations, or residents, and manufactured housing with pad lease protections. To access the Duty to Serve Underserved Markets Plans in their entirety, please visit FHFA's Duty to Serve website.

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DISCLAIMER

Implementation of the activities and objectives in Fannie Mae's and Freddie Mac's Duty to Serve Underserved Markets Plans may be subject to change based on factors including FHFA review for compliance with the Charter Acts, specific FHFA approval requirements and safety and soundness standards, and market or economic conditions, as applicable.

FHFA's Compilation of Snapshots from Fannie Mae's Duty to Serve Plan: Manufactured Housing Communities

Fannie Mae

C. Regulatory Activity: Manufactured housing communities owned by a governmental entity, non-profit organization, or residents (12 C.F.R. § 1282.33 (c) (3)).

1. ***Objective #1: Increase liquidity to governmental entity, non-profit organizations, or ROC (collectively "Non-Traditional Owners") through research, data analysis, loan product review and enhancement, implementing a pilot for ROC, and publishing Fannie Mae's experiences (Analyze, Partner and Innovate).***

Meeting the Challenges
The MHC finance market faces several key challenges, including: • The market opportunity for MHC with Non-Traditional Owners cannot easily be determined because of a lack of data. • MHC with Non-Traditional Owners often does not fit standard MHC underwriting criteria, including that the transactions may have a higher LTV, subordinated debt, and a key principal/sponsor with a non-standard counterparty profile. These distinctions undermine the standardization required to contribute additional liquidity to the market. To address these challenges, Fannie Mae will: • Engage in outreach and research activities with key stakeholders to attain a greater understanding of liquidity needs in the Non-Traditional Owners market. • Use the information gathered through outreach and market research to identify potential product enhancements that could increase the provision of liquidity to the Non-Traditional Owners market by creating greater standardization. • Design and implement a pilot program focused on ROC to test and learn about the needs and risk characteristics of ROC and what potential financing roles exist for Fannie Mae. • Increase loan purchases in the Non-Traditional Owners MHC market. • Utilize the information that is gathered and analyzed to increase greater awareness and acceptance of MHC with Non-Traditional Owners by publishing and distributing it to the public to encourage capital sources to venture into lending and investing where they may not have done so previously.

SMART Factors

Fannie Mae will undertake the following measurable Actions in the years indicated.

Year	Actions

2018	• Research the Non-Traditional Owners MHC market to gain knowledge of the current market barriers and challenges by:
	  ○ Meeting with three government entities and three non-profits that own or are considering owning MHC.
	  ○ Meeting with four entities that focus on ROC to gain knowledge of market barriers and challenges.
	• Research existing financing options for MHC with Non-Traditional Owners to gain knowledge of the current market barriers and challenges by:
	  ○ Meeting with four Fannie Mae lenders that have significant involvement in MHC finance.

Year	Actions
	○ Meeting with three non-Fannie Mae lenders that have experience with MHC finance including structures for Non-Traditional Owners. ○ Participate in two key industry conferences in order to gain exposure to a larger cross-section of the MHC market. ○ Host/participate in one manufactured housing roundtable to discuss the market and opportunities for MHC with Non-Traditional Ownership. • Utilize results from outreach/research activities to identify potential changes, consistent with safety and soundness, to current Fannie Mae MHC guidelines that could result in increased liquidity to meet the needs of Non-Traditional Owners. • Review and approve one to three guideline changes that will facilitate additional standardization for, and therefore liquidity to, the Non-Traditional Owners MHC market with a focus on government and non-profit ownership. (For activities related to resident ownership, see discussion of pilot below). • Based on outreach and research conducted as part of the loan product development process, review and refine Baseline loan purchase goals for 2019. • Educate three lenders that have had involvement in subject guideline changes so that the lenders are able to increase their loan originations for MHC with Non-Traditional Owners. • Design a pilot program (including implementation plan) specifically for ROC that can be used to test potential guideline changes that could increase loan purchases for ROC. The plan will include details for ongoing management, monitoring, and reporting for 2019 and 2020. • Establish a plan to create and distribute a white paper that documents Fannie Mae's experience and findings that can eventually be made publicly available to other market participants interested in financing loans for MHC with Non-Traditional Owners. • Confirm 2019 loan purchase goals based on 2018 research and outreach.
2019	• Purchase four loans secured by MHC owned by government entities and/or non-profits. ○ **Baseline**: To date, Fannie Mae has purchased one loan that is secured by a non-profit owned MHC which serves as the Baseline. The loan purchase goal will be reviewed and confirmed again in 2018 (noted above). • Implement pilot program for ROC loan purchases and purchase five loans. ○ **Baseline**: To date, Fannie Mae has not made any loan purchases for ROC. Although Fannie Mae has a solid history of purchasing MHC loans, ROC present a number of unique characteristics. These include higher overall leverage and ownership entities that do not fit Fannie Mae's historical MHC counterparty profile. As a result, Fannie Mae's past MHC loan purchase history is not a good indicator of future ROC loan purchases. Based on this analysis, Fannie Mae has determined that the ROC loan purchase Baseline is zero. However, Fannie Mae has collaborated with ROC USA® to estimate the market for ROC financing over the term of the Plan as well as a reasonable initial loan purchase target for Fannie Mae of five purchases. The analysis leading to this Baseline is as follows. ROC USA projects roughly 75 ROC transactions will occur during the term of the Plan. This estimate was established by first estimating the number of potential MHC with 50+ units (the size of MHC that ROC USA most frequently encounters in its work) in each of the States where ROC USA has a technical assistance provider (14 current States and three in process of becoming ROC USA technical assistance providers) and adjusting the numbers to account for MHC owned by REITs or consolidators (given those MHC rarely come on the market for financing). ROC USA then used a factor between two percent and five percent (depending on the

