HOMETOWN AMERICA
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:

Hometown America Communities is a national manufactured housing community owner and operator with approximately 55,000 home sites in 129 communities serving approximately 170,000 residents. We appreciate the opportunity to submit our comments regarding the "Duty to Serve Underserved Markets for Enterprises" proposed by the Federal Housing Finance Agency (FHFA) in the Federal Register on August 4, 2009.

The manufactured housing industry can be grouped into three primary lending segments: manufactured homes situated on land owned by the resident; manufactured home communities in which residents lease land from a community operator / investor; and manufactured homes situated in these land lease communities, which are categorized as personal property and are financed through "chattel" loans. With respect to the latter two categories, Hometown America believes it is vitally important that the "Enterprises" (Fannie Mae and Freddie Mac) play an expanded role in developing loan products and flexible underwriting guidelines to facilitate a secondary market for mortgages on housing for "very low-, low-, and moderate-income families".

The residents of manufactured housing communities clearly fall within the income parameters outlined in the Duty to Serve. According to the 2007 American Housing Survey for the United States, prepared by the U.S. Department of Housing and Urban Development and the U.S. Census Bureau, the median income for households residing in manufactured homes was $29,876, or 60% of the overall median income of $47,632. Greater involvement in manufactured housing would unequivocally help the Enterprises fulfill their affordable housing mission.

BACKGROUND

The average price of a manufactured home in a land-lease community is approximately $65,000. Compared to the national median single-family home price of $174,000 (per WSJ 2Q09), the typical manufactured home financed with a personal property loan is among the most affordable forms of home-ownership. However, capital available for chattel financing has been steadily declining since 2000 and has essentially become non-existent in recent years. Neither Enterprise is active in providing liquidity to this essential segment of the manufactured housing industry.

Financing for land-lease communities, which had been readily available prior to the recent capital markets turmoil, has also become much more difficult to obtain. Fannie Mae continues to originate loans secured by communities but is not providing liquidity at a level that supports the need / demand in the industry. Fannie has dramatically tightened its underwriting criteria and virtually eliminated loan originations in many regions of the country, including some of the most economically challenged markets such as Michigan. Freddie Mac has never participated in lending on manufactured home communities.

This limited lending by the Enterprises and the corresponding impact on the ability for residents to purchase homes has led to a significant decrease in manufactured home production. Since 1998, manufactured home production and sales have declined nearly 78%. In 2007, production levels fell below 100,000 homes for the first time since 1961. In 2009, production is expected to drop to 55,000 homes, calling into question the long-term viability of this industry and its ability to serve the segment of the population requiring affordable housing.

SIZE OF THE MARKET / ENTERPRISE LENDING ENVIRONMENT

It is difficult to pinpoint the exact size of the entire land-lease manufactured housing market; however, some estimates put the number of communities in the United States at approximately 50,000, with 4,000,000 home-sites. Based on a Hometown market survey of larger (i.e., greater than 150 sites) institutional quality communities located in major metropolitan markets, which most likely represent the segment of the market the Enterprises would consider financing, there are more than 3,200 manufactured communities with over 900,000 home-sites. Assuming a conservative average value per site (i.e., the land) and home value (i.e., the building), these 3,200 communities represent over $96 billion in asset value. Below please find a table summarizing these survey results in more detail. Clearly the manufactured housing market stretches far beyond the parameters of this survey and this is only intended to be a representative sample of the manufactured housing industry.

