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Mr. Jim Gray
Director, Duty to Serve Program
Federal Housing Finance Agency
400th St. SW
Washington, DC 20024

March 20, 2017

Re: Request for Input (RFI): Support for Chattel Financing of Manufactured Homes

Dear Mr. Gray,

The following comments are provided by Brian Gallagher, CPA, JD, MBA, of Santefort Real Estate Group, LLC, Westmont, IL. (SREG) 630-795-6224, bgallagher@sregpm.com . SREG is a family owned, owner/operator of 11 manufactured home communities located in Illinois and Indiana, comprising 3,000 home sites. SREG affiliates also sell and finance homes to consumers through a licensed MLO. Since August, 2014, we have originated and service approximately 230 chattel loans for an original principal balances aggregating $7 million. Responses are generally limited to SREG's own experience, unless otherwise noted.

OVERVIEW of OUR RESPONSE to FHFA QUESTIONS:

In summary, we are very confident that the Enterprise's support of a secondary market for manufactured home community (MHC) chattel loans would be a win-win-win. Secondary Market Investors (SMI) would receive higher yield investments with mitigated risk characteristics. Consumers would have access to more lending sources which, among other key benefits, would lower borrowing costs and unlock the equity value in their manufactured homes. MHC chattel home loan originators would have a source of funds to replenish their lending pools, leading to greater activity, jobs, and more Quality Affordable Housing for a presently unsubsidized and underserved consumer market. The Enterprises could bring this about through leading the development of "template transactions" – standardized documents, PMI, and "Park Agreements", pursuant to which the MHC's in which the loan collateral is located agree to cooperate with originators and SMI to mitigate the risk of loss arising from borrower default. In sum, the Enterprises' promotion of a chattel loan secondary market would satisfy their "Duty to Serve" the lower economic classes which are disproportionately dependent upon manufactured home community living for their quality affordable housing needs.

I. Sources of Chattel Loan Financing

1. Describe current sources of financing for chattel loans in the primary market.

We have originated $7M in MHC Chattel Loans. Our financing sources are cash flow from rental operations, community refinancing proceeds, home sale and principal repayments. The sources are distributed to the common parent of the community and the home lender. These funds are limited, and our ability to provide quality affordable housing would be greatly enhanced by the opportunity to originate loans and then liquidate them in a secondary market.

2. Describe current sources of financing for owner-occupied and for investor-owned chattel loans in the secondary market.

I have no personal basis to answer this question, as to my knowledge, no secondary market exists (yet). However, I would assume that if we can provide the credit enhancements under consideration – PMI, standardized documentation, financial qualification of the communities in which the chattel is located, "Park Agreements" between

secondary market chattel loan investors and the manufactured home community (MHC), among others, all mitigating the chance of financial loss, investors would be attracted by the higher rates offered by manufactured home loans. Once this liquidity supports the MHC Chattel Loan market, rates to consumers should decrease.

3. Do MHC fund their community financed chattel loans? If so, how does the funding process work and what secondary market or other funding sources are used?

Dodd-Frank requirements have significantly changed the relationship between the MHC owner and the residents. Prior to Dodd-Frank, MHC owners could lend their funds to their residents to purchase their homes with minimal regulation. Today, to achieve the same outcome, MHC's establish licensed MLO affiliates to originate and service chattel loans to residents. We have devoted significant monetary, time and personnel resources to obtaining and maintaining our MLO – including without limitation, continuing education, quarterly reporting, maintaining minimum cash balances and bonds, and preparing audited financial reports. In our case, our affiliated MLO accepts applications, underwrites, documents loans for qualified applicants, and services loans our $7 million loan portfolio which are funded by our affiliated home sales company. Funds are provided by the sources described in #1 above. We hold these loans on our books because there is no secondary market – limiting our ability to acquire more homes and provide more quality affordable housing to our market.

4. What types of financing providers do not participate in the chattel market and how could the Enterprises broaden that market? What risks should be considered?

