Fannie Mae

2023
Manufactured Housing
Loan Purchase

ACTIVITY:
D. Additional Manufactured Housing Communities Activities (12 C.F.R. § 1282.33 (d))

OBJECTIVE:
1. Increase the purchase of MHC loans benefiting from Manufactured Housing Rental flexibilities.

SUMMARY OF RESULTS:

Objective's components detailed in the Plan	*Corresponding actions taken*	*Explanation of any deviations from the Plan (if applicable)*
☒ Purchase MHR loans on MHC properties to finance an estimated 2,100 new rental units, representing an approximate 23% increase over the baseline.	Fannie Mae financed 11,247 units through its Manufactured Housing (MH) Rental flexibilities execution in 2023, exceeding the production target of 2,100 units.	

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 seeks to provide competitive financing solutions for manufactured housing community (MHC) borrowers and operators, and in certain instances has allowed experienced operators to maintain a larger percentage of park-owned homes within properties eligible for our financing. These underwriting flexibilities are collectively referred to as "MH Rental" flexibilities. In 2023, we exceeded our production target for this objective and have noted that some properties financed in 2022 subsequently reported increased occupancy and improved property cash flows via their quarterly operating statements. Additionally, properties financed under this execution achieved a 94% affordability metric under the FHFA mission calculation for MHCs, which is on par with the affordability measured within our broader MHC purchases. These metrics validate Fannie Mae's initial hypothesis that enabling an MH Rental execution would encourage qualified MHC owners and operators to access near-term financing, which improves property resilience and resident outcomes in the long term.

Regarding the opportunity for future impact, Fannie Mae's research indicates that there continues to be a dearth of new MHCs being brought to market. Our August 2023 Multifamily Economic and Market Commentary reviewed available multifamily apartment construction pipeline data and found over 1.1 million apartment units under construction, with 730,000 units estimated to be completed in 2023. Conversely, the pipeline for new MHCs is virtually non-existent, with only three MHCs reported as under construction nationally as of mid-August 2023, representing only 450 pad sites. The lack of new supply has been exacerbated by the rate at which MHCs are being closed and/or redeveloped, with data between 2017 and 2022 showing MHC demolitions offsetting or eclipsing new completions.[1] These trends emphasize the disparate financing outcomes that are often experienced by MHC community owners and borrowers, as new and expanding communities may be hampered by a variety of pre-development or land use challenges, including exclusive zoning practices and permitting or entitlement delays. We believe these trends validate the need for Fannie Mae's commitment to provide consistent liquidity to the MHC marketplace, including the marketplace for communities with higher-than-typical park ownership of homes, which often arises as communities are changing hands or borrowers seek to invest in their properties by adding new units to support improving community infrastructure.

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

Despite Fannie Mae's success in making these financing opportunities available to the marketplace, the unique nature of the MH Rental execution has produced challenges that may constrain our ability to make this type of financing more broadly available. For example, our outreach has uncovered that many park-owned homes may be owned by an affiliate of the borrower. From a product structure perspective, we ask that cash flow from the pad leases and cash flow from the park-owned rental homes be separated via a "lockbox" structure, which ensures that in the event of insolvency or bankruptcy on the part of the borrower affiliate, our lender would still have control of the funds, which are the security for our blanket MHC loan. While this is a prudent risk management requirement, we have found that many borrowers offer one lease to tenants, covering both the home and the site rental, and may be unwilling to change their business practices by offering separate leases for each. Even in situations where separate leases for the site and home exist, the tenant often is still paying for both with one check, creating the cash flow risks mentioned above.

Other issues arise from the need to perfect a senior security interest in the MH units, which is necessary when additional proceeds are being offered to the borrower based upon the underwritten cash flow from the MH units themselves. Ensuring that Fannie Mae has a perfected lien on the homes can be challenging, as inconsistent state-by-state processes to obtain perfected security interests are compounded by general delays in receiving titles back from the applicable authority indicating our lien. Also, many of these transactions have been accommodated via Fannie Mae's Credit Facility product, a specialized product that allows for different types of collateral to be financed in the same pool on the condition that those assets be cross-collateralized and cross-defaulted. This type of product fungibility is not possible when managing collateral interests in MH units, as manufactured homes are generally considered to be personal property under state law and are managed and conveyed via different security instruments. Ultimately, these asset management considerations create the need for specialized data and systems solutions that are unique to MH Rental and not scalable to the other types of assets that Fannie Mae finances, which will complicate our ability to grow this product execution in the future.

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

N/A

[1] https://multifamily.fanniemae.com/news-insights/multifamily-market-commentary/lack-communities-leaves-fundamentals-mhcs-tight