# 2022
# Manufactured Housing
# Loan Product

## REGULATORY ACTIVITY:

A. Support manufactured homes titled as real property (MHRP) (12 C.F.R. § 1282.33 (c) (1)).

## OBJECTIVE:

3. Expand on prior efforts to facilitate financing of loans on homes secured by MHRP located in fee simple developments.

## 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)* |
|---|---|---|
| ☒ Develop loan products and strategies that streamline lending on MHRP in fee simple developments. | The implementation steps that follow, collectively, constitute completion of this target. | N/A |
| ☒ In response to industry feedback, implement at least one policy change or variance to expand lending on MHRP located in fee simple developments. | Fannie Mae published two policy changes to facilitate further lending for new construction manufactured homes/housing (MH) units, including an update to its age of credit documentation requirements for construction-to-permanent (C2P) MH loans and a clarification to its loan-to-value (LTV) calculation requirements for newly constructed MH units being sold by developers. | N/A |
| ☒ Conduct analysis to identify geographies where fee simple manufactured housing developments exist or are most likely to thrive. | Fannie Mae reviewed loan purchase data of MH loans delivered in planned unit developments (PUDs) and condos since permitting delivery of those loans in 2018. Further, we maintained relationships with developers who first expressed an interest in developing subdivisions using MH Advantage®-eligible properties beginning in 2020. For those opportunities that are close to maturity, we conducted targeted lender outreach to inform them of the forthcoming opportunity to originate these loans. | N/A |

| | | |
|---|---|---|
| ☒ Develop a plan to promote MHRP financing products to lenders serving manufactured housing developments. | Fannie Mae developed new creative assets highlighting lender success stories with single-wide MH, standard MH, and MH Advantage. These promotional videos will be highlighted to geo-targeted lenders through a digital marketing campaign in the first half of 2023. | N/A |
| ☒ Gauge market interest for MHRP in fee simple developments by engaging and gathering feedback from realtors, appraisers, and other relevant stakeholders. | Fannie Mae continued its industry engagement efforts with manufacturers and developers actively pursuing new market opportunities with MH, which will inform our 2023 Loan Product update under this Objective. Further, 2,289 appraisers completed our industry-leading MH appraiser education course through McKissock Learning, bringing total adoption to 7,134 completions in its second full year of implementation. | 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?**

Fannie Mae continued its efforts to increase its purchase of loans secured by newly constructed MH units through product development and industry outreach. Building upon our 2019 Duty to Serve (DTS) product enhancement and allowing MH to become eligible for single-close construction-to-permanent (C2P) financing, we simplified our age-of-credit documents requirements for single-close C2P loans by allowing credit documents to age up to 12 months on certain transactions without the need for borrower requalification. Specifically, we increased the loan-to-value (LTV) threshold for loans eligible for this requalification flexibility from 70% to 95%. Because of the complexity involved in re-qualifying the borrower at the time of conversion to permanent financing, many lenders were limiting their single-close C2P product to loans that met the prior 70% LTV requirement to avoid needing to obtain updated credit documents. This unnecessarily limited the affordability of construction loan financing and potentially excluded otherwise creditworthy borrowers from obtaining this type of financing for new MH units.

Since updating our Selling Guide to allow MH C2P loans in 2019, Fannie Mae has purchased 1,034 MH C2P loans, of which 47% qualified for DTS. With the exception of our Guide product allowing the delivery of single-width MH loans in 2020, permitting C2P lending has made one of the most direct incremental contributions to our loan purchase goals for the MH market since DTS began in 2018. By updating the Guide to reduce lender and borrower complexities for C2P loans in 2022, we should see an increase in MH C2P loan deliveries serving more low- and moderate-income consumers in future years.

While improving its construction loan products represents the most immediate investment Fannie Mae can make to serve more consumers purchasing a new MH, Fannie Mae remains committed to promoting the concept of developing infill lots and subdivisions with MH by conducting targeted outreach to market participants. This model presents an opportunity to encourage collaboration and innovation between manufacturers, developers, and lenders to accelerate the adoption of MH as a quality, affordable supply option in markets across the country. And as many mortgage lenders do not have familiarity or expertise with construction lending for MH, engaging with builders and developers who may have access to commercial lending sources and other forms of development capital would simplify the mortgage origination process and absolve lenders of the need to develop specific processes and relationships to enable construction lending.

