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Attachments: adam.vcf

Comments on Enterprise Duty to Serve Underserved Markets Adam Rust Community Reinvestment Association of North Carolina

CRA-NC asks that the rulemaking require the GSEs to buy personal property loans.

The concern that I have, when I read this notice of proposed rule-making, is that it will create a standard that /excludes the most vulnerable populations living in manufactured housing/. "FHFA proposes that chattel loans on manufactured homes not be considered towards the duty to serve the manufactured housing market, as these loans are inconsistent with Enterprise conservatorship and would require substantial new efforts..." (pg.5)

The proposed rule-making requires the GSEs to invest in co-operative parks and to homes in those parks. That is excellent. However, it will have a very limited reach. Co-operative parks are the exception, not the rule. Across the country, 63 percent of new mew manufactured homes purchased for residential use were classified as personal property (Census).There are no co-operatives in North Carolina, even though we have over 1 million people living in manufactured homes right now.

The Safety and Soundness Act says that FHFA may "consider loans secured by both real and personal property in evaluating whether the Enterprises have complied with the duty to serve the manufactured housing market. 12 U.S.C. 4565 (d) 3.

The standard in this rulemaking will not address manufactured housing’s most needy residents. The rationale for supporting only co-ops and understandable, but this is a perspective that is rooted in problems that could be addressed by engagement. In other words, if the GSEs are buying chattel loans, then the chattel loans will improve. The shortcomings of those loans, and the reasons for excluding them, will wither away.

Critics of this belief observe that financing costs are higher for personal property. Yet, that is exactly the kind of problem that might be relieved by more GSE demand. As it is, those loans are largely packaged into asset-backed securities. At this moment, demand for those kind of products is best described as “limited.” Actually, that is the exact word that industry used to describe the predicament. In 2010, “non-existent” would also be a fair term.

The Community Reinvestment Association of North Carolina would support the position that the GSEs buy personal property loans, contingent upon the rule that lenders meet standards for consumer protections. Those provisions should include:

* low interest rates
* exclude those with prepayment penalties
* ban yield spread premiums
* impose the expectation that lease terms extend beyond the life of the loan.

We agree that real property mortgages are far superior to personal property loans. However, the best response is not to abandon this market. Doing so will mean that the poorest consumers are most likely left to find capital at a series of second-best providers. Instead, the best course is to improve the quality of lending through engagement. By imposing standards, but by also buying the loans, lenders will be encouraged to increase the quality of their loans. The better lenders will have an advantage, in terms of liquidity, compared to the more predatory lenders. This is an outcome that would serve the needs of this population.

CRA-NC agrees that this new rule-making will cure at some of the problems within the sector of manufactured housing, and for that, the FHFA deserves praise. The new rules <http://www.fhfa.gov/webfiles/15828/75_FR_32099_June_7_2010.pdf>would have the beneficial effect of causing the GSEs to buy more manufactured housing mortgages, and to at least venture into providing capital for parks, too. Those are very important actions, and each should bring more access to capital for borrowers.

More GSE participation is one of the key fixes for this market. The secondary market for manufactured housing debt has never been able to satisfy the volume of loans made on these properties, particularly in the last decade. If you have followed the story of manufactured housing, you would know that this industry tanked in the early 90s when Greentree and Conseco withdrew from the secondary market for these loans. Good financing dried up.

The real challenge for this sector, though, is not with real property mortgages. Access to credit is much more restrictive, which is saying a lot. In 2008, almost two in three applications to get a loan for one of these properties were denied (HMDA). Of those that were approved, sixty percent bear interest rates that exceed the current standard for high
cost: they are at least 300 basis points above comparably termed Treasuries for first lien loans, or 500 for second lien loans (HMDA).
Financing is a key problem. Since most of the personal property loans are for 15-year terms, the relative affordability of a manufactured home is muted by the expense of financing. It is a market that shouts “under-served.”

CRA-NC also believes that the duty to serve should extend to manufactured housing communities.

Parks are neighborhoods. Consistently, parks are underserved by financial markets. Even though they do not resemble the urban settings that motivated the passage of the Community Reinvestment Act, they are alike in their disinvestment.

Financing, which is the subject of this rulemaking, is complicit in the underinvestment that is common in mobile home communities. Banks are willing to make loans on these parks, but usually they are reticent to finance the entirety of a park. The second is still needed, and it hard to get that last twenty or thirty percent. Even the very institutions that should be serving these markets – state housing finance agencies – are largely disinterested. In North Carolina, the NCHFA won’t even offer to make loans on the land for these parks, let alone for a finished community.

Parks are home for many important populations. Historically, mobile home parks have housed military families and senior families. Often, parks are in rural areas. These would appear to be important criteria in the FHFA's instructions for the GSEs.

All of that means that new parks aren’t being started. This is very problematic, because mobile homes are a viable housing form and an important element in affordable housing stock. A lack of rental housing will be an emerging problem in the near future. The Joint Center on Housing Studies at Harvard University has been clear that even in the boom years, investors did not put enough money into building new rental properties. Most single-family housing construction was not appropriate for transformation into rental stock, as new development in that period was marked by very large home sizes and prices that were inflated by unrealistic lending. Multifamily properties, particularly in rural areas, have not had the same reinvestment. This means that we will need more rental stock. Manufactured housing is poised to fill that demand.

Again, the proper course is to buy loans contingent upon standards. It is difficult to sell a manufactured home park without financing for buyers. In that absence, many park owners evict their families and then redevelop the land for another purpose. This leads to more families in crisis, more families competing for rental vacancies, and more loss of assets.

Thank you for your concern.

Sincerely,

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