



June 1, 2009

The Honorable Edward J. DeMarco
Deputy Director and Chief Operating Officer
Federal Housing Finance Agency
1700 G Street, NW, 4th Floor
Washington, DC 20552

VIA e-mail: edemarco@ofheo.gov

Dear Mr. DeMarco:

On behalf of I'M HOME, we appreciate your efforts to honor Fannie Mae's and Freddie Mac's newly codified "duty to serve" affordable housing, through loan products and underwriting targeted at homeowners who choose manufactured housing.

CFED, a national nonprofit dedicated to expanding economic opportunities for all Americans, leads the I'M HOME (Innovations in Manufactured Homes) initiative and network, which seeks to ensure that all homeowners enjoy the full benefits of homeownership. I'M HOME represents more than 38 local and regional organizations across the country that supports families who choose manufactured housing.

We believe that Fannie Mae and Freddie Mac ("the enterprises") can foster stronger, more stable homeownership for the 17 million individuals who currently live in manufactured housing. Manufactured housing is the largest source of unsubsidized affordable housing in the nation and pertains not only to the manufactured housing duty to serve goal, but also to the rural housing and preservation duty to serve goals. Manufactured housing is the housing of choice for many Americans, particularly low-income individuals, seniors and others on fixed incomes. It represents responsible, affordable homeownership that enjoys minimal public investment and simply needs fair consideration from the private financial markets.

As stated in the duty to serve statutory language, the enterprises have an obligation to "develop loan products and flexible underwriting guidelines to facilitate a secondary market for mortgages on manufactured homes" for very low- to moderate-income families. Our experience working with low-income owners of manufactured homes has informed us that, in order to serve the "very low-, low- and moderate-income families" directed by the statutory language, the manufactured housing duty to serve goals must address products and programs aimed at three key areas related to manufactured housing.

I. Single-Family Home Financing on Fee-Simple Land

Single-family home mortgage financing for manufactured housing on a permanent foundation on fee-simple or long-term leased land should mimic conventional mortgage loans for site-built homes. In today's market, roughly two-thirds of purchasers of manufactured housing place their home on their own land on permanent foundations rather than in land-lease communities. However, as with the broader housing market, loans for the most low-income are difficult to access. This is especially true for purchasers of manufactured housing. Lack of clear and accurate data on the factors which lead to failure of loan performance results in subprime classification of manufactured housing loans regardless of the credit worthiness of the borrower; these biases against manufactured housing are built into automatic underwriting systems. The truth is that manufactured housing represents responsible homeownership: it is cost effective and energy efficient. Loan products that address this market gap can be applied in a safe, sound and responsible way that offers reasonable flexibility while not layering excess risk. The enterprises must take a leadership role in the housing industry by developing sound underwriting guidelines that remove unnecessary and biased assumptions and that will provide for liquidity and responsible loan products that meet the needs of this underserved market and are also sustainable and offer long-term safety for lenders and borrowers.

In order to serve the low-income owners of manufactured homes, we recommend loan products that close the gap between site-built and manufactured home financing, including non-predatory loan terms and underwriting that is safe, sound, reasonable and relevant. Mortgage loans for homes placed on fee-simple land that count toward the enterprises' duty to serve should mimic conventional mortgage loans for site-built homes. Specific recommendations include:

- A. **Development of a credit enhancement tool** to support a secondary market pilot for homes (e.g. existing, fee-simple homes and/or new development using high quality used units).
- B. **Define manufactured housing "done right"** and then treat it the same as any other quality housing, rather than having different rules and criteria for site-built and manufactured homes. Fannie Mae's MH Select was a promising model. The enterprises should create an "MH Done Right" model that builds on the goals of MH Select and also addresses affordability. The I'M HOME network of more than 38 organizations across the country would be an ideal pilot.
- C. **Waive the portfolio cap or create a "carve out" for manufactured housing** as part of the duty to serve obligation. Manufactured housing is a critical element of the nation's housing stock, particularly in rural areas, including Indian Country, Appalachia, the Black Belt in the Southeast and Border Colonias. The reality is that in the near-term, manufactured home loans are not easily securitized and sold. This adds difficulty related to the enterprises' portfolio size limits because in most cases manufactured home loans must be kept in portfolio.
- D. **Encourage responsible, appropriate loan products for financing singlewide manufactured homes, including resale.** This is an affordable and energy-efficient option for many homebuyers, but loan products for this type of home are limited.
- E. **Develop a consistent requirement for manufactured home foundations and installation:** they currently vary by lender program, making it difficult to provide a uniform set of guidelines to borrowers and contractors. A model to look at is the Federal Housing Agency's