Year	Actions
	State) to estimate that 500 MHC may actively be marketed for sale in the next five years. Looking at the capacity of its technical assistance provider network and estimating its overall capacity to facilitate MHC sales to residents, ROC USA reduced the estimate to 125 MHC over five years (25 percent of 500 MHC) or 75 MHC over the three year term of the Plan. ROC USA currently completes between 10 and 12 ROC financings per year (roughly half of the potential annual transactions over the term of the Plan). Fannie Mae believes that setting a goal of purchasing at least five ROC loans in 2019 (approximately 50 percent of ROC USA's current estimated annual loan volume) is a meaningful target for the first year of ROC loan purchases. • Prepare a review of the results to date of the pilot program and identify what, if any, guideline or other changes might be required based on performance to date coupled with ongoing industry outreach and research. • Continue ongoing outreach activities to increase our understanding of the Non-Traditional Owners market to ensure our work is correctly targeted to increasing liquidity in this market over the previous year including: ○ Meeting with two additional government entities (i.e., not met with previously) that own or are considering owning MHC and with at least two additional non-profits that own or are considering owning MHC to obtain their input regarding the challenges that affect this market. ○ Meeting with two additional non-Fannie Mae lenders (i.e., not met with previously) that have experience with MHC finance, including MHC with Non-Traditional Owners, to obtain their perspective regarding additional challenges that affect this market over previous year. ○ Participating in two key industry conferences to gain additional perspective on information gained in the previous year. ○ Hosting/participating in one manufactured housing roundtable with key stakeholders to gain additional knowledge over the previous year and use the information to further increase our understanding of the market. • Continue work on a white paper by collecting and documenting Fannie Mae's outreach, product development, and loan purchase activities during 2019 with respect to MCH with Non-Traditional Owners. • Confirm 2020 loan purchase goals based on 2019 research and outreach.
2020	• Purchase six loans secured by MHC owned by government entities and/or non-profits. • Purchase seven ROC loans through the pilot program. • Continue to monitor the results of the pilot, and identify what, if any, changes might be required based upon performance to date. • Make a determination of next steps for pilot including: to continue as a pilot for further examination, to approve some or all of the pilot as product enhancements to be rolled out, or to terminate pilot due to adverse findings with regard to safety and soundness or other issues. • Continue ongoing outreach activities to increase our understanding of the market to ensure work is correctly targeted to increasing liquidity and to inform the establishment of the 2021 – 2023 Duty to Serve Plan, including: ○ Meeting with two additional (i.e., not met with previously) government entities and non-profits that own or are considering owning MHC.

Year	Actions
	○ Meeting with two additional (i.e., not met with previously) non-Fannie Mae lenders that have experience with MHC finance including structures with Non-Traditional Owners. ○ Participating in two key industry conferences. ○ Hosting/participating in one manufactured housing roundtable. • Publish publicly and distribute a white paper to key MHC industry stakeholders through presentations at outreach activities and other means of distribution. • Prepare the 2021 – 2023 Duty to Serve Plan.

Fannie Mae has served the MHC market for nearly 18 years and has purchased just under $11 billion in MHC loans since 1999. Fannie Mae has a solid familiarity with the numerous stakeholders across the MHC industry. However, while aware of the potential need for financing MHC with Non-Traditional Owners, Fannie Mae has considered purchasing such loans only on a one-off and exception basis. To strategically address loan purchases of MHC with Non-Traditional Owners and to determine the market opportunity, Fannie Mae must conduct research and outreach to key market stakeholders. Fannie Mae will use the information gathered to identify potential product enhancements that could increase the provision of liquidity to the Non-Traditional Owners market and create greater standardization.

Designing, assessing, and implementing a pilot program for ROC is consistent with Fannie Mae's strategy of providing liquidity to the market. However, while reasonable estimates are available, the market opportunity for ROC cannot be determined with appropriate certainty due to the lack of data. Fannie Mae will engage in outreach and research activities to attain a greater understanding of liquidity needs in this market. Fannie Mae will analyze the data gathered in conjunction with a review of existing MHC guidelines for the development of a pilot program. Fannie Mae will be able to enhance the MHC product, consistent with notions of safety and soundness, to accommodate this ownership. Fannie Mae has a long-standing history of providing capital to affordable housing (with income and other restrictions), MHC and cooperatives, all of which have common issues with ROC. In addition, Fannie Mae has solid relationships with lenders that are actively involved in financing MHC.

Fannie Mae regularly publishes white papers and similar documents to draw attention to affordable housing issues and potential solutions. By utilizing our national stature in the housing market, Fannie Mae may bring attention to affordable housing issues and potential solutions along the "Main Street" to "Wall Street" continuum. By publicly describing our successes and failures as we address MHC with Non-Traditional Owners, Fannie Mae may enhance knowledge of and spark investment in this affordable housing solution.

Based on this experience and the available resources, Fannie Mae has determined that this Objective is realistic and may be achieved within the time periods described.

Criteria	2018	2019	2020
Evaluation Factor:	Outreach	Loan Product	Loan Purchase
Income Levels:	Very Low-, Low-, and Moderate-Income Levels for all Years		

2. *Objective #2: Establish pilot program for investments in non-profit organizations, Community Development Financial Institutions (CDFI), small financial institutions, or other entities that have a major focus on MHC with Non-Traditional Owners (Partner and Innovate).*

Meeting the Challenges
As indicated in several public comments, additional challenges for MHC with Non-Traditional Owners include: • There are very few financial entities that specialize in this type of MHC. • Entities that work with MHC with Non-Traditional Owners are often small and local or regional and have limited access to capital for financing, especially with respect to the earlier stages of acquisition/stabilization financing which may include higher LTVs, subordinate debt, and require other forms of long-term capital. To address these challenges, Fannie Mae will: • Design and conduct a pilot program, subject to receipt of FHFA approval, to test entity level financing to non-profit organizations, CDFI, small financial institutions, or other entities that have a major focus on development and financing of MHC with Non-Traditional Owners. • Utilize pilot results in conjunction with the activities in Objective #1 to help determine the best role for Fannie Mae in supporting MHC with Non-Traditional Owners going forward, to provide long term permanent debt or to invest in intermediary financial organizations working with this product.