Many financing providers do indeed provide chattel lending, including without limitation Triad, Oxford, Berkshire Hathaway subsidiaries Vanderbilt and 21st Century. However, these lender generally limit their lending to better qualified applicants, or borrowers purchasing in communities in which the MHC owner has guaranteed the loans. Loans to borrowers with older homes and credit scores below 600-625 are difficult for these lenders to approve. This significantly limits opportunities for Quality Affordable Housing ownership for a major segment of the housing market, both in their original home acquisition and equally importantly, when it is time to resell the home. If financing is not available for a resident to resident sale, the seller is limited to cash buyers, which significantly lowers the home value and erodes value.

The Enterprises could broaden the market by:

A. Standardizing the transactions to include

- ***a. Qualification of the Financial Condition of the MHC in which the chattel is located.***
    - ***i. All MHC's are not created equal. The key to maintaining the value of the chattel as collateral is a vibrant sales market for used homes. This is easier achieved in well located, well financed communities offering amenities like a clubhouse, a pool, new playgrounds, an active social calendar, and strong enforcement of Rules and Regulations. A $50,000 loan in such a community will be far more secure than a $50,000 loan in a no frills, poorly managed, financially weaker community.***

      Here is one example of a great community (full disclosure – our flagship!)
      https://www.santefortneighborhoods.com/neighborhoods/tri-star-estates/

      Note also, the ability to take a "virtual tour" of homes.

https://my.matterport.com/show/?m=CYsWKUbRgrk ***(multisection)***

ii. ***Qualifying a MHC for secondary market participation could be a simple as getting a statement from the MHC mortgagee confirming the Debt Service coverage of the MHC operations, and the Loan to Value of the MHC. The MHC owners could provide a third-party evaluation of amenities and recent sale activity. This rating will demonstrate to the Secondary Market Investor (SMI) that the MHC has sufficient traffic to resell a defaulted home and the MHC owner has the financial strength to work with the SMI to address defaulted loans to preserve the value of the chattel collateral.***

iii. ***A financially qualified MHC shall enhance the value of the "Park Agreement" between the MHC and the SMI regarding the chattel loans, which would include***

1. ***In the event of a chattel loan default, the MHC shall support the SMI by***
    a. ***Not charging site rent to the SMI for the applicable home.***
    b. ***Maintain and secure the home, at the SMI's cost.***
    c. ***Actively market the home for sale to a qualified replacement purchaser, for a commission paid by the SMI.***
    d. ***(this concept is similar to that advocated by Lesli Gooch of Manufactured Housing Institute in her comments to Mr. Jim Gray dated March 10, 2017 (the MHI letter).***

b. ***Standardizing a uniform document package.***

i. ***These loans may range between $20,000 and $80-90,000 each. For such relatively small transactions, it would help to develop a uniform (national) loan document and disclosures which is accepted in all states.***

ii. ***The form of title to the chattel, and how the security interest is to be listed.***

iii. ***Standard underwriting template, including FICO score, Employment Verification, Credit Report, disposition of irregularities, and originator approval, and payment history to the point of sale in the secondary market. Note that we have experienced difficulty with employers' willingness to verify employment terms.***

c. ***Announcement of the target commencement date of the secondary market to trigger the development of a PMI program for MHC Chattel Loans, presumably by companies which offer PMI on residential real estate mortgages.***

5. What role do MH Dealers and manufacturers currently have in financing purchases of MH?

MH Dealers have difficulty participating in financing purchases beyond identifying lenders because of the Dodd-Frank MLO requirements and restrictions. I am unaware of any support manufacturers have had, beyond the fact that Berkshire Hathaway also owns Clayton Homes in addition to lenders 21st Century and Vanderbilt. Because of the benefit to the manufacturers which a secondary market would confer, I expect that they might be willing to put some resources behind developing the infrastructure needed for a nationwide rollout (see I.4A above).

