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expanding economic opportunity

The Honorable Mel Watt
Director
Federal Housing Finance Agency

October 28, 2014

Re: RIN 2590-AA65, Comments regarding proposed rule establishing 2015-2017 Enterprise Housing Goals

Dear Mr. Watt:

The Corporation for Enterprise Development (CFED) thanks the Federal Housing Finance Agency (FHFA) for its proposed rule to establish 2015-2017 affordable housing goals for the Government-Sponsored Enterprises (GSE), Fannie Mae and Freddie Mac. The proposed rule is well-crafted, providing effective incentives for the Enterprises to support affordable homeownership opportunities and invest in affordable housing production.

We are particularly interested in elements of the proposed rule relating to manufactured homes and "manufactured home parks" (or communities). We appreciate FHFA's consideration of this segment of the housing market as a source of affordable housing. Our comments offer recommendations for the Enterprises to support the availability of affordable single-family loans for manufactured homes and financing for the preservation and development of manufactured home communities that provide truly affordable housing.

Background:

CFED is a national, nonpartisan nonprofit organization based in Washington, D.C. that works to expand economic opportunities for all Americans by promoting asset-building policies and programs. Our work empowers low-and moderate-income households to achieve the American dream: buying a home, pursuing higher education, starting a business and saving for the future. For more than three decades, CFED has promoted homeownership as one of the best ways for LMI families to build wealth. Between 1997 and 2001, CFED coordinated the first wide-scale test of Individual Development Accounts (IDAs) for homeownership, the American Dream Demonstration (ADD). ADD paired financial education with matched savings to help 2,634 low-income families buy homes.

Since 2005, CFED has been addressing problems in the manufactured housing sector through the Innovations in Manufactured Homes (I'M HOME) initiative. Manufactured homes are the de facto source of affordable housing in many rural, high-poverty and high-cost housing markets. Manufactured housing that is well-built, maintained, and sited on land controlled by the homeowner can be attractive, grow in value and trigger wealth building for millions of families. I'M HOME develops, promotes and implements market- and policy-based strategies to help manufactured home owners gain financial security and build assets. The Network consists of 42 Lead Organizations in 36 states, with service areas covering 39 states. There are also 390 General Members in Network who belong to or show an interest in the manufactured housing field. I'M HOME's goal is to enable owners of manufactured homes to enjoy the same benefits of homeownership as those realized by owners of site-built homes. I'M HOME advocates for enhanced consumer protections, expanded access to conventional mortgage financing, resident ownership of communities, and the use of high-quality, energy-efficient manufactured housing to increase and upgrade the nation's affordable housing stock.

CFED also coordinates the I'M HOME Network, a diverse coalition of manufactured housing supporters from across the country, including foundations, nonprofits, housing developers, community groups, homeowner advocates, community organizers, policymakers, financial institutions and leading players from the manufactured housing industry. The I'M HOME Network's goal is to enable owners of manufactured homes to enjoy the same benefits of homeownership as those realized by owners of site-built homes. Network members work together to advocate for enhanced consumer protections, expanded access to conventional mortgage financing, resident ownership of communities, and the use of high-quality, energy-efficient manufactured housing to increase and upgrade the nation's affordable housing stock.

CFED's decades of work to expand access to affordable homeownership opportunities, as well as the experiences and insights from I'M HOME Network members and other partners in communities across the United States inform our responses and recommendations regarding FHFA's proposed rule to establish new Enterprise Housing Goals for 2015-2017.

Single-family Housing Goals:

FHFA's proposed goal levels for single-family housing are appropriate, given current market conditions and predicted performance over the next three years. The proposed subgoal for purchases in low-income areas will ensure that as these areas account for a growing share of all loans, the Enterprises will lead efforts to support economic recovery in hard-hit communities. The proposal to increase the low-income refinancing goal to 27% is challenging but reasonable, as FHFA anticipates that the overall market will shift significantly toward refinancing the mortgages of borrowers who were unable to qualify for refinancing when interest rates were lowest. As the Agency recognizes in the proposed rule, government efforts to spur refinancing have not fully succeeded. Millions of eligible homeowners did not take advantage of refinancing opportunities, and historically low interest rates are about to begin climbing. However, particularly for homeowners whose credit was damaged during the recession, interest rates are likely to remain low enough to make refinancing possible. The Enterprises should be encouraged to further support lending activity that helps low-income borrowers stay on top of monthly payments and, for those who were underwater on their mortgages, increase their home equity. The proposed low-income refinancing goal would achieve that.