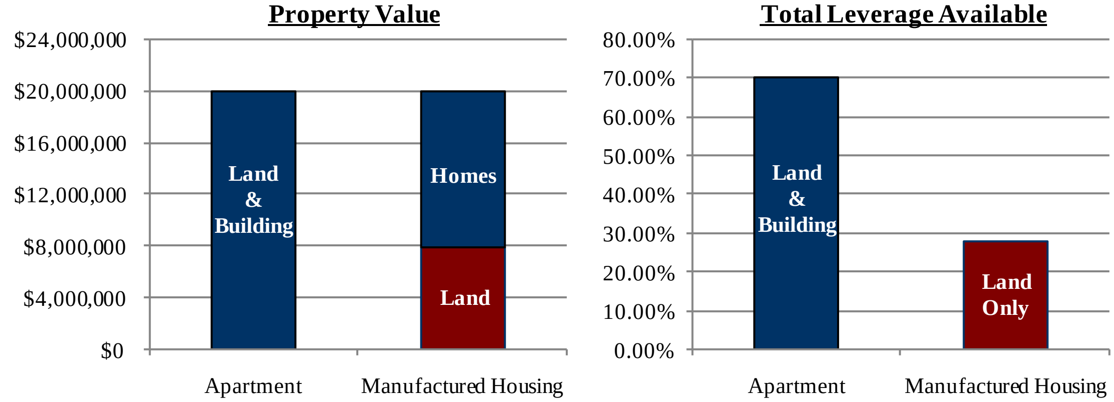
				Park Value		Home Value		Total Community Value	
	State	Communities	Home-Sites	Per Site	Total	Per Home	Total	Per Site	Total
1	Florida	658	219,946	$45,000	$9,897,570,000	$72,000	$15,836,112,000	$117,000	$25,733,682,000
2	California	372	103,109	75,000	7,733,175,000	81,000	8,351,829,000	156,000	16,085,004,000
3	Michigan	277	86,585	25,000	2,164,625,000	52,000	4,502,420,000	77,000	6,667,045,000
4	Texas	203	47,139	35,000	1,649,865,000	41,000	1,932,699,000	76,000	3,582,564,000
5	Arizona	161	44,716	45,000	2,012,220,000	58,000	2,593,528,000	103,000	4,605,748,000
6	Ohio	173	41,528	30,000	1,245,840,000	52,000	2,159,456,000	82,000	3,405,296,000
7	Illinois	114	33,035	35,000	1,156,225,000	50,000	1,651,750,000	85,000	2,807,975,000
8	Indiana	101	29,696	30,000	890,880,000	42,000	1,247,232,000	72,000	2,138,112,000
9	Pennsylvania	86	23,397	45,000	1,052,865,000	64,000	1,497,408,000	109,000	2,550,273,000
10	Colorado	70	23,139	45,000	1,041,255,000	57,000	1,318,923,000	102,000	2,360,178,000
11	New Jersey	125	22,298	50,000	1,114,900,000	53,000	1,181,794,000	103,000	2,296,694,000
12	Iowa	73	18,700	25,000	467,500,000	52,000	972,400,000	77,000	1,439,900,000
13	Delaware	46	16,851	50,000	842,550,000	80,000	1,348,080,000	130,000	2,190,630,000
14	Nevada	61	15,908	50,000	795,400,000	48,000	763,584,000	98,000	1,558,984,000
15	Minnesota	57	15,780	45,000	710,100,000	57,000	899,460,000	102,000	1,609,560,000
	Other	707	160,050	40,000	6,402,000,000	68,000	10,883,400,000	108,000	17,285,400,000
	Total	**3,284**	**901,877**	**$43,439**	**$39,176,970,000**	**$63,357**	**$57,140,075,000**	**$106,796**	**$96,317,045,000**

Currently, Fannie Mae's outstanding obligations are approximately $4 billion for manufactured housing communities, none or a very small amount of which relates to personal property loans. Extrapolating the total asset value per site shown in the table above across the estimated 4,000,000 manufactured housing home-sites nationwide, the Enterprises' capital commitment is less than 1% of the estimated $400+ billion market. Certainly, these market share figures imply that the manufactured housing industry is greatly underserved by the Enterprises.

When comparing these figures to the single-family and apartment industries, the disparity becomes even more evident. Despite manufactured housing historically representing approximately 10% to 15% of the single-family housing market (based on new home sales volume), the Enterprises do not participate in the chattel loan market. At the same time, the Enterprises (including Ginnie Mae) hold the largest share of multifamily mortgages, with $191 billion in federally related mortgage pools and $154 billion in their own portfolios, or 38% of the total multifamily debt outstanding. Put simply, the Enterprises continue to aggressively finance other housing options, but they have failed to provide adequate liquidity to manufactured housing communities and especially to manufactured housing personal property loans.

Given the lack of chattel financing, many manufactured housing community owners / operators must finance personal property loans to home-buyers in their communities in order to provide affordable housing. This effectively decreases the overall leverage of a manufactured housing land-lease community relative to a comparably valued apartment complex. Please see the graphs and table below for a hypothetical comparison between Enterprise manufactured housing and apartment lending:

Enterprise Financing Comparison



Value	Apartment Complex	MH Community
Land		$8,000,000
Homes		12,000,000
Total Value	$20,000,000	$20,000,000
Leverage Available		
Land		70.00%
Homes		0.00%
Total Financing Available	70.00%	28.00%
Debt Amount		
Land		$5,600,000
Homes		0
Total Debt	$14,000,000	$5,600,000

When considering two similarly valued properties, 70% leverage is available for the average apartment complex, yet only 28% leverage is available for the average manufactured housing community (when taking both the land and home value into consideration). Note that the charters of the Enterprises allow up to 80% leverage, but based on the current lending environment we have assumed 70%. By providing additional financing at a lower cost to the apartment and single-family industries, the Enterprises have put manufactured housing at a competitive disadvantage. This competitive disadvantage threatens the survival of the current manufactured housing model and the availability of affordable housing nationwide.

