Fannie Mae

2022
Manufactured Housing
Loan Purchase

REGULATORY ACTIVITY:

B. Manufactured housing communities (MHCs) owned by a governmental entity, nonprofit organization, or residents (12 C.F.R. § 1282.33 (c) (3)).

OBJECTIVE:

1. Increase loan purchases of MHCs owned by government entities, nonprofit organizations, or residents.

INFEASIBILITY:

☐Check here if the Enterprise is submitting an infeasibility request for the objective.

SUMMARY OF RESULTS:

Objective's components detailed in the Plan	Corresponding actions taken	Explanation of any deviations from the Plan (if applicable)
☐ Purchase loans secured by five MHC properties which are owned by residents, government entities, or nonprofit organizations, comprising an estimated 808 units and representing a 150% increase from the baseline.	Fannie Mae financed two MHC properties organized as limited equity resident-owned cooperatives (ROCs) in 2022—representing its first loan purchase activity in this market segment since the implementation of Duty to Serve began in 2018.	N/A
☒ Perform an assessment of lender outreach and education efforts to identify opportunities to increase non-traditional MHC loan purchases	In 2022, Fannie Mae broadened its engagement efforts with its DUS® lenders and achieved some success—quoting more MHC properties under non-traditional ownership than in all prior plan years of DTS combined (2018-2021.)	N/A
☒ Continue efforts to support resident-owned communities through ROC pilot program implementation and other tactics.	Engagements with National Cooperative Bank and ROC USA under our targeted pilot program produced the first loan financed through this program and encouraged joint identification of opportunities to finance more properties in 2023 and beyond.	N/A

SELF-ASSESSMENT RATING OF PROGRESS:

☐ Target met
☐ Target exceeded
☒ Target partially completed
☐ No milestones achieved

IMPACT:

☐ 50 – Very Large Impact
☐ 40
☒ 30 – Meaningful Impact
☐ 20
☐ 10 – Minimal Impact
☐ 0 – No Impact

IMPACT EXPLANATION:

1. How and to what extent were actions under this objective impactful in addressing underserved market needs, or in laying the foundation for future impact in addressing underserved market needs?

In 2022, Fannie Mae financed two MHC properties under resident ownership: one community in El Cajon, CA, and another in Alden, NY. These two purchases allowed us to meet our sub-goal of two MHC properties owned by residents—bringing us to the baseline of two properties for the overall Objective. While we fell short of our ambitious target of five properties, we are encouraged by ongoing dialogue with our Delegated Underwriting and Servicing (DUS®) lenders and other market participants that should allow us to finance more manufactured housing communities under non-traditional ownership in future years.

In financing the El Cajon community, Fannie Mae enabled the residents to lower their monthly debt service payments and offered competitive product terms, including cash-out proceeds to fund the borrower's reserves. In financing the community in New York, Fannie Mae provided several underwriting waivers to win the deal. Additionally, we helped mitigate the constraints that rising treasury rates would have placed on the borrower's proceeds by pricing the loan with the same guaranty and servicing fees in May as when the deal was first quoted in March, despite the reduction in debt service coverage ratio attributable to the exacerbated rate environment during those two months.

Of the two loans we purchased, one came in through our standard DUS program while another was funded through our long-standing pilot program with National Cooperative Bank with support from ROC USA. We remain committed to promoting this Duty to Serve Objective to both our DUS customers and to lenders and market participants with dedicated product expertise. We continued to meet with ROC USA and National Cooperative Bank bi-weekly to identify communities that may be nearing maturity on their existing debt and may benefit from refinancing through our conventional program. Having the opportunity to complete the first transaction under the ROC USA program afforded the opportunity to finalize a master technical assistance agreement between ROC USA and NCB that will govern the servicing and loss sharing responsibilities between the two entities and integrates that agreement into Fannie Mae's quoting and loan pricing procedures. Consistent with its standard business practice, ROC USA, or its certified technical assistance provider affiliates work to enable the long-term performance of the ROC borrower by providing ongoing technical assistance in budgeting, capital planning, property management, and governance, and collect a fee from the Borrower for this service. Giving these residents access to low-cost conventional financing while integrating technical assistance from a familiar provider into the loan servicing framework is a good outcome for the residents. At the same time, we note that one of the limited equity co-ops that Fannie Mae financed in 2022 did not have a technical assistance agreement in place with any provider and still demonstrated a strong history of property performance and management since converting to cooperative ownership in 1999. Monitoring the performance of these properties over time will enable Fannie Mae and other market participants to understand the value of the technical assistance provided to these residents and use the Duty to Serve platform to inform the broader market of the outcomes of these arrangements.