We recommend that the Agency select the first alternative for measuring the Enterprises' progress toward meeting the goals, which would maintain the current system. It makes sense for FHFA to continue to measure the Enterprises' performance using both benchmarks and retrospective analyses of actual market performance. Although it is a drawback that the Enterprises' can achieve their single-family goals by satisfying whichever test is easier, both forward-looking benchmarks and retrospective analyses offer important advantages. Combined, they provide flexibility for the Enterprises and FHFA to quickly adapt to changes in market conditions while providing incentives for the Enterprises to take leadership roles in the preservation and development of affordable homeownership opportunities and rental housing.

Multifamily Housing Goals:

On the whole, we support the Agency's proposed goals for multifamily housing, including the target levels for each goal and subgoal. We also agree with the Agency's decision to define affordable rental rates as those are no greater than 30% of the monthly income of local low-income households (those making 80% of less of the area median income). The proposal to automatically allow all units in a multifamily property to count toward the multifamily housing goals when a local jurisdiction applies affordability controls or caps on resident incomes, as well as when the project is supported in whole or in part with subsidies from other public affordable housing programs. This will streamline and simplify compliance for lenders and the Enterprises alike.

FHFA's final rule should include the new subgoal for small multifamily loans included in the proposal. We agree with FHFA's decision to count small multifamily loan purchases according to the number of individual dwelling units involved, rather than the total volume of financing provided by the Enterprises' purchases. It is unclear, however, whether the subgoal as currently written will substantially increase the Enterprises' investments in properties that serve very low-income renters. According to the proposal, the small multifamily properties most in need of Enterprise support are those in the 5-24 unit size range; these very small properties are also likely to serve a greater proportion of low-income households than small multifamily properties in the 25-50 unit size range. The Agency is most likely correct that Housing Goals that encourage greater availability of 10 year, fixed-rate financing for very small multifamily properties would help owners contain costs and stabilize rental rates. Given these conditions, we encourage FHFA to explore options to maximize Enterprise purchases of loans backed by very small multifamily properties under the new multifamily housing subgoal.

Finally, FHFA's proposed treatment of cooperative housing properties under the multifamily goals is appropriate. If multifamily property is qualified to count toward one of the multifamily housing goals, the Enterprise should also be able to count each of the individual dwelling units within the property toward the single-family housing goals. We have reservations regarding the Agency's proposal to mandate that the Enterprises determine rental rates for purchases of loans backed by cooperative properties using the same comparable market rents used in underwriting the loan. Although the Agency's reasons for the change make sense, we are concerned that deals involving manufactured home park cooperatives may have difficulty identifying a sufficient number of comparables in the area. This can sometimes be a problem for borrowers seeking appraisals of manufactured homes in these communities due to the relatively small size of this market segment. In finalizing the 2015-2017 Enterprise Housing Goals, FHFA should consider permitting an exemption to the new requirement for purchases of loans backed by cooperatively owned manufactured home parks. Further consideration of manufactured home parks and elements of the proposed rules that address these communities is below.

Addressing investor-owned and resident-owned manufactured home parks

This proposal offers a more comprehensive consideration of resident-owned manufactured home communities than nearly all other federal housing finance regulations. We thank FHFA for the acknowledgement and careful consideration resident-owned manufactured home communities. Resident-owned communities (ROCs),[1] cooperative associations composed the homeowners living in a manufactured home community, are frequently left out of policies related to single-family and multifamily housing finance. Most often, this is due to simple lack of familiarity with the ROC model, though it sometimes relates to restrictions on cooperatives structured as limited equity

