To: **Federal Housing Finance Agency (FHFA)**

Re: **Request for comments concerning '"The Duty to Serve Underserved Markets including Manufactured Homes, Preservation, and Rural Areas. (RIN 2590-AA27)**

From: **Sarah E. Carpenter, Executive Director**
Vermont Housing Finance Agency (VHFA)

Date: **9-18-09**

The FHFA has requested comments on how Fannie Mae and Freddie Mac (the Enterprises) can better serve Underserved Markets. Generally, VHFA's comments concerning Rural Areas are to plead with the FHFA and the Enterprises to "think small". The transaction sizes of VHFA are small – our markets are small, our communities are small, our loan sizes are small – but supporting affordable housing in rural America is equally important as that of the urban areas. Please make sure that your requirements for bond purchases and selling and securitizing loans, your loan products and investments, and your DU and LP requirements acknowledge this.

In the time of greatest need we have seen that Fannie Mae and Freddie Mac walk away from working with State Housing Finance Agencies, and providing us with the financial tools we need the most – liquidity and bond purchases. It is critical the Enterprises recognize that the State Housing Finance Agencies can be a great partner in achieving our mutual mission of providing affordable housing and serving underserved areas. We know our communities, we know how to outreach and serve their needs, and we know how to safely underwrite their loans. State HFA's have an extremely stable loan portfolio; this is particularly so in the smaller rural states. **Please immediately reinstitute your working relationships with VHFA and the other State Housing Finance Agencies.**

In particular you have asked for comments in three specific areas: Manufactured Housing, Affordable Housing Preservation, and Rural Market Definition. Vermont Housing Finance Agency offers the following comments:

Manufactured Housing:

Neither Enterprise is lending on single-wide mobile homes on owned land. It is recently become unclear whether or not either is lending on double-wide mobile homes on owned land. Lack of long-term conventional fixed-rate financing at competitive rates has or will destabilize this market (including those loans already in your portfolio). Income levels served by this type of housing are generally more vulnerable and lack of access to conventional rates precludes homeowners from being able to take advantage of current low, long term fixed rate lending options.

Both Enterprises should lend on mobile homes on owned land, whether the unit is a single-wide, or a double wide mobile home. VHFA has successfully been the largest mobile home lender in the State through our whole loan portfolio. The Enterprises can certainly do the same with prudent underwriting. Some of the following conditions could be offered:

- Mobile homes are permanently affixed to the real estate, and defined and treated as real estate under State statute.
- Mobile homes must have the wheels, hitch and axels removed from the unit, and removed from the site.
- Mobile homes must be situated on a foundation of poured concrete, either slab or full foundation adequate to support the size and weight of the home once situated.
- Mobile homes financed at real estate, shall be subject to all real estate lending laws and regulation.

Under these conditions for Manufactured Housing the Enterprises can assure that a large sector of affordable housing remains viable.

Manufactured Home Parks:

Neither Enterprise currently purchases loans on mobile homes on leased land or in parks. Financing options have become extremely limited and non-competitive creating an open environment for predatory sub-prime loans to prevail. We believe that if the Enterprises were to make long-term fixed rate financing available under the following conditions, that the mobile home market would stabilize and provide significant financial relief to a very vulnerable population. There are many ways to protect the interest of the Enterprises:

- Long-term fixed rate loans should be available at rates that are close to conventional rates for stick built housing.
- Loans on mobile homes in leasing parks should require a written lease agreement that provides a term that is at least equal to the term of the mortgage, with renewals at the option the unit owner subject only to standard default provisions.
- Loans on mobile homes in leasing parks should require a covenant filed in the land record that precludes the park from closing while there is a mortgage outstanding on any of the mobile homes in the leasing park. (Note: this requirement may preclude some parks owned by private investors, but we believe it provides valid protection for the homeowner and the mortgagee).
- Mobile homes financed in leasing parks should secured by a mortgage deed including a leasehold interest that provides all the rights and privileges of the homeowner to the mortgage holder in the event of a default by the homeowner.
- Subject to the conditions noted in 1-3 above, the Enterprise's should give equal consideration to Non-profit owned parks, as they do Cooperatively Owned parks. Most non-profit owned parks are proactively managed, and maintained both financial and physically without reliance on unskilled volunteer boards or oversight committees.

- Mobile homes in leasing parks that are financed by the Enterprises should be required to be defined and treated as "Real Estate" in state statute, and subject to all state and federal real estate lending laws and regulations.

Again, under these conditions, the Enterprises can assure that Manufactured Home Parks remains a viable sector of affordable housing.

Manufactured Housing Mortgage Insurance:

While Mortgage Insurance is outside the purview of FHFA, clearly the soundness of these investments depends in most cases on the availability of Mortgage Insurance for the home owner. If the Enterprises prudently support the underserved manufactured housing market, it is critical that they work with their partners at FHA (HUD) and Rural Development (USDA) in provision of mortgage insurance products that will match the manufactured home loan.

Affordable Housing Preservation:

The most important consideration by the FHFA and the Enterprise's for affordable housing preservation and multifamily housing in general, in rural areas is to recognize that in rural areas large housing projects are not the norm. State HFA's with primarily rural markets have significant difficulties putting large enough loans together to access the conventional bond markets. Prior to the economic melt-down and closing of the municipal bond market, both Freddie Mac and Fannie Mae were frequent buyers of privately place long term bonds for multifamily housing projects, as well as housing tax credits. As a result, many projects that could be built are stalled creating a shortage of much needed rental housing for low-income families, and economic activity that would be generated in the construction and related trades is not happening.

Re-entry of the GSE's into the multifamily housing bond and credit markets, and the ability to do direct placements of smaller housing bonds with them, will go a long way to unthawing the multifamily housing markets, and preserving the scarce affordable housing that we have already invested in. It is also important to note while the existing portfolio is performing well and the Enterprises have been long term investors in these projects, many of them are reaching an age where they need to be recapitalized. It is critical that the Enterprises protect the investments they already have.

Rural Markets

In reviewing the notice we understand FHFA is considering defining "rural" in one of three different ways:

1. Using the Census definition of an "urbanized area" or "urban clusters" – it would be any area NOT in one of those two areas.
2. Using the USDA definition of "rural areas"

3. OR, a “two-pronged definition, where all census tracts designated by the US Census Bureau as “non-metropolitan” would be considered rural areas, as would all census tracks outside the urbanized areas and urban clusters as designed by USDA’s RUCA code.

VHFA strongly advocates for definition for the third definition.

Vermont is a state of about 630,000 people. Generally Vermont is very rural with lots of very small towns. We have only one urban cluster (around Burlington, population 39,000), and about 20 other small “urbanized areas” in Vermont. These don’t follow county or town lines and are very locally-drawn based on small Census blocks, and most of them operate as rural villages with a few thousand people. These should not be left out of a definition of rural market. On the other hand, the USDA “Rural-Urban Continuum code” is based on full counties. Using just counties would eliminate many small villages that are 45-90 minutes from the “urban" area, but really agricultural in nature. It is critical in a small population state that older communities and villages that do not benefit as much as being near Burlington and don’t have access to Burlington’s services, employment, etc be included in any outreach by FHFA and the Enterprises

There are many more comments I could make, but on behalf of VHFA, and I am sure my fellow HFA’s and partners in rural areas, **I look forward to a renewed relationship with FHFA, Fannie Mae and Freddie Mac.**

Sincerely,

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