2. What did the Enterprise learn from its work about the nature of underserved market needs and how to address them?

In 2022, we quoted 12 MHC properties under non-traditional ownership (NTO), including three properties under resident ownership and nine properties under the ownership of one non-profit entity. Quoting this number of properties is indicative of the greater degree of awareness of these types of properties and our Duty to Serve goals among our DUS lenders: We quoted more properties in 2022 than in all prior years of Duty to Serve combined (2018-2021). Beyond these deals, we engaged with our DUS lenders on additional deals that we ultimately did not quote, but which gave us further insight into the nuances and challenges of financing MHCs under these unique ownership arrangements.

Lessons learned include:

- **Prolonged transaction timelines due to NTO Borrower unfamiliarity with secondary market financing processes.** As highlighted in previous narratives concerning this market segment, the relationship that non-traditional community owners have with mortgage financing is distinctly different from that of most multifamily property owners. While our DUS lenders generally interact with institutional investors who are routinely transacting on community purchases and refinances while managing a broader portfolio of real estate assets, non-traditional community owners generally only seek secondary market financing when it is time to refinance maturing debt. In many markets, the existing debt used to finance an NTO borrower's original acquisition of the property is often patchwork financing featuring low-interest primary debt (sometimes offered at below-market rates through a municipal bond issuance,) secured subordinate debt offered by a local housing authority, and various unsecured grants or forgivable loans procured through federal and local sources. Assessing the credit and legal ramifications of these various obligations will generally prolong the transaction and require more collaboration between the borrower, senior and subordinate lenders, and Fannie Mae legal and credit teams.

- **The insular nature of resident-owned community borrowers, many of whom have developed long-standing relationships with smaller financial institutions in their communities.** Although ROC USA ostensibly serves as a conduit for educating residents regarding the benefits of secondary market financing, residents seeking familiarity over complexity may still choose to transact with a local source of financing regardless of the impact that decision may have on their long-term financing costs. We are planning outreach events in 2023 to resident-owned communities in ROC USA's current portfolio in the hopes of giving them direct access to Fannie Mae to help assuage any concerns or address any unfamiliarity with secondary market financing processes. While we remain committed to partnerships with nationally recognized intermediaries such as ROC USA, we engaged with our lenders on deals featuring technical assistance (TA) providers other than those in ROC USA's network of certified TA providers. One such property had been operating as a resident-owned community since 1995 and benefitted from TA from a limited liability company (LLC) with over 40 years of experience in the financing and management of cooperative enterprises, including equity investments in cooperatives. Future partnerships with such TA providers may provide Fannie Mae with the opportunity to expand its NTO loan purchases through collaboration on potential transactions which may not be in ROC USA's current portfolio.