Title II foundation system; it passes all lender requirements and many I'M HOME network practitioners indicate that it is the most favorable option.

- F. **Encourage the enterprises to collect, analyze and share data** on manufactured home loans so that underwriting guidelines can be refined to more appropriately serve this market.

II. Single-Family Home Financing in Land-Lease Communities

Mortgage financing for manufactured homes on leased land needs to be expanded. A large percentage of the 3.5 million households who live in about 50,000 land-lease communities have low incomes. The current financing system for manufactured homes in land-lease communities is problematic; it more closely resembles auto financing and is ripe for predatory lending practices, including higher interest rates, shorter loan terms and higher fees. Homeowner and consumer protections should be the same regardless if the home is site-built or manufactured; consistency in protections would go a long way in strengthening this sector and promoting responsible lending. Past poor performance of loans on manufactured homes in land lease communities was a direct result of the high rate of chattel lending in this sector and the fact that land owner/community investor interests are often at odds with homeowner and lender interests. We have found that two issues most strongly address these factors: titling homes as real estate and security of land tenure.

Titling homes as real estate leads to the kinds of protections real estate borrowers and lenders need and should expect. For an in-depth analysis on how titling manufactured homes as real estate leads to asset building and protects both homeowners and lenders, please download the [Titling Homes as Real Property](#) resource guide available at www.cfed.org/go/mhtoolkit. Key points of this analysis are:

- Whether a home is titled as real or personal property affects appraisals and sales, financing, taxes and tax exemptions, federal and state consumer protections, protections for spouse and joint ownership, rights upon default and bankruptcy. In most cases, classification as real property benefits and protects the homeowner and the lender, and increases likelihood of home appreciation.
- Approximately three-fourths of states have a procedure for converting a manufactured home from personal to real property, typically requiring a home to be permanently affixed to the land. Many of these conversion statutes, however, are unclear and unreasonable in their requirements.

By creating a straightforward conversion process that is not only easy for homeowners to follow, but also protects existing lienholders and future buyers of the home, states can open the door to increased security and asset-building potential for owners of manufactured housing.

Land tenure security reduces risks of lack of equity or sudden loss of value due to community closure, rent increases and/or lack of community reinvestment and maintenance. Resident-owned cooperative communities, for example, offer long-term affordability while providing homeowners with asset-building opportunities. In this scenario, a homeowner owns his or her home and leases the land from a nonprofit cooperative owned by the resident association. Community ownership fosters civic engagement and has shown to promote community investments and infrastructure improvements. Homeowners have every incentive to maintain their community while keeping

housing costs low, thus providing lenders with added security. This was a key finding of a 2006 University of New Hampshire's Carsey Institute study, available at http://www.rocusa.org/3B1_carsey_report_3C7A.pdf.

Other key findings of the study include:

- In New Hampshire, resident ownership has a more than 25-year history and 22% of the state's communities are in resident ownership. Residents who own their manufactured home communities have significant economic advantages over their counterparts in investor-owned communities, as evidenced by higher average home sales prices, faster home sales, and access to fixed rate home financing.
- Residents who own their communities consistently perceive greater control over and stability in their lot rents and governance, and worry less about being displaced because of park closure for redevelopment.