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[1] We are referring here to a broad definition of resident ownership. Some ROCs form using ROC USA's proprietary model of limited-equity, designed to preserve the long-term affordability of homes in the community. Some ROCs may form with a similar limited-equity structure without assistance from ROC USA. Other ROCs use cooperative structures similar to condominiums, in which coop shares are bought and sold at market rates. Although, to our knowledge, the majority of ROCs formed with assistance from ROC USA or one of its community partners, some ROCs form independently and have done so for years, including before the New Hampshire Community Loan Fund created the program that eventually became the independent organization of ROC USA. All references to ROCs refer to resident-owned communities generally, except where ROC USA is specifically mentioned.

coops. ROC USA, one of the I'M HOME Network's founding members, is a community development financial institution (CDFI) that helps homeowners in investor-owned manufactured home communities form limited-equity cooperatives as well as finances cooperatives' purchases of their communities from investor-owners. ROCs are a niche but growing segment of the manufactured home community sector; ROC USA has converted more than 100 communities to resident ownership, though there are approximately 50,000 manufactured home communities across the United States.

We encourage FHFA to reconsider its decision to continue to fully exclude blanket loans backed by manufactured home parks from counting toward meeting the Enterprises' multifamily goals. The Agency should allow certain blanket loans on manufactured home parks to count, when the property owner is a cooperative association of park residents or an entity with an affordable housing mission. The manufactured housing market has a critical need for greater secondary market investment, and lack of liquidity has constrained LMI households' access to affordable manufactured housing. For that reason, it is important for FHFA to support this segment of the market through the multifamily Enterprise Housing Goals. We understand the Agency's need to provide straightforward guidance to the Enterprises regarding which multifamily loans may be considered affordable, but advise FHFA to adopt a more nuanced rule with regard to manufactured home parks.

Owners of manufactured homes sited in investor-owned communities are at perpetual risk of housing cost spikes, as community owners can increase their lot rent frequently and precipitously. The unique characteristics of land-lease communities create an imbalance of power between residents and community owners that frequently results in residents suffering under severe housing cost burdens. Residents' total housing costs (including monthly payments on the home loan, lot rent and utilities) may be affordable at first, but over time lot rent increases often drive housing costs so high that they become financially ruinous.

It is possible, however, for the Enterprises to invest in manufactured home parks that guarantee dependable affordability for current residents and long-term affordability for future residents. Resident cooperatives, mission-driven affordable housing organizations and public housing agencies all have strong incentives or legal mandates to preserve the affordability of residents' lot rents. Research from New Hampshire, which has a significant concentration of ROCs, demonstrates that resident cooperatives set lot rents high enough to have sufficient funding to meet the community's infrastructure, maintenance and improvement needs while keeping costs down over the long run.[2]

[2] French, Charlie, Kelly Giraud, and Sally Ward, "Building Wealth Through Ownership: Resident-Owned Manufactured Housing Communities in New Hampshire," Carsey Institute, University of New Hampshire, 2008.

To strike the appropriate balance between supporting the manufactured housing market's need for greater secondary market access and mitigating community residents' risk of rapid and at times abusive housing cost increases, we recommend that FHFA allow Enterprise purchases of blanket loans on manufactured home parks to count toward multifamily housing goals only if it meets one of the following conditions:

- The park is currently owned or being purchased by a cooperative association of resident homeowners;
- The park is currently owned or being purchased by an organization (generally but not exclusively nonprofit) with a declared mission to expand affordable housing; or
- The park is currently owned or being purchased by a public or quasi-public agency such as a state housing finance agency or municipal housing authority.

Moreover, while we commend FHFA for its progress to finalize Duty to Serve (DTS) rules and look forward to future opportunities to comment on how DTS addresses manufactured home parks, it is insufficient to address parks exclusively under DTS while excluding parks from the Enterprise Housing Goals. The Housing Goals represent a high standard of affordability, as they are designed to assist households with incomes at—and often significantly below—80% of AMI to access housing using no more than approximately 30% of their monthly income. While many residents of manufactured home parks meet the income requirements, it is impossible to ensure that investor-owned parks will offer long-term affordability to residents. Unlike most multifamily housing associated with the Enterprise Housing Goals, residents who can no longer afford to stay are unable to simply find a new place to live; they must usually first find a way to sell their home or move it to a different community. These are such costly and difficult alternatives that the most financially vulnerable owners of manufactured homes often find themselves trapped, unable to afford lot rent but unable to move without walking away from their home, defaulting on their chattel loan and incurring severe and lasting financial distress.