- One deal featured a subordinate loan from the local municipal government, structured under its HOME block grant allocation, which would have provided additional support for the transaction and enable the cooperative members to pledge less equity than would otherwise be required to support the deal. However, this subordinate loan compelled the co-op to enter into a regulatory agreement which, among other stipulations, required city approval of any future residents in the community and afforded the city the right to directly manage the property in an instance of default. Allowing a non-Borrower entity to dictate property management functions, such as default management procedures and tenant screening and approval, is not allowed under Fannie Mae's guide. Feedback from market participants in certain states highlighted the strengths of loan product offerings available in certain geographic markets where the community development financing community makes programs available offering low-cost financing for manufactured housing communities. One such example is in Oregon, where the state HFA (subject to appropriations) offers a tax credit for lenders offering purchase or refinance loans to an MHC owned by residents or non-profit/governmental entity with a maximum value equal to a four-percentage point reduction in a market-based loan interest rate. Such a program would offer an NTO borrower a loan with a below-market interest rate without compromising the lender's economic returns.

With Oregon being one of a handful of states with a robust opportunity to purchase law, the availability of financing with costs less than what would be incurred in a market-based conventional financing transaction is likely to be the best available option for residents in future years.

3. Optional: If applicable, why was the Enterprise unable to achieve the Plan target?

Despite making inroads through targeted lender engagement and pilot program implementation, the nature of this market segment will present challenges in loan attainment in future years. Major barriers to scale include the limited overall size of the NTO MHC market, loan amounts needed to convert a manufactured housing community to cooperative ownership typically exceeding the underwritten value of the property, and the absence of a robust national legislative and economic framework supporting resident-ownership (such as a statutory opportunity to purchase their communities when the owner declares an intent to sell and tax incentives for owners choosing to sell to residents). The resulting market opportunity is one in which Fannie Mae is competing for a very small pool of potential deals in select geographic markets—deals for which other players in the market may be able to provide loan terms that are ultimately more advantageous for the residents. Acknowledging this reality, Fannie Mae remains committed to the kind of outreach and collaboration described in the narrative above, in the hopes that it will alert us to any opportunities to provide liquidity to this important segment of the market.

Fannie Mae
Manufactured Housing
First Quarter Report: January 1 - March 31, 2022
Loan Purchase

ACTIVITY:

B. Regulatory Activity: Manufactured housing communities (MHCs) owned by a governmental entity, non-profit organization, or residents (12 C.F.R. § 1282.33(c) (3)).

OBJECTIVE:

1. Increase loan purchases of MHCs owned by government entities, non-profit organizations, or residents.

SUMMARY OF RESULTS:

Through March 31, 2022, Fannie Mae purchased one MHC loan from a resident-owned community in El Cajon, CA. Separately, we received the first loan submission under the resident-owned community pilot program established with ROC USA and National Cooperative Bank, our non-DUS lender partner. As this loan represents the first tangible loan purchase opportunity presented under the pilot program since we finalized the initial terms in 2019, we do expect to win this deal and be able to meet the sub-goal of two loans secured by MHC properties owned by residents—bringing us to the baseline for the overall Objective. We continue to conduct bi-weekly calls with pilot stakeholders to identify opportunities to improve the execution of pilot loans and potentially identify additional communities which may be able to refinance in 2022.

Fannie Mae has yet to quote an MHC loan on a property owned by a non-profit or government entity in 2022 and expect that these non-traditional MHC owners are likely to be adversely impacted by the current rising interest rate environment.

- Following are the 2022 Actions under this Objective: Purchase loans secured by three MHC properties, comprising an estimated 473 units which are owned by government entities or nonprofit organizations, and representing a 50% increase from the baseline.
    - Perform an assessment of lender outreach and education efforts to identify opportunities to increase non-traditional MHC loan purchases.
- Purchase loans secured by two MHC properties, comprising an estimated 150 units, owned by residents.

Fannie Mae
Manufactured Housing
First Quarter Report: January 1 - March 31, 2022
Loan Purchase

SELF-ASSESSMENT RATING OF PROGRESS:

☐ On track to meet or exceed the target

☒ Progress delayed and/or partial completion of the objective expected

☐ Unlikely to achieve any milestones of the objective

ADDITIONAL INFORMATION (IF APPLICABLE):

Manufactured Housing
Second Quarter Report: April 1 - June 30, 2022
Loan Purchase

ACTIVITY:

B. Regulatory Activity: Manufactured housing communities (MHCs) owned by a governmental entity, nonprofit organization, or residents (12 C.F.R. § 1282.33 (c) (3)).