For a detailed discussion on how land tenure security protects affordability and home values, please read the [Protecting Fundamental Freedoms in Communities](#) resource guide, available at www.cfed.org/go/mhtoolkit. Key points of this guide include:

- Manufactured homes represent a pathway to affordable homeownership for millions of Americans, but their ability to be an investment or wealth-building vehicle remains tenuous in many states, largely due to lack of land tenure security.
- The precarious status of a manufactured home on rented land can turn it into a financial disaster instead of an asset. Resident ownership of communities is one of the most effective strategies for helping low-income homeowners build assets.
- Land tenure security is essential if residents of manufactured home communities are to have the opportunity to buy their communities. In order to pursue resident ownership, residents must be free to meet, to go door-to-door within the community, to form homeowner associations and to advocate for policies that promote resident ownership, without fearing eviction or other retaliation for these activities.

To best serve low-income owners of manufactured homes in land-lease communities, lending that counts toward duty to serve should include terms that:

- A. **Protect homeowner interests:** Any seller guide or lender handbook issued by the enterprises for single-family manufactured home loans in land-lease communities that count toward duty to serve goals should include:
 - a. Protections for the residents' freedom of association and freedom of speech;
 - b. Prohibitions against retaliation and requirements for good cause for evictions;
 - c. Grace periods for rent payments and the right to cure;
 - d. Provision of timely notice of sale for existing owners;
 - e. Opportunity to purchase community by homeowners;
 - f. Prohibitions on arbitrary restrictions on homeowner sale of the home; and

- g. Resident ownership or long-term leases that offer certainty and security (at least five years beyond the mortgage term).
- B. **Protect lender interests:** Loan terms that protect the position of a secured lender also benefit homeowners by encouraging conventional financing in land-lease communities. Best practices that protect the position of a secured lender include:
- a. **Requiring notice to the lender and right to cure upon default on the ground lease:** Just as traditional mortgage lenders pay tax or insurance charges to protect their investment, lenders for homes on leased land also need protections, such as notice when a homeowner is dangerously close to eviction, so that the lender may intercede to protect its holding.
 - b. **Allowing the lender to sell the home on site after foreclosure:** Lenders benefit from the ability to sell the home on site, primarily to ensure fair market value.

III. Multi-Family Financing of Resident-Owned Communities

To effectively serve low-income owners of manufactured homes, the enterprises also have an obligation to provide liquidity for resident purchases of communities. If manufactured housing is unsubsidized affordable housing for the most low-income individuals and families, homeowners living in land-lease communities are the most vulnerable of this group. Owning a home on rented land is a precarious situation in which homeowners can be subject to unpredictable rent increases or even evictions. It can also be a financial disaster, wiping out any home equity in cases of community closure. Fostering resident-owned communities is one answer to this situation. Experience has shown that, with a little support, homeowners are willing and capable to organize themselves, purchase and manage their own community. We encourage the enterprises to promote loan products and technical assistance to help resident groups purchase their communities.

To better serve the low-income owners of manufactured homes in land-lease communities, we recommend:

- A. **Community acquisition/conversion to resident ownership:** A program to purchase senior tranches of high LTV loans to limited equity cooperatives made up of resident groups, supported by well trained technical assistance providers.
- B. **Low-interest loans for the rehabilitation of community infrastructure.**

IV. Specific Concerns Related to Chattel Lending

Chattel lending is contrary to the spirit of duty to serve; instead, it provides low-income families with higher rates, less optimal terms and reduced consumer protections, as compared to a mortgage loan. We understand that the law provides that FHFA **may** consider loans secured by personal property when evaluating enterprise performance in meeting their duty to serve. In fact, in certain states where titling of manufactured homes as real estate is not yet possible, we understand that chattel lending may be the only option. We therefore strongly recommend that in order for chattel loans to count toward duty to serve, they not be used in situations where a real estate loan is viable—for example homes titled as real estate. Where chattel loans are necessary, we strongly recommend that they meet the same requirements as those outlined in Section I and II, above,

including fair and accurate underwriting and reasonable, not predatory, loan terms. This is the most effective way to protect low-income homeowners, their lenders and the enterprises.

The I'M HOME network stands ready to help you develop duty to serve rules that provide opportunities for the low-income individuals and families who own manufactured homes to attain stable and appreciating homeownership. We support the implementation of duty to serve goals and hope to be active partners with the FHFA as you implement these goals.

Regards,

A handwritten signature in cursive script that reads "Andrea Levere". The signature is written in black ink on a light-colored background.

Andrea Levere
President