Per the 2008 Housing and Economic Recovery Act, the Enterprises have a statutory duty to provide necessary credit in the underserved manufactured housing finance market. Manufactured home parks are a large component of that market, and for the Enterprises to truly serve the manufactured housing market, they must invest in parks and single-family loans made on homes in those communities. Blanket loans on communities currently have very little access to the secondary market, so implementing DTS regulations will likely draw more lenders into the space and provide much-needed financing for community preservation and improvements, benefitting residents even in high-cost, potentially unaffordable communities. However, simply serving the market is a lesser standard than leading the market in supporting affordability. For that reason, we urge FHFA to adopt distinct approaches to community loans for DTS and the Enterprise Housing Goals.

FHFA's proposed rule requested comments on how it should count the number of affordable units created or preserved through purchases of blanket loans on manufactured home parks. We recommend the Agency count only the occupied units rather than the total number of lots in the park. This approach would better support the Enterprises' need to limit risk, because parks that receive financing but are unable to fill a significant number of vacancies may lack sufficient revenues sustain repayment.

The proposed rule also requested feedback on how to determine whether units in a manufactured home park are affordable, given that lot rents represent only a fraction of total housing costs. We recommend that the Enterprises require multifamily lenders to document and share information on lot rents in order for purchases to count toward the housing goals. Such information could include the current average lot rent in the park, the current range of lot rents charged in the park, and information about past and future year-to-year changes in average lot rent. In addition to lot rent, determinations of affordability should take into account the monthly home loan payments of homeowners in the community and in comparable manufactured home communities in the area. Although this information may be difficult to obtain in some areas, this is a challenge that lenders in the manufactured home market already face and have developed procedures to overcome. Furthermore, the Consumer Financial Protection Bureau's proposed rule to amend Regulation C[3] would significantly increase the amount and quality of public information about loans backed by manufactured homes. Although the Bureau's proposal is unlikely to be implemented in 2015, enhanced Home Mortgage Disclosure Act (HMDA) data on manufactured home loans may significantly enhance the Enterprises' ability to assess the affordability of manufactured homes in communities during the years covered under FHFA's proposed rule on the Enterprise Housing Goals.

Finally, the proposed rule questions whether, if the final rule permits purchases of blanket loans on manufactured home parks, the Agency should increase the proposed levels of the multifamily housing goals. In the event that FHFA adopts our recommendation to permit a very limited subset of manufactured home parks, we recommend that the Agency increase the proposed levels of the multifamily goals by a modest amount, not more than 1,000 units per year. Although resident-ownership models are growing rapidly, these and other affordability-oriented park ownership structures still represent a small fraction of the $500 million to $1 billion per year in investments Fannie Mae has made in multifamily manufactured home parks since 2011. Given current market conditions, it would not be reasonable to increase the proposed goal levels by more than 1,000 units per year in the immediate future, and it is unclear whether this will increase substantially before the end of 2017. If the Agency chooses to allow certain types of park loans to count toward the goals, we

[3] See Docket No. CFPB-2014-0019/RIN 3170-AA10, published in the Federal Register on August 20, 2014.

recommend that the Agency modestly increase the goal levels at this time with a commitment to revisit and potentially further increase the goal levels in 2018 and beyond.

Conclusion

Thank you for the opportunity to comment on the proposed Enterprise Housing Goals for 2015-2017. The single-family goals represent an appropriate balance between the Enterprises' mission to support affordable homeownership opportunities for low- and moderate-income households and the responsibility to ensure safety and soundness of the Enterprises' investments. The multifamily goals are similarly well-balanced, and offer new opportunities for the Enterprises to support the manufactured housing market. Overall, FHFA's proposal would meaningfully enhance the Enterprises' role as a supporter of affordable housing and affordable home financing. The proposed Enterprise Housing Goals will enable thousands LMI households to secure decent affordable rental housing or build wealth through homeownership. I would be happy to discuss our recommendations in more depth if you have any questions; you can reach me at 202-207-0155 or dryan@cfed.org.

Sincerely,

Doug Ryan
Director, Affordable Homeownership