An investment made in the market for newly constructed MH units sold in subdivisions included an update to our LTV calculation requirements for purchase transactions on existing MH being sold for the first time by a builder or developer. Our prior policy required the LTV for a home constructed in the last 12 months to be based upon the combination of the lowest price at which the home was previously sold during that 12-month period and the lesser of the sales price or current appraised value of the land. Lenders correctly noted that this policy, when taken at face value, considers the wholesale cost of the MH unit and the cost paid by a builder to acquire the lot upon which the MH unit is placed, but did not allow for improvements to the property to be considered in the value calculation–effectively eliminating any incentive a builder or developer might have in developing lots with the intent of selling MH units on them. By updating and clarifying this policy, we are further incentivizing the development of new MH units by streamlining our policies related to the sale of those homes.

In addition to our policy enhancements, Fannie Mae maintains a dedicated internal team responsible for managing opportunities with manufacturers and developers involved in new construction MH developments, and in 2022 continued its efforts to promote this concept broadly by promoting resources created in 2021 on prominent digital platforms, including LinkedIn and Builder Online. The campaign sought to educate builders/developers about the feasibility and benefits of developing a subdivision with MH Advantage-eligible homes, and directed them to a dedicated landing page with MH Advantage-related information and resources. While it takes time and capacity to develop these engagements into tangible market opportunities, launching high-performing marketing and engagement tactics serves to generate far more engagement and awareness of Fannie Mae's loan products for MH than could be created by outreach to individual market participants. Building on the success of this campaign, we developed a new series of creative assets designed to complement Fannie Mae's recent efforts to reinvent its MH product suite and convey it as a more robust suite of products designed to cater to consumers across the income spectrum. We worked with three lenders with dedicated experience and expertise in standard MH, single-width MH, and promoting MH Advantage-eligible homes in subdivisions, to document their experiences and create testimonial videos highlighting the growth opportunity inherent in these loan product offerings. In 2023, we will launch a new digital marketing campaign targeting lenders operating in high-volume metropolitan statistical areas to socialize these success stories at a time when many lenders and loan officers are searching for new product opportunities to help offset the decline in refinance volume. These digital marketing campaigns function as an additional tactic driving product awareness and adoption amongst our lender customers over and above the lender engagements described in our narratives.

While sustained engagement with the industry is crucial to identifying and nurturing new affordable homeownership opportunities, Fannie Mae has begun to see the fruits of several years of industry engagement to promote MH in the form of loan purchases. Through loan purchase activity, we supported consumers buying newly constructed MH Advantage homes in subdivisions across the country, including units installed and sold by a non-profit developer in San Bernardino, CA, and infill and subdivision projects developed by vertically-integrated manufacturing partners in Tennessee and California. Our network of single-family lenders continues to express interest in partnering with Fannie Mae to promote this concept and in positioning themselves as "lenders of choice" by bringing dedicated capacity and resources to support loan originations and marketing. We worked with several lenders, including state housing finance agencies, to foster relationships with developers involved in bringing new subdivision developments to market.

Through year-end 2022, 16 lenders have delivered at least one MH Advantage loan to Fannie Mae—on par with the breadth of lender engagement for other DTS loan purchase obligations. With more lenders developing expertise in MH, we are confident that lenders will be able to meet the demand for financing arising from this relatively new homeownership option. Supply-side actors, including manufacturers, retailers, and developers, should now recognize the opportunity that MH presents to bring badly needed affordable housing stock to markets across the country, and commit to developing the scale and process sophistication of stick-built homebuilders in order to take advantage of new opportunities and bring MH to scale.

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

Our conversations with manufacturers indicated that home production backlogs are returning to pre-pandemic levels as increasing material costs and higher interest rates have normalized consumer demand for new construction homes across the country. With demand more manageable, manufacturers and lenders are reporting comparatively shorter timelines from the time the construction loan closes to delivery and completion of the home on the consumer's lot than those experienced during the COVID-19 pandemic. Therefore, allowing credit documents to age up to 12 months without the need for requalification simplifies the construction lending process for both lenders and consumers without exposing Fannie Mae to undue credit risk arising from prolonged timelines between loan closing and conversion to permanent financing.