II. Origination of Chattel Loans (Chattel Financed Homes = CFH)

6. Describe currently available home purchase and refinance chattel loan products including their terms and features. (Amort, Credit Score, Down Payment, fixed/variable, points) Underwriting criteria. Performance history of products.

a. ***Our standard loans are***

i. ***15-17-year full amortization, no balloon, no negative amortization***

ii. ***500-590 Credit Score***
iii. ***10% Down Payment (Special 5% down for Neighborhood Heroes (see below))***
iv. ***8% Fixed*** ***(special 5% fixed rate for Neighborhood Heroes – Vets, Teachers, Nurse, Cops, Firemen/women)***
v. ***$235/loan fee (regardless of principal value)***
vi. ***Underwriting – 3 months verified employment, 33/43 ratios, no bankruptcy in 12months, fewer than 4 accounts in collection.***

b. ***Because of the support our lending and servicing affiliate receives from our Manufacture Home Community entity, we are able to work out any borrower difficulties through restructure or repurchase. Our chattel loan portfolio has not incurred any material loss in its three-year history. We are able to reacquire and resell the home for the loan value, and with prompt action, are frequently able to return some equity to the defaulting Borrower. This minimal loss rate is especially significant given the fact that our borrowers generally have lower FICO scores, more credit blemishes, and lower down payments (10%) than those who qualify for national lenders.***

7. Should Enterprise value chattel financed homes using an appraisal, mfg. invoice plus appurtenances, NADA, etc.? What should be included in value?

NADA has made significant effort to provide a solution for appraised value. There is no need to recreate this wheel.

8. Is there an industry standard used to value used homes and should resales of chattel be excluded from the pilot?
    a. ***The market generally provides the best estimate of used home values, with NADA guidance.***
    b. ***No! Resales should definitely be included in the secondary market. A huge consumer benefit of the program would be to encourage the financing of consumer to consumer used home sales. (Imagine the impact on YOUR home value if YOU could only sell your home to an all cash buyer. Without the ability to finance a home purchase, the home's value is significantly impaired.)***

9. Should a chattel loans pilot allow for the refinance of existing CFH and if so, how should the Enterprises value these CFH?

    Absolutely, for the value reasons mentioned above, combined with the MHC support agreement and PMI. The Enterprises could value the used homes with the NADA guide.

    As a representative, though anecdotal, example, a hypothetical Mrs. Jones has lived in her 1993 manufactured home for 24 years, taken good care of it, and now wants to sell it and retire to an assisted living community. This home might have a +/- $35,000 market value, however, 69% of Americans have less than $1,000 in the bank. Therefore, it is highly unlikely that Mrs. Jones will be able to receive $35,000 for her home unless the buyer has cash or a qualified buyer could get financing. Because both scenarios are unlikely without a Secondary Market, Mrs. Jones will ultimately have to accept a much lower cash price from a wholesaler or the MHC itself when it is time for her to move on. I believe this would be similar for any residential owner – if buyers could not finance their homes, real estate prices would be much lower. The Enterprise's Duty to Serve should clearly extend to the Mrs. Jones' of the world who need available financing to receive the equity value she has earned over the years.

10. Describe current chattel loan and collateral documentation and variations and disclose challenges to standardizing loan and collateral documentation.

    a. ***Loan Doc, with TILA disclosures, Home title, with secured interest noted. (See example in MHI Letter, 3/10/17)***
    b. ***Biggest challenge would be a simple (couple page) doc satisfying state by state requirements, however standardizing docs for loans less than a given amount, say $80,000, should be achievable.***

11. Are there typical warranties or other add-ons (e.g., insurance) by dealers that increases the purchase price of CFH? If so, please describe the terms, conditions and benefits of these add-ons and typical costs to borrowers.

Dodd-Frank requires insurance. There are no other "add-ons" other than required site rent. New homes generally come with one year manufacturer warranties. Our organization does not offer extended warranties, but we are experimenting with a 90-day warranty on used homes to provide additional comfort to purchasers.

12. Under what circumstances, if any, should housing counseling be required as a condition for receiving a chattel loan to be purchased by an Enterprise, and if so, where and how should counselor be trained?