SMART Factors
Fannie Mae will undertake the following measurable Actions in the years indicated.

Year	Actions

2018	• Using Fannie Mae's multifamily product development process, design a pilot investment program that will include, but not be limited to, a review of:
	  ○ One to five potential investment types that could include:
	    ▪ Intermediary Line of Credit for CDFI and similar organizations.
	    ▪ Equity Equivalent Investment ("EQ2"), a relatively common investment structure utilized in the CDFI market.
	    ▪ Program Related Investment ("PRI") for CDFI and/or non-profit organizations. A PRI is a longer term debt investment at a below market interest rate that can be utilized as lending capital.
	    ▪ Purchase of certificates of deposit at small lending institutions.
	    ▪ Purchase stock in CDFI.
	• As part of the pilot, determine the following:
	  ○ Investment underwriting guidelines.
	  ○ Approval process requirements.
	  ○ Maximum allocated portfolio capacity.
	  ○ Asset management requirements.
	  ○ Reporting requirements.
	  ○ Performance measures including traditional financial measures as well as impact performance measures.

Year	Actions
	• Secure preliminary internal approval for proposed pilot program. • Submit pilot program to FHFA for review and approval. • If the pilot program complies with Fannie Mae's Charter Act and receives approval from FHFA, implement the steps necessary to begin to make investments commencing in 2019. • Analyze lessons learned throughout the year in order to make adjustments to the Plan if necessary.

2019	• Source, underwrite, approve, and fund two investments under the pilot program representing 40 percent of the amount of the appropriate investment identified. Fannie Mae will engage in the following tasks to approve the investments.
	  ○ Assess counterparty risk.
	  ○ Determine acceptable performance measures and/or loan covenants.
	  ○ Identify and mitigate key risks.
	  ○ Negotiate investment documentation.
	  ○ Develop appropriate asset management requirements including quarterly review process.
	  ○ Close and fund investment.
	• Utilize performance review(s) to inform additional investments to be made in 2020.
	• Analyze lessons learned in 2019 to determine if any modifications are needed for 2020.

2020	• Source, underwrite, approve, and fund three investments under the pilot program representing the remaining 60 percent of the amount of the appropriate investment.
	• Conduct quarterly reviews of investments made to date to assess performance under the pilot program. Quarterly reviews will include:
	  ○ Review of loan covenants (if required) to confirm borrower's financial health.
	  ○ Review of loan portfolio to confirm that it is performing as expected.
	  ○ Review of payment history.
	• During Q4, conduct a review of the pilot program to determine appropriateness in terms of both safety and soundness, mission impact, and implications for Fannie Mae's role in the Non-Traditional Owners MHC market going forward (including during the 2021 – 2023 Plan).

The need for capital investments in the underserved markets of the type described in this Objective was raised during the outreach Fannie Mae conducted in 2015, the comments that were received on the proposed Duty to Serve rule in 2016, and in the three listening sessions which took place in 2017. These comments define a significant market opportunity for these investments. Investment of this capital would in turn leverage significant funds into manufactured housing, which would enhance the market for MHC. Based on Fannie Mae's significant experience in developing products, acquiring approval and making investments of this nature, we believe this Objective is realistic and may be achieved within the time periods described. Any new investment would be subject to internal approval that would incorporate safety and soundness analysis. Implementation of this Objective is contingent upon a determination that the Objective and related actions are compliant with Fannie Mae's Charter Act, and receipt of FHFA approval.

Criteria	2018	2019	2020
Evaluation Factor:	Loan Product	Investment	Investment
Income Levels:	Very Low-, Low-, and Moderate-Income Levels for all Years		

D. Regulatory Activity: MHC with certain pad lease protections (12 C.F.R. § 1282.33 (c) (4)).

1. *Objective #1: Conduct research and outreach to determine market opportunities for FHFA's minimum tenant pad lease protections (FHFA Pad Requirements), offer one loan product enhancement, and acquire loans (Test and Learn, Partner and Innovate, Do What We Do Best).*

Meeting the Challenges
The MHC finance market faces several key challenges, including: • Inconsistent legal requirements for tenant pad leases across the country. • No State law that meets all of the FHFA Pad Requirements. • Borrower resistance to adopting consumer-oriented pad leases. To address these challenges, Fannie Mae will: • Conduct research and outreach on potential acceptance by MHC owners of FHFA Pad Requirements. • Identify, approve, and market one product enhancement to Fannie Mae's MHC product that will encourage borrower adoption of the FHFA Pad Requirements. • Purchase loans secured by MHC that are subject to the FHFA Pad Requirements.

SMART Factors
Fannie Mae will undertake the following measurable Actions in the years indicated.

Year	Actions
2018	• Conduct outreach to three manufactured housing organizations to get more insight on the impact/effectiveness of the FHFA Pad Requirements and similar requirements in different locations as well as which protections have the most impact. • Conduct outreach to five States that require the most significant number of pad lease protections included in the FHFA Pad Requirements to understand how such requirements are enforced and monitored. • Conduct outreach to 10 MHC owners (including ROC) and four lenders to better understand the barriers to incorporating the FHFA Pad Requirements and the market opportunities for financing MHC that meet the FHFA Pad Requirements.