There is no basis for treating manufactured housing community loans differently than apartment loans. It is therefore Hometown's recommendation that the Enterprises increase financing to the manufactured housing industry to a level commensurate with the apartment industry. Hometown feels this increase in liquidity is vital to the industry and will play a significant role for the Enterprises in meeting their duty of providing housing for "very low-, low-, and moderate-income families". Hometown is also confident that the Enterprises will obtain the same risk adjusted returns they are currently achieving by financing apartments.

DUTY TO SERVE UNDERSERVED MARKETS

Under the amended section 1335 of the Safety and Soundness Act, the duty to serve underserved markets requires the Enterprises to "provide leadership to the market in developing loan products and flexible underwriting guidelines to facilitate a secondary market for mortgages on housing for very low-, low-, and moderate-income families with respect to manufactured housing".

Manufactured housing personal property loans provide home-ownership to families that would not otherwise be able to purchase a home (sub 620 FICO scores). Without adequate financing available, many manufactured homes become less affordable due to higher interest rate premiums charged by traditional lenders (given these residents' low income and credit profiles). Consequently, the families in most need of assistance are being denied a chance at affordable housing.

By supplying needed liquidity to the manufactured housing industry, the Enterprises will significantly serve underserved markets as illustrated through Hometown's $250 million manufactured home personal property loan portfolio. Since January 2006, 94.0% of Hometown's personal property loans fit within FHFA's target of "very low-, low-, and moderate-income families"[1]. Of this total, 69.4% of the loans were made to very-low income households. Please see the table below for a breakout of Hometown's borrower income profile since January 2006. The performance of this loan portfolio is discussed in greater detail later in this letter. Through this program, Hometown is successfully supporting these underserved households, as are other community owners, but additional capacity and liquidity is sorely needed to adequately serve this market.

Income Range[2]	2006		2007		2008		2009 (YTD July)		Total	
	#	%	#	%	#	%	#	%	#	%
Very Low	547	68.7%	1,116	69.4%	1,183	68.5%	771	71.4%	3,617	69.4%
Low	133	16.7%	285	17.7%	316	18.3%	178	16.5%	912	17.5%
Moderate	58	7.3%	104	6.5%	118	6.8%	91	8.4%	371	7.1%
Above	58	7.3%	103	6.4%	109	6.3%	40	3.7%	310	6.0%
Total	**796**	**100.0%**	**1,608**	**100.0%**	**1,726**	**100.0%**	**1,080**	**100.0%**	**5,210**	**100.0%**

[1] Very low-, low-, and moderate-income families defined per 12 U.S.C 4502 (Title 12 - Banks and Banking). Very low is income not in excess of 60% of area median income, low is income not in excess of 80% of area median income, and moderate is income not in excess of area median income.

[2] Hometown calculated figures based on Fannie Mae 2009-2010 Area Median Incomes by MSA provided to Fannie by FHFA.

MANUFACTURED HOME COMMUNITIES

FHFA incorrectly states that "Fannie Mae and Freddie Mac currently purchase loans secured by manufactured home parks" and seeks comments on "whether and how these transactions should be considered under the duty to serve the manufactured housing market". Currently only Fannie Mae provides liquidity for loans secured by manufactured housing communities; Freddie Mac does not.

Hometown America is Fannie Mae's largest manufactured housing borrower and feels that despite Fannie's current lending efforts, even more emphasis needs to be placed on providing liquidity to the industry. Recently, Fannie Mae has tightened underwriting requirements and shortened amortization periods in certain underserved markets that are in the most need of affordable housing. For example, stricter occupancy requirements have virtually eliminated loan originations in some of the most economically challenged markets such as Michigan.

In addition, it is essential that Freddie Mac enter the market. For years, Freddie Mac has discussed developing a manufactured home community lending program, yet nothing has been done to date. Time is of the essence for Freddie Mac to start providing liquidity to this important affordable housing sector, especially important in today's credit environment. Improved liquidity is vital to the overall health of the manufactured housing industry and its ability to continue to provide affordable housing in many regions of the country.