Perhaps for "non-qualifying loans". Counseling should always be available, but not required, for loans meeting value, rate, amortization, income ratio, down payment metrics.

III. Borrower and Tenant Protections.

13. What protections for chattel loan borrowers should be required beyond those currently provided by fed, state and local law, and how should protections be overseen?
    a. ***Dodd-Frank provides disclosure and education requirements with which all MLO's already comply. Similar to non-compliance with Dodd-Frank, in the event of a default, in which a loan may be scrutinized for breach of protections.***
    b. ***Notably, one of President Trump's highest support correlations came from residents of manufactured home communities/trailer parks. Should the Enterprises support a secondary market which benefits manufactured home owners, it would be a significant benefit to this still struggling segment of the economy.***

14. What tenant protections are appropriate and workable for chattel loans when the home is located in a MHC as compared to privately owned land?

    The Tenant Protections listed in the Enterprise documents are reasonable and applicable.

IV. Credit Enhancements, Standardization and Risk Sharing

15. What third party credit enhancements (e.g., letters of credit) might be available for chattel loans or securities backed by chattel loans? Which entities are the potential providers of these credit enhancements and what are appropriate terms, conditions and pricing?

    We recommend the Enterprises work to develop
    a. ***PMI, provided by providers of current PMI on real estate residential loans.***
    b. ***Perhaps LC/Bond posted by community (indicator of financial strength) in the event of the Community not honoring its obligations under the Park Agreements.***

16. In designing chattel loan pilots, who might the Enterprises incorporate lender recourse or sharing credit risk with private investors.
I suggest the possible application of a bond or Letter of Credit for the benefit of the Enterprises in the event of SMI loss. I do not recommend the requirement of MHC owner recourse. The MHC Owner will not want homes to be removed from the MHC, and therefore would be highly motivated to work with the SMI to resell the unit and minimize SMI losses without the express obligation of recourse.

17. What changes in data collection and reporting and what other efforts at standardization are needed across the MH Industry to increase the marketability of manufactured home chattel loans and to enhance consumer capacity to resell used MH?

I believe that the suggestions mentioned above, qualified communities supporting the SMI, standardized documents and appraisal to streamline the origination and secondary market processes, PMI to provide a loss mitigation of last resort, and Enterprises' support of the secondary market, would increase the marketability of the Chattel Loans and enhance consumer capacity to resell used manufactured homes.

V. Chattel Loan Servicing

18. Describe the current practice for chattel loan loss mitigation, including any roles played by MH communities and any regional variations in mitigation practices.

We monitor payments, and provide notice in the event a payment is missed. We hope to contact the borrower in good faith, and investigate possible restructuring or accommodation if the financial stress is due to an interruption in employment or a one-time other payment demand (medical, car repair, etc.). In the event the loan cannot be restructured, we have often repurchased the home to allow us to resell it with no or minimum loss to the lender, and hopefully, to maintain as much borrower equity as possible.

As a result, we have experienced minimal loss over three years servicing our $7 million portfolio. Under "Park Agreements", SMI's would benefit from the same safeguards we use today to minimize our default risks.

19. What efforts at chattel loan loss mitigation (short sale, deed-in-lieu and modification) should be required in a chattel loans pilot, and how might these requirements affect the pricing of the loans and the interest of investors in purchasing securities backed by the loans?

The key is the relationship with and financial strength of, the MHC Owner. As described in I.4.A. above, the MHC Owner and its sales force, and the manner in which it maintains the community to keep an active sales market, is the best defense against loss on a chattel loan. The outliers are intentional damage being done to the home, which is possible in any setting (chattel or real estate). We have found this to be very infrequent and to have resulted in minimal loss. With PMI as a backstop, and 10% down payments, the chattel should always hold its value above the loan balance.

Anecdotally, we have seen third party lenders expose themselves to loss in some of our communities, generally because they fail to act promptly and rationally to protect the value of the collateral. Prompt and rational efforts to work with the MHC should mitigate actual loss on a home loan.