Year	Actions
	• Conduct outreach to five MHC owners to better understand any owner resistance to adopting FHFA Pad Requirements and how to address that resistance. • Based on the outreach and other research results, identify, review, and approve at least one product enhancement for lenders and/or MHC owners that would incent loan purchases secured by MHC that meet the FHFA Pad Requirements. • Review the 2019 loan purchase goal and Baseline to determine any necessary adjustments based on the knowledge attained through the activities completed during 2018.
2019	• Train three MHC lenders to market the product enhancement to 10 MHC owners to encourage the owners to adopt the FHFA Pad Requirements at their properties based on the response of the MHC owners. • Market product enhancement at appropriate trade conferences to increase awareness and loan purchases. • Acquire 431 units secured by MHC that meet the FHFA Pad Requirements. • **Baseline**: Because Fannie Mae has not purchased any MHC loans that meet the FHFA Pad Requirements, a Baseline cannot be reasonable established for these purchases. There are no States that currently require all of the FHFA Pad Requirements. The goal will be to acquire 431 units meeting the FHFA Pad Requirements, which also includes the purchases that will be made through Fannie Mae's 2019 ROC pilot. Review proposed 2020 loan purchase goal based on 2019 results.
2020	• Acquire 615 units secured by MHC that meet the FHFA Pad Requirements. • Review the product enhancement to determine its impact in the overall financing decision and to identify potential changes that would further increase loan purchases that meet the FHFA Pad Requirements. • Establish goals for the 2020 – 2023 Duty to Serve Plan.

Based on Fannie Mae's initial research, there are no States or localities that require all or substantially all of the FHFA Pad Requirements. MHC are unlikely to adopt such protections voluntarily. Accordingly, we believe there is little existing market opportunity for financing MHC subject to the FHFA Pad Requirements absent marketing of a product enhancement that incents MHC owners to adopt them. By conducting research and outreach to both our current and new MHC stakeholders, Fannie Mae could facilitate a greater understanding of the FHFA Pad Requirements and identify opportunities to incent developers, States, localities, and MHC owners to establish such protections where they are not required to do so. Based on Fannie Mae's significant experience in the MHC market and developing products, and our strong relationship with MHC owners and MHC lenders, we believe this Objective is realistic and may be achieved within the time periods described. Any product enhancements will be supported by thorough economic, risk and operational analyses, will be subject to Fannie Mae's governance and approval processes, and will only be made consistent with safety and soundness concerns.

Criteria	2018	2019	2020
Evaluation Factor:	Loan Product	Loan Purchase	Loan Purchase
Income Levels:	Very Low-, Low-, and Moderate-Income Levels for all Years		

Freddie Mac

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FHFA's Compilation of Snapshots from Freddie Mac's Duty to Serve Plan: Manufactured Housing Communities

Activity 3 - Manufactured Housing Communities Owned by a Governmental Entity, Non-Profit Organization, or Residents: Regulatory Activity

Based on our outreach in the Resident Owned Community (ROC), non-profit, and governmental entity MHC market, we have found that there is a strong interest in our potential role in the ROC market, while the parameters of our existing MHC financing offerings can be leveraged for non-profit and governmental entities. Therefore, during this three-year Plan, we intend to focus our efforts in support of ROCs, although we will continue to monitor needs and opportunities for communities owned by governmental entities or non-profits. ROCs are typically created when investor-owned MHCs are bought by their residents. Although there are no formal data tracking the incidence of conversions from investor-owned to ROCs across the entire market, our outreach to lenders suggests that up to 25 communities are converted each year. We have also learned that there are some communities being sold back to traditional MHC sponsors/investors, although the exact numbers are not known.

The completion of a conversion from an investor-owned community to a ROC is a challenging process that requires a unique alignment of circumstances. Generally, at least seven factors must come together:

- A community must be put up for sale.
- The residents must want to own their community.
- A sophisticated tenant group must be appropriately organized to purchase it
- Sufficient equity or equity-equivalent financing must be available.
- Specialized debt financing products must also be available.
- Adequate technical assistance must be provided,
- The seller must choose to sell the community to the residents.

Although many MHCs are sold annually (the exact number of which is unknown), these seven factors presumably align in only a small minority of these cases. Additionally, state laws and programs can influence the conversion to resident ownership. According to Prosperity Now, only 10 states currently encourage resident ownership through pre-sale notices or tax incentives.[18] While there are rough estimates of the size of the ROC, non-profit and instrumentality-owned MHC market, there is not a clear and uniform definition of a ROC, nor is there a universal set of standards for community governance models. In order to provide liquidity to the ROC market and develop a sustainable, replicable infrastructure, we must first more fully understand the market's needs, challenges and opportunities. We will then promote that understanding along two separate but equally necessary paths: to the residents so they have a greater understanding of their opportunities and to the market as a whole, in order to attract additional private capital support. Simultaneously, we will seek to develop and test a new loan offering in support of ROCs, building toward loan purchases.

Ultimately, we intend to address the challenges and needs of the ROC market during the Plan Term through the following objectives:

- Promote understanding of the ROC market.
- Develop a new offering for ROCs.
- Purchase ROC loans.

OBJECTIVE A: PROMOTE UNDERSTANDING OF THE RESIDENT-OWNED COMMUNITIES MARKET

Evaluation Area	Year	Incomes Targeted	Extra Credit
Outreach	**1 and 2**	**Affordable**	**Not applicable**

In order to provide long-term, consistent liquidity to the ROC market, it is necessary to better understand this market and promote this understanding to both improve ROCs' abilities to meet requirements for financing and attract private capital to support them at scale. We will do this over two years of deliberate, foundational research. To begin understanding the scope and variety of MHC ownership structures, Freddie Mac will commission data-gathering across the known MHC market. This will enable us to define the size of the MHC market generally and better understand what is needed to help it grow. Because of the size and methodology of this survey, which will attempt to reach all known MHCs, it will take a full year to complete.

In Year 2 of the Plan, we will publish a report that identifies the size of the ROC market and the geographic distribution of ROCs based on the year one survey. In this report, we will also analyze various ROC ownership structures and identify best practices and standards around which the market can scale and attract further capital.