Aside from the Enterprises, banks and traditional lenders offer limited financing for manufactured housing communities at very onerous terms for only the highest quality communities with full occupancy. If the Enterprises fulfill their duty to "play a major role in providing leadership to the market in developing loan products and flexible underwriting guidelines to facilitate a secondary market for mortgages on housing for very low-, low-, and moderate-income families," Hometown feels banks and traditional lenders will become more comfortable with the industry and start entering the market.

Without Enterprise leadership and liquidity, the manufactured housing industry will continue to deteriorate, putting further financial stress on community owners as well as manufacturers. Completion of necessary capital improvements to communities and shipments of new affordable housing units will dissipate, resulting in residents suffering the most. The lack of affordable personal property loans available to residents will result in communities unable to fill sites and more importantly hurt any chance of affordable home-ownership for very low-, low-, and moderate-income families. As the stress on the industry escalates, many communities will be forced to close and with decreasing values, many communities will be converted to alternative uses. This decrease in demand will continue the trend of manufacturers downsizing / going out of business (adding to an already high job loss figure), further reducing the nation's supply of affordable housing.

Hometown cautions, however, that making mortgage loans on land-lease communities should, in no way, diminish the duty to purchase personal property home loans. Goals for these two types of loan products should be separate, with progress toward one set of goals not offsetting, diminishing or limiting goals for the other loan product.

PERSONAL PROPERTY LOANS

FHFA correctly states that "neither Enterprise currently purchases personal property loans on manufactured housing on a flow basis" and seeks comment on "whether Enterprise purchases of manufactured housing loans secured by personal property should be considered for purposes of the duty to serve the manufactured housing market."

The answer to this is yes. The involvement of the Enterprises in providing liquidity for manufactured housing personal property loans is essential to home-buyers and land-lease communities. Despite a recent track record of excellent loan performance in this segment of the industry, Enterprise financing for chattel loans does not exist even though their charters allow for these purchases. Instead of examining the performance of more recent chattel loans originated with proven lending and servicing practices, the Enterprises continue to view the industry unfavorably as a result of ill-advised investments in chattel loans made several years ago through a finance company that later went bankrupt.

Chattel loans are virtually nonexistent in the market today and only available to families and individuals who meet strict lending terms including above average income and credit profiles. These credit restrictions in effect eliminate financing opportunities for those families and individuals in the most need of affordable housing and specifically outlined in the Duty to Serve. Due to this lack of liquidity, community owners have been required to finance homes to provide affordable housing. Many of these community lending programs are running into capital constraints and will not be able to continue these practices. The development of an Enterprise program to start purchasing or providing loans secured by personal property loans will provide much needed liquidity to manufactured housing land-lease community owners, lower borrowing costs, and contribute significantly to the Enterprises meeting their duty to serve underserved markets.

PROPOSED FHFA / ENTERPRISE CHATTEL LENDING MODEL

Hometown proposes that the Enterprises provide financing directly to community owners by purchasing or providing loans secured by personal property loan portfolios or pools. Using its own capital, a community operator who is a licensed manufactured home retailer and loan issuer, would aggregate a pool of loans in one or several communities by selling homes and making loans to consumers. The operator would then sell an interest in or obtain a loan secured by the loan pool from the Enterprises while "keeping skin in the game" to enhance and insure financial performance. In turn, community owners could then recycle the proceeds provided by the Enterprises to originate new chattel loans and thereby create more affordable home-ownership opportunities.

The proposed model works because there is alignment of interests between the community owner, the homeowner/borrower and the Enterprises. Community owners are motivated to sell homes to residents at fair market prices and provide financing at terms which will allow the residents the greatest chance of success; after all it is the community owners' capital at risk. Since the community owners have significant "skin in the game" and are responsible for servicing the loans, the Enterprises will also be well aligned with the community owners. In this model the community owner/licensed loan originator would evaluate the borrower applications, verify submitted information, underwrite the proposed loan, document the loan as required by the state, originate the loan and perfect the lien on the home and would follow strict proven underwriting standards that many in the industry use today including:

- "Plain Jane" loans easily understood by consumer
- All loans are first lien, owner occupied and fixed rate (no ARMs)
- Reasonable amortization periods
- No hidden fees
- Max 48% debt to income ratio
- Verification of income (last 2 years) and employment
- Down-payment and sales contract verification
- No underwriting shortcuts; full documentation, satisfactory landlord reference, and credit history

The community owner would also service the loan using a proven model with an intense on-site process, which can reduce defaults and increase recoveries in part due to the following benefits:

- On-site community manager in best position for collections
    - Oversee repossession vs. an off-site third-party loan servicer / debt collector
    - Smooth process with better alignment of interest
    - Residents do less damage to home when they leave
    - Managers can maintain site condition
- Homes retained in community and resold quicker with virtually no third-party costs (average turnaround time of 166 days after repossession versus industry average of 320 days)
- Repossession process, refurbishment and sale of the home is performed locally; where the collateral is located
- Face to face consumer counseling and loan workout strategies allowing borrowers the chance to stay in their homes
- Community owner works with identified suppliers and vendors to minimize costs to put the home back into marketable condition at the right cost with maximum value
- Community owner acts as the broker and facilitate the sale of the collateral
- Community manager can knock on doors for collections (quick intervention if needed)
- Managers know the residents and have an understanding of life events that may impact their ability to pay

This proven model of intensive on-site servicing combined with the fact that the community owner has invested in the note or has "skin in the game" results in fewer defaults and enhanced loss recovery even with lower credit profile borrowers. Historically, recovery rates have averaged over 90% for Hometown. Community owners could also post necessary reserves and/or other forms of security to increase the Enterprises' protection against loss. On top of reserves, most community operators are capable of taking back defaulted loans and absorbing resulting losses (but their liquidity for providing initial home loan funding is limited). In addition, community owners could provide longer term lease commitments with attractive fixed rent schedules to limit default risk resulting from aggressive rent increases. Thus, unlike the Enterprises' historical chattel loan experience, the Enterprises will be well protected against any losses.

Personal property loan borrowers in this credit profile will incur higher default rates than prime borrowers, with approximately 30-40% of loans failing at some point during their lifetime. However, with the intensive servicing and community owner liability features of this proposed structure, losses are minimized and, for the Enterprises, eliminated. Additionally, a better way to view this performance is to say that these very low-, low-, and moderate-income families may never have had the opportunity for home-ownership. Moreover, 60-70% or more of the residents succeed and the others suffer small or no losses after varying periods of ownership. The typical down-payment made by residents is usually two times their total monthly housing cost, which is equivalent to the average security deposit for an apartment. Finally, success rates will certainly improve when personal property homeowners have convenient access to new affordable chattel loans. Enterprise loans to community owners would provide the liquidity needed in the manufactured housing industry and would expand opportunities for home-ownership to very low-, low-, and moderate-income families while significantly limiting the Enterprises' risk.

Using this proven on-site origination and servicing model, manufactured housing personal property loans would provide sufficient coverage and profitability to the Enterprises. Assuming a conservative loan term, interest rate, lifetime default rate and recovery rate, a given vintage pool of loans would expect to have a debt service coverage ratio of over 1.55x. Please see the lifetime portfolio economics example below for a hypothetical analysis of what the Enterprises might expect from a pool of chattel loans:

Lifetime Chattel Loan Portfolio Economics[3]			
Assumptions:			
Number of Loans:	1,000	Average Loan Amount	$50,000
Loan Portfolio Balance:	$50,000,000	WA Interest Rate:	8.00%
WA Loan Term (years):	7		
Annual Economics:			
Interest Revenue ($50,000,000 * 8.00%)			$4,000,000
Servicing Cost ($50,000,000 * 1.50%)			(750,000)
Expected Defaults ($50,000,000 * 30% / 7 years)			(2,142,857)
Recovery Rate (90% of default amount)			1,928,571
Net Revenue			$3,035,714
Annual Net Yield (Net Revenue / Portfolio Balance)			6.07%
Enterprise Coverage:			
Portfolio Financed (70% of total portfolio)			$35,000,000
Fixed Interest Payment (5.5% * $35,000,000)[4]			1,925,000
Net Revenue (from annual economics above)			3,035,714
Net Revenue in Excess of Fixed Payment			$1,110,714
Coverage Ratio			1.58x

[3] Analysis assumes that the amortization on the loan pool covers or offsets the amortization on the Enterprise loan.

[4] Reflects an average interest rate for Enterprise apartment loans with 7-year terms.

CONCLUSION

The manufactured housing industry offers American consumers who would not otherwise be able to afford a home a chance at home-ownership. It is vitally important that the Enterprises (the agencies responsible for promoting home ownership) play a major role in providing leadership to this market. Without increased financing from the Enterprises, there is significant risk that the manufactured housing industry will shrink and may one day become extinct, tragically resulting in fewer choices for those seeking affordable housing.

Hometown appreciates the opportunity to comment and welcomes the opportunity to further discuss this important matter. Please feel free to contact us at the email addresses below for further information or if you have any questions.

Sincerely,

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