American Residential Communities

September 18, 2009

Alfred M. Pollard
General Counsel
Attention: Comments/RIN 2590-AA27
Federal Housing Finance Agency
Fourth Floor
1700 G Street, NW
Washington, DC 20552

Dear Mr. Pollard:

We appreciate the opportunity to comment on the Advance Notice of Proposed Rulemaking relating to the "Duty to Serve Underserved Markets" issued by the Federal Housing Finance Agency (FHFA). This is a critical issue for us and our business. With over 57,000 home sites and 160,000 residents, American Residential Communities LLC (ARC) is one of the largest owners of land-lease manufactured housing communities in the United States. In the U.S., there are an estimated 50,000 land-lease communities (we own 275) that provide affordable housing to over 10 million people. Given their lower income and credit scores, the residents of ARC's communities have limited housing options and are shut out of the credit markets, and consequently are the ones in most need of assistance. Equity LifeStyle Properties, Inc. (NYSE: ELS), an owner of 130 communities with approximately 40,000 occupied home sites, has joined in this response. ELS provide a source of affordable housing to those who cannot afford to or choose not to buy real estate, including many retirees living on fixed incomes.

In the Housing and Economic Recovery Act of 2008 (HERA), Congress mandated that the Government Sponsored Enterprises (GSEs) have a "Duty to Serve Underserved Markets." The Act then identified these markets as "Manufactured Housing," "Affordable Housing Preservation," and "Rural and Other Underserved Markets." In some ways, manufactured housing is all three. Moreover, in each category, the specifically identified beneficiary of the Duty to Serve is "very low-, low-, and moderate-income families."

The residents of manufactured housing communities fall squarely within the Duty to Serve and are exactly the people Congress intended to help. Manufactured housing is a significant source of housing in the United States and disproportionately serves lower- and moderate-income families, and those on fixed incomes. Although 6% of the overall U.S. population lives in manufactured homes, manufactured housing represents nearly 11% of housing for families living at 150% or less of the poverty level and is the largest source of unsubsidized affordable housing in the nation.

While the single family housing market is a couple of years into its crisis, the manufactured housing crisis is almost ten years old and the industry is in a precarious position. There has been no functioning financing market for manufactured housing since 2000. Traditionally, our customers own their own homes and rent land from us thereby allowing them to preserve their capital. However, without financing, these customers more frequently must rent both home and land or borrow from us to purchase homes. Construction of new manufactured homes is expected to be 55,000 for 2009, a precipitous drop from the 370,000 homes constructed in 1998. The unemployment rate in Elkhart, Indiana – the manufactured housing capital of the world – has reached 18.8%. Simply put, the nation's stock of affordable housing is at risk and the GSEs must act now under their Duty to Serve to help the "very low-, low-, and moderate-income families." To satisfy this Duty, we believe it is vitally important that the GSEs facilitate the financing of (i) manufactured housing communities and (ii) manufactured homes on leased land (which loans are sometimes referred to as "chattel loans").

The Duty to Serve Requires the GSEs to Facilitate Manufactured Housing Community Loans

Land-lease communities are one of the most affordable housing options. Most residents of such communities own their home, either outright or financed, and rent their home site, so they do not need additional equity to purchase their land. Our communities are well-maintained and offer a safe living environment with amenities such as playgrounds, pools and clubhouses. For low- and moderate-income families, this housing choice may be their best opportunity to participate in the American dream. This affordable housing alternative is also desirable for older persons living on fixed incomes, especially after the impact of 401(k) and other investment losses in recent years. They can experience the pride and benefits of home ownership in a community environment, at a monthly payment within their means.

Unfortunately, financing is essentially unavailable for manufactured housing communities and the GSEs are not serving this market:

- Banks and other traditional lenders will not finance manufactured housing communities, or, if they do so, it is at very onerous terms for only the highest quality communities with full occupancy;
- There is no secondary or securitization market;
- Freddie Mac does not finance manufactured housing communities (but will aggressively finance multi-family apartments); and
- Fannie Mae has made it very difficult to get financing by tightening its underwriting guidelines in the following manner:
    - All markets are on pre-review status,
    - Only communities of the highest quality in the strongest locations qualify,
    - More than 50% of the home sites must be double-wide sites,
    - The ratio of park-owned rental homes to owner-occupied homes cannot exceed 5%,
    - The rental income from park-owned rental homes is not underwritten cash flow, and
    - Loan terms are very onerous (e.g., the amortization period for a multi-family apartment loan is 30 years but for family manufactured housing communities it is now 25 years).

  Without any known reason, this tightening is far more severe for manufactured housing than for apartments despite the excellent track record of manufactured housing.

In 2008, Fannie Mae's multi-family loan volume through its Delegated Underwriting and Servicing (DUS) program was $33.3 billion. Approximately $1 billion of that total was in manufactured housing communities. As of the year-end 2008, Fannie Mae's total manufactured housing loan portfolio was $3.2 billion out of its total portfolio of approximately $750 billion. The fact that manufactured housing community loans represented just 3% of Fannie Mae's 2008 DUS program and just 0.4% of Fannie Mae's total portfolio when over 10 million people reside in land-lease communities is evidence that the GSEs under serve this critical form of affordable housing. If Freddie Mac's loan portfolios were included, the share of manufactured housing loans as a percentage of the combined GSEs portfolios would be even lower. Simply put, while the GSEs continue to aggressively finance multi-family apartments, they have made it very difficult to finance manufactured housing communities, especially the ones most affordable for "very low-, low and moderate-income families."