Based on the utility of these findings and the lessons we learn from our first survey, we will assess how we might improve the survey and/or report in order to best benefit the market. Though we will not seek Duty to Serve credit for doing so, we will look to continue this survey on an annual basis. In both the data gathering and analysis, we plan to work with leading industry partners.

Baseline

Today, there is no available comprehensive understanding of the ROC market. Current research efforts tend to focus on specific or localized cases but do not take a national view of the market, its challenges, and the opportunities for financing. Our research will be the first of its kind.

Challenges, Actions and Market Impacts

Market Challenge	Freddie Mac Actions
▪ Market for ROCs is limited. ▪ There is currently no broad view of existing ROCs. ▪ The market has unique financing and technical assistance requirements. ▪ No comprehensive dataset is available on ROCs. **Resource Challenge** ▪ Throughout the Duty to Serve Plan, we are taking on a considerable number of research efforts, all of which require extensive planning, collaboration with key stakeholders, and analysis. The design and research of all of these objectives will have many unique components and will leverage the expertise and skills of our internal research organization, whose focus extends beyond the	**Year 1 – 2018** 1) Design and commission research on ROC market size, ownership structures of MHCs and market needs. Survey will cover all 50 states and include at least the following data points, if available: a. Location b. Ownership type c. Community size (total number of pad sites) d. Percent resident owned e. Percent of community as rental units f. Length of resident ownership period

scope of the Duty to Serve Plan.	g. Age of community h. Whether community Has debt financing i. Property value j. Pad rents k. Community fees l. Age restrictions m. Rent restrictions ▪ Note: Due to the extensive scope of surveying more than 30,000 MHCs across all 50 states, this survey will take a full year to complete and will rely on the support of third-party organizations. **Year 2 – 2019** 1) Receive full survey results, analyze results, and publish report. 2) Report will include a summary of survey results, an estimate of overall market size and characteristics, the geographic distribution of ROCs, analysis of ROC ownership structures, as well as a description of best practices and new standards that will enable future purchases. In completing this report, we will engage with leaders in the ROC market to inform our analysis and observations. 3) Report will also include any lessons learned from attempted pilot transactions under the loan offering described in Objective B below. 4) Report will be published on our website; distributed to manufactured housing research organizations, advocacy organizations, and the MHC seller/servicer network; and promoted with a press release.

Market Impact
The ROC market is currently very limited, is not comprehensively researched, and relies on unique financing agreements that are not conducive to attracting private capital at sufficient scale to grow the market. Our research will help to define the ROC market and its characteristics, lay out new standards and best practices, and provide the foundation for scalability to attract private capital. Year 1 – 2018. Our survey will set a first of its kind baseline by analyzing the state of the market and establishing a foundation for future growth. Achieving this will require an extensive effort to reach all known MHCs across all 50 states. Our research will be difficult to complete because it may involve challenges with response rates from MHCs and other resource obstacles. This research and subsequent publication of what we learn will enable a broader understanding of the market, set a foundation for attracting more capital, and help bring standards and more technical assistance to these communities. Ultimately, this research will identify what is needed for the market to be able to grow. Year 2 – 2019. The publication of our report in Year 2 will have three substantial benefits to the market. First, it will reveal the market size and geographic location of all surveyed ROCs for the first time. Second, it will identify and analyze different ROC ownership structures identified in our survey. Third, it will identify new standards and best practices that can be leveraged to better formalize ROC ownership structures around which we, and the market generally, can direct capital. By publishing standards and best practices learned from our research, we will enable more ROCs across the country to follow these standards, which will enable them easier access to financing. We will also leverage the lessons learned from our survey and analysis, as well as the best practices and standards, to inform key criteria in our product development efforts as we refine our ROC loan offering described in Objective B below. This report will also allow us to direct the attention of our seller/servicer network to ROCs around the country to pursue financing opportunities with them using our newly designed offering. Through the standards identified in our analysis and leveraged for our ROC loan offering, and by generating more loans to ROCs based on these standards, we will be able to apply our market-leading risk-distribution methods to attract private capital to support ROCs, enabling this market to grow in a safe and sound manner.

OBJECTIVE B: DEVELOP A NEW OFFERING FOR RESIDENT-OWNED COMMUNITIES

Evaluation Area	Year	Incomes Targeted	Extra Credit
Loan Product	**1 and 2**	**Affordable**	**Not applicable**

In Year 1 of our Plan, we intend to work with ROC industry partners such as research organizations, trade organizations, and lenders to best understand their needs and challenges in order to develop a pilot offering with guidelines that will specifically work for these communities and allow us to lend safely with an eye towards attracting private capital to this market and distributing risk away from taxpayers. In Year 2 of our Plan, we intend to continue to refine the offering and pursue pilot transactions.

Baseline

Freddie Mac has been in the MHC lending business since 2015, and we have purchased $2.8 billion of loans on

MHCs. Of those, two purchases have been ROCs. To our knowledge, we are the only GSE to have ever purchased ROC loans. However, we have never had a specific product tailored to the ROC market, and there is not currently a product tailored for ROCs that can attract private capital at sufficient scale to allow this market to grow. This product will be the first of its kind.

Challenges, Actions and Market Impacts

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The limited number of ROCs.
The specialized nature of the financing required.
ROCs generally require debt of over 100 percent loan-to-value (LTV), which would require GSEs to allow subordinate debt above conforming levels.
The need for technical assistance to both form the properly structured ownership organization and operate the property over the long term.
The need for sufficient equity or equity-like financing to enable lending to be done in a safe and sound manner.