OBJECTIVE:

1. Increase loan purchases of MHCs owned by government entities, nonprofit organizations, or residents.

SUMMARY OF PROGRESS:

As of June 30, 2022, Fannie Mae financed two MHC properties under resident-ownership—one community in El Cajon, CA and another in Alden, NY. These two purchases have allowed us to meet our sub-goal of two MHC properties owned by residents—bringing us to the baseline of two loans for the overall Objective.

FOLLOWING ARE THE 2022 ACTIONS UNDER THIS OBJECTIVE:

☐ Purchase loans secured by three MHC properties, comprising an estimated 486 units which are owned by government entities or nonprofit organizations, and representing a 50% increase from the baseline.

☐ Perform an assessment of lender outreach and education efforts to identify opportunities to increase non-traditional MHC loan purchases.

☒ Purchase loans secured by two MHC properties, comprising an estimated 150 units, owned by residents.

SELF-ASSESSMENT RATING OF PROGRESS:

☐ On-target to meet or exceed the target

☒ Progress delayed and/or partial completion of the objective expected

☐ Unlikely to achieve any milestones of the objective

ADDITIONAL INFORMATION (IF APPLICABLE):

While we remain focused on targeted efforts to fund ROC properties through the pilot program with National Cooperative Bank and ROC USA, we have also seen increased interest in this segment of the market from our delegated underwriting service (DUS) lender network. We are planning a series of marketing and promotional efforts which will highlight our recent transactions in the hopes of securing additional deliveries this year and in future years under the Plan.

We have quoted a 9-property MHC portfolio under non-profit ownership and continue to engage the lender in the hopes that this transaction can be closed and delivered in 2022.

Manufactured Housing
Third Quarter Report: July 1 – September 30, 2022
Loan Purchase

ACTIVITY:

B. Regulatory Activity: Manufactured housing communities (MHCs) owned by a governmental entity, nonprofit organization, or residents (12 C.F.R. § 1282.33 (c) (3)).

OBJECTIVE:

1. Increase loan purchases of MHCs owned by government entities, nonprofit organizations, or residents.

SUMMARY OF PROGRESS:

As of September 30, 2022, Fannie Mae financed two MHC properties under resident-ownership – one community in El Cajon, CA and another in Alden, NY. These two purchases have allowed us to meet our sub-goal of two MHC properties owned by residents – bringing us to the baseline of two loans for the overall Objective.

Following are the 2022 Actions under this Objective:

- Purchase loans secured by three MHC properties, comprising an estimated 486 units which are owned by government entities or nonprofit organizations, and representing a 50% increase from the baseline.
- Perform an assessment of lender outreach and education efforts to identify opportunities to increase non-traditional MHC loan purchases
- Purchase loans secured by two MHC properties, comprising an estimated 150 units, owned by residents.

SELF-ASSESSMENT RATING OF PROGRESS:

☐ On-target to meet or exceed the target

☒ Progress delayed and/or partial completion of the objective expected

☐ Unlikely to achieve any milestones of the objective

Manufactured Housing
Third Quarter Report: July 1 – September 30, 2022
Loan Purchase

ADDITIONAL INFORMATION (IF APPLICABLE):

While we remain focused on targeted efforts to fund ROC properties through the pilot program with National Cooperative Bank and ROC USA, we have also seen increased interest in this segment of the market from our delegated underwriting and servicing (DUS) lender network. We are encouraged by the fact that we have quoted more MHC properties under non-traditional ownership in calendar year 2022 than in all prior years of our implementation of Duty to Serve combined. We believe that this increased engagement and collaboration with our DUS lender partners will prove fruitful in future years, even if these engagements are not immediately accretive to our 2022 loan goals.