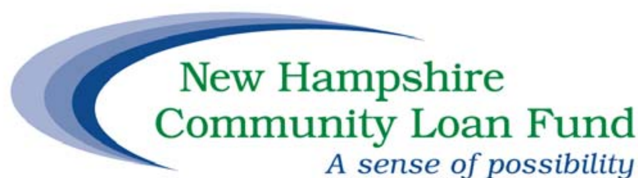

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September 17, 2009

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

RE: RIN 25900-AA27-Duty to Serve Underserved Markets for Enterprises

Dear Mr. Pollard:

Over the last 26 years, the New Hampshire Community Loan Fund has worked to lower and eliminate the barriers to home ownership faced by the low- to moderate-income occupants of manufactured housing. We have succeeded in many ways, financing the conversion of 93 manufactured housing communities in New Hampshire to resident ownership and establishing first-in-the-nation opportunities for conventional mortgages for owners of manufactured homes in resident-owned communities. Our experience in this market convinces us that barriers remain across the nation and that Fannie Mae and Freddie Mac should play a leadership role in serving this underserved market.

Before commenting on the specific issues before the Enterprises, I would like to focus briefly on the people for whom we work. Ossipee Mountain Estates is a relatively large resident-owned community (109 homes) in a small town (4,418 people) in rural northern New Hampshire. About half of the households returned an income survey to us in 2005; our experience tells us that those who did not return surveys are probably *not* among the wealthier residents. The results showed that at the time, the median household income in the community was just $21,310. More than 69 percent of the residents responding had low to moderate incomes. Nine households, home to 25 people, had annual incomes below $12,000; another 16 households, with 31 residents, had annual incomes between $12,000 and $30,000. Only two of the responding households had incomes higher than the state median household income, $49,467.

These statistics comport with conventional wisdom: for low-income Americans, manufactured housing is an excellent option and perhaps the only option. According to the Government Accountability Office, 17 million Americans live in manufactured

housing. The most important characteristic of Ossipee Mountain Estates is that the *residents* own the property, manage the community, make investments in their shared water and sewer systems, make monthly loan payments on the property, have a chance to build equity over time, and know that the future of their homes does not depend on the financial choices of an individual owner.

Fannie Mae launched a demonstration program with the New Hampshire Community Loan Fund in 2008 that has helped single-family lenders, including the Community Loan Fund, NH Housing Finance Authority, and Fannie Mae, to provide conventional, fixed-rate mortgages to homeowners inside resident-owned communities. ROC USA is now working to promote this successful model nationally.

The Community Loan fund works closely on manufactured housing issues with CFED and ROC USA. Both organizations have submitted detailed letters to you with specific policy recommendations. The Community Loan Fund vigorously supports the positions in those letters. Rather than repeat them all here, I will focus on just a few key points:

- Because low- and very low-income homeowners are the targeted beneficiaries of the Duty to Serve, it is especially important that the Duty to Serve speak to underwriting standards for community acquisition loans that enable all homeowners to participate equally in the nonprofit membership entity that governs a resident-owned community. Enabling these communities to be financed with modest membership fees and blanket mortgage loans of up to 110% loan-to-value (LTV) serves this goal. The Enterprises' need for safety and soundness means that they will not likely themselves provide highly-subordinate capital directly, so the financing structure itself must anticipate subordinate participations and loans to meet the needs of low-income homeowners in communities. If this is missed, there is a serious risk of producing bifurcated communities of higher-income members who can afford large share values and lower-income non-members who cannot afford shares or share loans. We believe strongly that "whole" community ownership – over time – is essential to the long-term health of a community and the security of the loan.

- Loan Terms of 15 to 20 years and amortization periods of 30 to 40 years reduce refinance risk associated with shorter terms and amortization periods and permit the not-for-profit ownership entity to control future lot rents for its members, preserving affordability for its members.

- Applying minimum debt service coverage ratio requirements of 1.15 to 1.00, or better, on Enterprise financing is consistent with the underwriting of other affordable multifamily housing, cooperative housing and non-profit owned housing. Because net profits are taxable for these entities, members – who will pay increased monthly lease fees if needed – are not motivated to increase rents prematurely simply to pay more in taxes. Beyond basic reserves, we have found it best to have borrowers meet multifamily type debt coverage.

- Minimum cooperative membership thresholds at closing provide for stable cooperative ownership entities. We recommend a minimum member threshold of 51 percent of the occupied homes in any given community prior to closing on Enterprise financing. The voting rights and proprietary nature of lot leases offered to members

in resident-owned communities provide significant incentives for homeowners to become members. Customarily, 90% membership levels are typically reached a few months after a community is acquired. To facilitate the acquisition of manufactured housing communities by homeowners on a national scale within the timeframes expected by sellers, a threshold of 51 percent is more achievable. This threshold does not diminish the strength of any given community as many homeowners become members shortly after closing when they are sure the conversion to resident ownership has been accomplished.

Loans secured by manufactured housing communities should be considered under the duty to serve for Fannie Mae and Freddie only if they include certain provisions, including:

1. Rent formulas with flow-through expenses that allow for reasonable rent increases tied to a published, third-party index.

2. Rights as an intended third party beneficiary of a purchase option for homeowner associations and/or right of first refusal granted to the residents as a collective to purchase the property as part of an affordable housing/housing preservation project. A reasonable approach would be to require all lot leases entered into during the term of the insured loan to include a right of first refusal for any sale of the community made during the loan term. A reasonable alternative is to include an option to purchase.

3. The right to sell a home in place to persons of a home seller's choosing allowing for a free market for home sales (no community owner option, applicants not unreasonably denied).

4. The right to form resident associations and conduct resident meetings. The owner should place no restriction on the operation of resident associations. No owner should be threatened with loss of rent space for organizing activities.

5. Proper engineering studies and Capital Improvement Plans and reserves to protect the residents' equity during the term of the lease, thus ensuring a sufficient maintenance plan that protects equity for both homeowners and lenders.

To encourage the expansion of resident-ownership of manufactured housing communities, the Enterprises should receive triple points for lending to resident corporations for the purchase of their communities.

The New Hampshire Community Loan Fund appreciates the opportunity to comment on the Agency's Advance Notice of Proposed Rulemaking. Please call on us for additional information on these points or other related matters.

Sincerely yours,

Richard A. Minard, Jr.
Vice President for Policy and Program3