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Year 1 – 2018
1) Publish a product term sheet for a pilot product and distribute it to one or more seller/servicers engaged in the pilot.
2) Term sheet will contain at least the following elements:
a. Product overview and loan purpose
b. Borrower and/or property eligibility requirements
c. LTV limits
d. Debt coverage limits
e. Allowable lengths of loan term
f. Allowable lengths of amortization
3) Engage at least one lender within our seller/servicer network to test and refine the pilot offering, which may include loan purchases.
Year 2 – 2019
1) Engage in at least one transaction based on the published term sheet. Due to the limited market size for ROCs, this pilot will be available nationally to communities that meet the minimum requirements described in our term sheet and are affordable to residents making 100 percent of the area median income (AMI) or below per FHFA’s affordability estimation method.
a. Update the term sheet based on pilot transaction(s) and market acceptance of the product to address transaction challenges and feedback identified during the pilot, while allowing for transaction customization as needed based on the market and borrower.
b. We will view this pilot as successful if we are able to quote at least one ROC transaction and either purchase a loan as a result or
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	receive recommendations from the seller/servicer and/or the borrower on how we might adjust product terms to better serve the market. c. Include lessons learned from the attempted transaction(s) in our report, described in Objective A above.
Underwriting Challenge	**Freddie Mac Action**
▪ Limited experience of newly converted ROC ownership organizations in operating a ROC and understanding and meeting requirements of sophisticated debt obligations ▪ The unique nature of each property with regard to the ownership structure, rules and regulations, and asset requires a case-by-case analysis	**Year 1 – 2018** 1) Develop internal underwriting parameters and policy guidelines for ROCs that address particular components of the ROC market, including, but not limited to these: a. Borrower net worth and liquidity requirements b. Acceptable forms of subordinate debt c. LTV and debt coverage parameters d. Operating reserve requirements e. Third-party technical assistance requirements f. Home rental allowance g. Home sales requirements h. Rules and regulations enforcement covenants 2) Provide one to three training session(s) to internal production and underwriting staff covering product parameters and underwriting guidelines. 3) Provide one to three training session(s) to Freddie Mac seller/servicers covering product parameters and underwriting guidelines.

Market Impact
Today, financing for ROCs is generally provided by CDFIs or banks using specialized products that often require considerable leverage with combined loan amounts in excess of the appraised value of the property. Additionally, these loans have limited secondary market outlets, which is one of many factors contributing to the relatively small size of this market. Although we have completed what we believe to be the only two ROC transactions by a GSE (and evaluated loan quote requests for several others), we have done so on a case- by-case basis, leveraging current policies. As a result, we have learned first-hand the challenges of financing ROCs. By engaging in one sample transaction in Year 2, we will have the ability to test our offering parameters in the ROC market and refine our offering parameters based on this transaction as well as the results of our survey and analysis described in Objective A above. We believe this offering has the potential to both provide an outlet for current ROC financing providers and establish standards to enable other MHC financing providers, such as Freddie Mac's existing Multifamily seller/servicers, to enter and further develop this market. This will also enable us to provide the benefits of our risk distribution models to this market. The volume under such an offering is likely to be minimal in the near and mid-term relative to the total MHC market and is directly related to the availability of technical assistance to the borrowers from industry experts and the ability to structure a product that provides sufficient leverage while maintaining safety and soundness and attracting private capital for risk distribution. However, we believe that the opportunity it creates has the potential for significant long-term benefit for ROCs. We believe our timeline for this objective is reasonable given our experience with ROCs to date, the needs of the market, the potential for refinement over time, and the benefit of sharing our experience with the market generally.

OBJECTIVE C: PURCHASE RESIDENT-OWNED COMMUNITY LOANS

Evaluation Area	Year	Incomes Targeted	Extra Credit
Loan Purchase	**3**	**Affordable**	**Not applicable**

As a result of our ROC offering described above and our study in years 1 and 2 of this Plan, we intend to measure ROC loan purchases in Year 3. In the first year after our landmark research and report publication, we expect the market will still be small and broad capital-markets interest will still be limited. Therefore, purchasing ROC loans and promoting those purchases and their replicability through press releases or news stories on our website will be fundamental to growing this market over time.

Baseline

Year	Number of Transactions	Total Amount ($)
2014	0	0
2015	0	0
2016	2	$5.4 million

We have purchased two ROC loans since the inception of our MHC program in 2014 for a total of approximately $5.4 million. To our knowledge, we are the only GSE to have purchased ROC loans. Our baseline is calculated based on the average of the last three years (2014, 2015, 2016): one transaction or $1,800,000. Our two prior transactions were brought to us as part of our normal course of business in 2016. In 2017, we have not purchased any loans on ROCs, and in the more than 150 loan quotes we have provided for MHCs through 3Q2017, only one was for a ROC. Therefore, we do not view these two transactions as reliable predictors of future purchase volume.

Target

The ROC market, as described above, is relatively small, with perhaps up to 25 conversions per year. Additionally, there are other secondary market capital providers today in the form of life insurance companies and mission-driven banks, though their participation is somewhat limited, in part by the nature of their commitments and existing product infrastructure. Therefore, we believe that a target of supporting roughly 10 percent of this market, translated as the lesser of two transactions or $5 million, is a meaningful impact in our first year of deliberate ROC loans, especially given that the benefits from our survey and publication described in Objective A and the loan offering described in Objective B will take some time to gain market acceptance. We will likely seek to increase purchases in subsequent years as we refine our product offering and gain more market adoption.

Year	2020
Target	The lesser of two transactions or $5 million

As we gain experience in the ROC market, we may revise these targets given market conditions and the results of our pilot efforts described above.

Market Challenges

The primary challenge involved in making loan purchases on ROCs is the unique circumstances for a ROC loan to occur. For a ROC loan to initiate, the following must happen: A community must be put up for sale, the residents must want to own their community, a sophisticated tenant group must be appropriately organized to purchase, sufficient equity or equity- equivalent financing must be available, specialized debt financing products must be available, adequate technical assistance must be provided, and the seller must choose to sell the community to the residents. It is very rare that all of these factors combine to enable a transaction.