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20. What are the current practices for disposition of repossessed chattel-financed homes? What are the available channels for resale and what are typical recovery rates for each channel as a percentage of the unpaid principal balance on the chattel loan?

As discussed in V. 19 above, the key is for the MHC Owner to maintain an attractive community, which spurs demand for homes. Applying the I.4.A safeguards, will result in the home being resold in a non-distressed manner, and the chance of SMI loss is minimal.

Here, I would like to comment on the MHI's letter's response to question 20 stating that *"Anecdotally, we hear that recovery rates are around 55%."* ***I can only imagine that this disappointing recovery rate MUST include loans made prior to the Great Recession of 2008-2010 -- loans which were not subject to the underwriting requirements of Dodd-Frank. As in the general residential lending market, (think "Big Short"), these loans may have been overvalued, poorly underwritten, and likely to suffer in the aftermath of the Great Recession. Under Dodd-Frank, and in recognition that the industry is selling homes at much lower price points than in the "easy money" pre-Recession years, the experience of lenders on loans from 2013 forward must be much, much better, (e.g., our experience of near 100% recovery) especially if they adhere to the recommendations ("Park Agreements", property underwriting, prompt action in the face of default) which we describe above.***

21. What are the servicing practices if the owner of a chattel home fails to pay ground rents for the underlying real estate buy is current on the note payment for the home?

Default on the ground lease is typically a covenant default on the home loan. We are seeing a trend in which the Court defers to the CFPB protections on the home loan, in contrast to the easier to evict process for default on the ground rent. We therefore proceed on our loan remedies prior to, or slightly ahead of, pursuing our remedies arising from the ground rent.

VI. Data Sources

22. Please specify any sources of data for the following:
    a. Differentiating the land ownership for MH on privately owned land as between land owned by the borrower, a relative of borrower, or a third party.

Please check with other industry sources for specific data. I can add that Manufactured Home Communities offer amenities like pools, clubhouses, playgrounds, social events, payment of Real Estate (ad valorem) taxes in site rent, central management and enforcement of community rules and regulations which provide great value in quality affordable housing.

    b. Describing chattel loan borrowing credit and income characteristics (beyond Home Mortgage Disclosure Act data) including trended borrower data;

Our financing program allows borrowers with bruised credit and earning just a few dollars per hour above minimum wage to acquire and build equity in quality affordable housing. Our FICO scores are generally lower (520-590) and we may accept applicants with more accounts in collections than third party lenders.

    c. Tracking the borrower's experience with chattel financing and servicing;

We have not polled our borrowers about satisfaction. We do strive to address any of their concerns on a timely basis.

d. Comparing energy-efficiency of CFH with site built housing

I suggest you contact the manufacturers – Clayton, Champion, Skyline, etc. for this information.

e. Describing the decommissioning or breakdown of outdated or mfg homes

I can state that we continue to refurbish homes over 30 years old (1987) and may sell them for more than their original sales price. Homes manufactured today are of a better quality and design, and should hold their value even better than 30-year-old homes today.

f. Identifying the 20 largest servicers of chattel loans secured by MH.

I am confident you can identify these services through NMLS reporting.

g. Describing chattel loan performance and model results (prepayment, delinquency, default)

Our $7M, 220 loan portfolio is comprised of borrowers who did not qualify for third party lenders such as 21st or Oxford. We require them to meet income ratios, but have lower FICO score and "accounts in collection" criteria. We have experienced minimal loan losses, because of our ability to resell homes in our communities after coming to agreement with delinquent borrowers. I estimate about 10% of our homes have required restructuring or repurchase. Prepayments are few, and generally arise when the borrower chooses to "move up" within the community.

We sincerely thank the Enterprises for this opportunity to provide input on this important issue. We look forward to working with the Enterprises to satisfy the "Duty to Serve" this important moral obligation to the presently (federally) underserved citizens residing in manufactured home communities to preserve their equity and encourage home ownership.

Respectfully Submitted,

Brian Gallagher

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