Indeed, the degree of government involvement in multi-family and single-family housing markets other than manufactured housing has the perverse impact of harming those most in need (i.e., those who do or could benefit most from manufactured housing) by making capital for the manufactured housing industry relatively more expensive or simply unavailable. By providing favorable access to capital to some forms of housing over others, the government is picking winners and losers. And in this case the losers are those most in need.

Without a functioning lending market, existing community owners have few refinancing options and sales are equally difficult. As with single-family homes, multi-family apartments and other real estate asset classes, this void will result in falling property values and greater financial stress on owners. The continued deterioration of communities as a result of the lack of functioning financing markets will cause the residents to suffer most. Owners will have less money to reinvest in their communities. Completion of necessary capital improvements will diminish, resulting in the increase of deferred maintenance. Items such as basic road repair, on-site utility maintenance, and maintaining family activity centers are at risk. Cash shortfalls will be made up with rent increases and expense reductions. As the stress on these communities mounts, many communities will be forced to close and others will be converted to alternative uses, further reducing this nation's supply of affordable housing.

There is no basis for treating loans secured by manufactured housing communities differently than multi-family apartment loans. Given the nature of their occupancy, where residents build equity in their homes, turnover is less frequent than at apartments and the income stream is more stable. On a comparative basis, loans on manufactured housing communities have performed very well. An analysis of CMBS statistics indicates that the foreclosure rate and delinquency rate for multi-family apartments is three times greater than for manufactured housing communities.

To fulfill their Duty to Serve, the GSEs should focus on the following:

- Both Freddie Mac and Fannie Mae should finance manufactured housing communities;
- The importance of manufactured housing communities as a true means of creating affordable housing should be reflected in the volume of loans financed by the GSEs; and
- Underwriting standards should be modified to reflect the lower risk profile of manufactured housing communities, including:
    - making and sizing loans based on in-place income like apartment loans (as opposed to rejecting all but the highest quality communities),
    - reducing minimum occupancy requirements,
    - eliminating double-wide site requirements (single-wide homes are more affordable and should not be penalized),
    - increasing lending in secondary and tertiary markets,
    - eliminating the cap on the number of park-owned rental homes, and
    - treating park-owned rental homes as a stable, predictable income stream that is directly comparable to multi-family apartments, and, as such, included in underwritten cash flow.

While the benefits of resident-owned parks should be recognized by the GSEs, it is imperative that the fulfillment of the Duty of Serve be evaluated by whether the actions of Fannie Mae and Freddie Mac are helping the people who need the greatest assistance – the lower- and moderate-income families – as mandated by Congress. This includes older persons living on fixed incomes. The financing of manufactured housing communities is clearly an "underserved market," and as stated in the Duty to Serve statutory language, the GSEs have an obligation to "undertake activities relating to mortgages on housing for very low-, low-, and moderate-income families." These are the residents of land-lease communities. The Duty to Serve requires the GSEs to help these people and surely is flexible enough to facilitate the financing of these communities. Something needs to be done now or the largest source of unsubsidized affordable housing in the nation will be at risk.

The Duty to Serve Requires the GSEs to Facilitate Chattel Loans

Congress emphasized the need to address chattel financing in the Duty to Serve manufactured housing provision of HERA, which specifically states that the FHFA Director shall consider purchases of personal property manufactured housing loans in evaluating compliance with such Duty. While there are several ways the GSEs could fulfill this Duty, such as the creation of an ongoing or "flow" basis program, we believe it is imperative that a program be implemented immediately that is designed to help "very low-, low-, and moderate-income families."

A manufactured home financed with a personal property loan is among the most affordable forms of home ownership, as no land is involved in the loan transaction. While mortgages may be available for borrowers who wish to finance their manufactured home and land together, personal property loans to finance homes only are essentially non-existent:

- There is no secondary market or securitization opportunity for chattel loans, so banks and other traditional lenders are no longer in this lending business;
- The GSEs do not currently purchase personal property loans, although the charters of both Fannie Mae and Freddie Mac allow for these purchases; and
- Community owners have been financing the sale of homes as a default, but many of them are running into balance sheet constraints.

As a result, the people who need assistance the most – the ones for whom the Duty to Serve was designed – are being ignored.

One way the GSEs could fulfill their Duty to Serve and act in their traditional role is to provide liquidity to the chattel note market through the purchase of seasoned loans. For example, the owners of manufactured home communities could sell their existing chattel paper to the GSEs and guarantee any defaults or be obligated to substitute new personal property loans. Community owners, as loan originators and guarantors, would have "skin in the game" ensuring their interests are aligned with the GSEs, and their credit would buttress the credit of the end-borrower. In turn, the owners could commit to use the proceeds to originate new chattel loans, thereby creating more affordable home ownership opportunities for hundreds of thousands of Americans. Over the past six months, we have met with Fannie Mae, Freddie Mac and regulators and have offered this type of proposal, but they have indicated that they are waiting for clarity on what the Duty to Serve means.

Summary

Manufactured housing is a major source of affordable housing in the United States and one that is underserved by the GSEs. From a loan investment perspective, manufactured housing outperforms multi-family apartments on every level, from stability of cash flows to historical delinquencies. The GSEs must step in to provide liquidity for manufactured housing communities and chattel loans – doing so will be the only way they can truly fulfill their Duty to Serve.

We appreciate the opportunity to comment. Should you need further information or have any questions, please contact either one of us.

Sincerely,

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