This long list of requirements is lengthened by other factors. In the case of refinances, properties must show a history of stable operation and professional management of the community and borrowing entity. Also, and perhaps most importantly, the prevailing financing model in the market is not conducive to either significant growth or attracting the private-capital investment at scale necessary to distribute risk away from the public. ROCs generally require subordinate debt with foreclosure rights in addition to the senior loan, bringing the combined loan-to-value over 100. This falls well outside typical credit parameters for the GSEs.

Market Impacts

We believe having a stable capital source for senior debt will provide consistent liquidity to this market. Today, ROC financing is dependent upon select originators and investors, which makes the market narrow. With the introduction of a new product and future loan purchases, we can open this market to a wider range of private capital. This will remove barriers that restrict growth in the ROC market and enable the provision of a renewable source of capital. Our involvement in this market will provide long-term liquidity that will protect senior lenders from undue risk and expand the market to create more business flow. Our two transactions will be precedent-setting, and, through press releases or deal stories that summarize the transactions, we will promote their replicability, which will lead to a growth in purchases in future years.

Activity 4 – Manufactured Housing Communities with Certain Pad-Lease Protections: Regulatory Activity

During the public listening sessions and consistently throughout our outreach, we have heard from advocacy groups that MHC tenant protections are key to creating a stable tenant base which, in turn, increases stability in the MHC market.

We intend to work to provide a broader market understanding of the gaps between what the market currently offers for MHC tenant protections and what is identified in the Duty to Serve regulation, and explore ways to close that gap over time through the following objectives:

- Conduct and publish a 50-state tenant protection survey.
- Develop a pilot offering for MHC borrowers that institute Duty to Serve tenant protections.

OBJECTIVE A: CONDUCT TENANT-PROTECTIONS SURVEY

Evaluation Area	Year	Incomes Targeted	Extra Credit
Outreach	**1**	**Affordable**	**Not applicable**

In 2016, Freddie Mac commissioned a study of state tenant-protection laws in the top 11 states in which we purchase MHC loans.[19] This study reviewed both laws specifically related to MHCs and laws generally applicable to tenant protections. The resulting data revealed that none of these 11 states has the necessary combination of tenant protections for eligibility for credit under the Duty to Serve regulation.

We also reviewed a representative sample of leases from our top 10 MHC owner/operators whose properties contain the most home sites. In the course of our review, we did not discover the requisite combination of Duty to Serve tenant protections.

Accordingly, we believe it is unlikely that an active market of MHC properties with these tenant protections currently exists.

This study was designed to identify the presence or absence of a market, rather than to identify the gaps between current state tenant protections and the Duty to Serve tenant protections. The study was also limited in scope, and did not involve extensive borrower outreach. Therefore, in Year 1 of our Plan, we intend to expand the scope of our survey and focus on what needs to be done to develop an MHC market for properties with the full complement of Duty to Serve tenant protections. To do this, we will commission a 50-state survey of state MHC tenant-protection laws and perform outreach to a representative sample of MHC owner/operators to whom we have provided financing as well as investors in our risk-distribution offerings, such as our K-Deal. Our outreach will request MHC owner/operators' views on the adoptability of Duty to Serve protections without a state law requirement to do so, and how owner/operators might implement the Duty to Serve protections. We will also seek the input of investors in our securitizations to determine their views on these tenant protections and how they may impact securitization performance. This is a natural progression of the work that we began in anticipation of the Duty to Serve regulation. As a service to the market, and to encourage awareness, we will publish a report summarizing state-by-state tenant-protection laws and the gaps between those laws and the Duty to Serve tenant protections. We will also summarize impediments to voluntary adoption identified by the borrowers and securitization investors surveyed.

Baseline

Today, our research on tenant protections is limited to 11 states and focused on the tenant protections in the proposed Duty to Serve regulation. This research reveals the absence of a market of properties with the full set of Duty to Serve tenant protections within these 11 states. Our outreach will expand upon and update prior research to conduct a fifty state survey to determine the national scope of this market and our ability to conduct business.

Challenges, Actions and Market Impacts

Market Challenge	Freddie Mac Action
▪ We have not found a market for the full suite of Duty to Serve tenant protections. ▪ We do not have a broad understanding of the gaps between current tenant protections and those identified in the Duty to Serve regulation. **Resource Challenge** ▪ Throughout the Duty to Serve plan, we are taking on a considerable number of research efforts, all of which require extensive planning, as well as collaboration with key stakeholders, and analysis. The design and research of all of these objectives will have many unique components, and will leverage the expertise and skills of our internal research organization, whose focus extends beyond the scope of the Duty to Serve Plan.	**Year 1 – 2018** 1) Conduct 50- state review, obtain MHC owner/operator feedback, survey securitization investors, and publish results. Survey will include: a. List of tenant protections by state b. List of MHC tenant protections by state c. List of Duty to Serve tenant protections not covered in each state 2) Study will examine the following points from state statutes and regulations: a. Requirements for written lease agreements, including any required minimum lease terms and automatic renewals b. Limitations on evictions and treatment of defaults c. Requirements for rent increases, subleasing and assignment and restrictions on tenant's right to sell or place "For Sale Signs" d. Requirements to provide tenants with notice of change of use or intended MHC closure 3) Study will identify gaps between state tenant protections and Duty to Serve tenant protections and any barriers to adopting this specific set of tenant protections.

	4) Study will be published on our website, distributed to manufactured housing research organizations, advocacy organizations, and the MHC seller/servicer network, and will be promoted with a press release.