Working with builders and developers who have begun the process of leveraging MH in infill and subdivision developments to ensure the affordability of these developments for consumers meeting DTS income requirements remains a challenge. In 2022, Fannie Mae purchased loans secured by MH Advantage homes located in a community land trust in northern California and MH Advantage homes subject to income-based deed restrictions in a development in San Bernardino, CA. Combining the inherent affordability of MH with homeownership programs designed to offer the consumer a below-market purchase price is a sure way to provide access to homeownership for low- and moderate-income consumers. However, with rising labor and materials costs impacting the affordability of newly constructed homes across the country, some developments that were initially targeting consumers in the first-time homebuyer price range have since seen cost increases and thus higher sale prices for homes. One such developer in western Oregon, for which Fannie Mae provided consultation and information on our loan programs since 2020, reported that MH Advantage home sales catered to cash buyers and retirees who exceeded the statutory income limits for DTS. To combat this challenge, we plan to conduct further outreach and education to practitioners leveraging the community land trust and deed-restricted homeownership models to share success stories and highlight opportunities to expand their portfolios with MH.

Despite our appraiser education efforts noted above, prominent market stakeholders involved in promoting our MH Advantage product to builders and developers continued to express concerns regarding the tendency of appraisers to use traditional MH homes as comparable sales when developing an opinion of value for MH Advantage properties. Unless appropriate adjustments are made for differences in quality, the practical outcome is that MH Advantage homes are often appraised for less than the contracted sales price. When the contract price of these homes is not substantiated with a market-based appraised value, market participants report that homebuilders and developers can lose confidence in the program and choose other forms of construction, such as modular homes, that, while typically more expensive, are more familiar to appraisers. While we believe opportunities exist for stakeholders involved in these transactions to provide appraisers with data and other materials to support their opinion of value, we are researching additional policy changes that could increase lender and non-lender confidence in the program.

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

Not applicable

## Manufactured Housing

## Second Quarter Report: April 1 - June 30, 2022

## Loan Product

**ACTIVITY:**

A. Regulatory Activity: Manufactured homes titled as real property (12 C.F.R. § 1282.33 (c) (1)).

**OBJECTIVE:**

3. Expand on prior efforts to facilitate financing of loans on homes secured by MHRP located in fee simple developments.

**SUMMARY OF PROGRESS:**

In March 2022, Fannie Mae implemented a Selling Guide update related to our single-close construction-to-permanent loan product, which is used to finance manufactured homes owned in fee simple across the country in subdivisions, planned unit developments, infill lots, and other new construction scenarios as dictated by the market.

The Guide change addressed the permitted LTV for loans with income, employment, and credit documentation aged greater than four months but not exceeding 12 months old at the time of conversion to permanent financing—raising it from 70% LTV to 95% LTV.

Because of the complexity involved in re-qualifying the borrower at the time of conversion, many lenders were previously limiting their single-close construction-to-permanent product to loans that met the prior 70% LTV requirement to avoid needing to obtain updated documents. This limited the affordability of construction loan financing and potentially excluded otherwise creditworthy borrowers from obtaining this type of financing for new MH units.

We are in the process of finalizing a new analysis on areas of the country where new manufactured homes can compete with comparable stick-built properties, which will inform future stakeholder outreach and marketing campaigns.

We are finalizing a marketing plan to promote our MH products in a variety of use cases, including new subdivisions and in community land trusts, and will market this campaign broadly in 2023.

We have solicited feedback from manufacturers and other market participants involved in the sale of new construction manufactured homes regarding potential policy or process changes which could be made to facilitate more conventional financing for new construction manufactured homes. We are in the process of synthesizing this information and plan to commit to additional policy work in the months ahead.

**FOLLOWING ARE THE 2022 ACTIONS UNDER THIS OBJECTIVE:**

☐ Develop loan products and strategies that streamline lending on MHRP in fee simple developments.

- ☒ In response to industry feedback, implement at least one policy change or variance to expand lending on MHRP located in fee simple developments.
- ☐ Conduct analysis to identify geographies where fee simple manufactured housing developments exist or are most likely to thrive.
- ☐ Develop a plan to promote MHRP financing products to lenders serving manufactured housing developments.
- ☒ Gauge market interest for MHRP in fee simple developments by engaging and gathering feedback from realtors, appraisers, and other relevant stakeholders.

**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):**

Not applicable