Market Impact

We believe that expanding the scope of our recently-completed 11-state survey to cover all fifty states, as well as borrower and investor feedback, is an important first step in developing and growing the market for MHCs with Duty to Serve tenant protections. Our preliminary research gave an indication of the market, or lack thereof, for MHCs with Duty to Serve tenant protections.

Expanding upon our research to represent all 50 states will lay the foundation to make future MHC loan purchases. Publishing the results of our survey will give borrowers, states, and the general public a better sense of the tenant protections that exist and those that need to be implemented in order to meet the full complement of Duty to Serve tenant protections. From the results of our survey, we see the following benefits:

1. We will be better able to identify the optimal set of product parameters for our pilot offering described in Objective B below.
2. States will be better positioned to assess and close the gaps between their current tenant protections and those deemed optimal by FHFA.
3. Borrowers will have clarity as to what tenant protections they could voluntarily add to their leases, in combination with state tenant protections, to meet the standards identified by FHFA.
4. In the event that borrowers or investors identify barriers to adopting of the Duty to Serve tenant protections, we will be able to inform FHFA and the market of such barriers and potential alternative combinations of protections.

Over time, should states and borrowers choose to adopt the Duty to Serve tenant protections, this will enable the formation of a market of MHCs with such tenant protections.

OBJECTIVE B: DEVELOP PILOT OFFERING FOR BORROWERS THAT INSTITUTE DUTY TO SERVE TENANT PROTECTIONS

Evaluation Area	Year	Incomes Targeted	Extra Credit
Loan Product	**2 and 3**	**Affordable**	**Not applicable**

In our research to date, we have not found states that require the full complement of Duty to Serve tenant protections, nor have we identified MHC owner/operators (other than ROCs or non-profits) who have included the full complement of Duty to Serve tenant protections in their leases. Given that these tenant protections are neither a common market practice nor required in full by state law, unless state laws change, we will likely need to offer some form of incentive or recognition for borrowers to adopt these protections in full. At this time, the specifics of the necessary combination of incentives and product parameters are not known.

Freddie Mac will work with seller/servicers, industry experts, and MHC owners to develop a pilot offering that recognizes borrowers who adopt the full complement of Duty to Serve tenant protections pursuant to state law, through voluntary adjustments to their leases, or a combination of both. The development of the pilot's terms will be largely dependent upon the results of our 50-state survey and our work with industry experts and MHC owners. We also plan to publish lessons learned from our pilot and, depending on these results, seek market guidance on what is required for this market to develop.

Baseline

To date, Freddie Mac has not purchased any loans on properties that have this specific set of Duty to Serve tenant protections, nor have we seen any evidence that such properties are available in the market. Our current MHC offerings do not have specific recognition or incentives for this set of tenant protections. Our pilot offering will be the first Freddie Mac product of its kind and will illustrate whether or not there is market appetite for this particular combination of tenant protections.

Challenges, Actions and Market Impacts

Market Challenge	Freddie Mac Action
▪ Limited understanding of the gap between current market practice and the market potential for the Duty to Serve tenant protections. ▪ Limited market interest beyond ROCs and non-profit entities for adoption of Duty to Serve tenant protections. ▪ Unclear path to, or optimal method of, implementation of the Duty to Serve tenant protections	**Year 2 – 2019** 1) Publish a term sheet on our website for an offering that incentivizes or recognizes borrowers who adopt the full complement of Duty to Serve-compliant tenant protections through state law, voluntary adjustments to their leases, or a combination of the two. 2) Term sheet will contain at least the following elements: a. Product overview and loan purpose b. Borrower and/or property eligibility requirements c. Loan-to-Value limits d. Debt coverage limits e. Allowable lengths of loan term f. Allowable lengths of amortization g. Required tenant protections to be found in lease terms, in state law, or in the combination thereof 3) Engage one or more seller/servicers and one or more MHC sponsors to test and refine the pilot concept. Because of the absence of a market for MHCs with the specific set of Duty to Serve tenant protections, this pilot will be available nationally to communities affordable to residents who make 100 percent of AMI or less, based on FHFA's recommended estimation method. 4) Provide one to three training sessions to internal production and underwriting staff

	covering product parameters and underwriting guidelines. 5) Provide one to three training sessions to Freddie Mac seller/servicers covering product parameters and underwriting guidelines. **Year 3 – 2020** 1) As part of the pilot, purchase at least one loan on a community with the full complement of Duty to Serve tenant protections. 2) Publish lessons learned from our pilot and, depending on the results, seek market guidance on what is required for this market to develop. If we are unable to purchase any loans with the full complement of Duty to Serve tenant protections, this report will include a description of attempts made and a summary of market feedback we received. 3) We will view this pilot as successful if we are able to either (1) purchase a loan as a result, (2) receive recommendations from the seller/servicer and/or the borrower on how we might adjust product terms to better create this market, or (3) provide FHFA with market feedback on the viability of this particular combination of tenant protections.

Market Impact

In order to determine market interest and potential, it is important to test market appetite with a pilot offering to recognize or incentivize borrowers who adopt all of the Duty to Serve tenant protections. This pilot is a foundational activity that we believe is required to advance the future development and growth of a market that adopts the Duty to Serve tenant protections.

This pilot will also clearly indicate if borrowers can be incentivized to add the full complement of Duty to Serve tenant protections to their leases when they have other sources of financing available to them that will likely continue to have no expectation that such protections be considered. Success will be in the form of the lessons learned and shared with the market, not necessarily in resulting purchases in the first Plan Term.

Through this product, we expect to be able to leverage our industry leading risk-distribution methods, which leverage private capital to promote safety and soundness.

DISCLAIMER

Implementation of the activities and objectives in Fannie Mae's and Freddie Mac's Duty to Serve Underserved Markets Plans may be subject to change based on factors including FHFA review for compliance with the Charter Acts, specific FHFA approval requirements and safety and soundness standards, and market or economic conditions, as applicable.

Updated January 2019