2023
Manufactured Housing
Loan Purchase

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.

Fannie Mae has found limited appetite for its conventional financing execution made available to manufactured housing communities (MHCs) owned by residents, nonprofits, or government entities in 2023. Throughout our engagements, we have found that capital providers in geographic markets that are conducive for resident and mission-driven ownership of MHCs have loan product structures that are generally more competitive than what Fannie Mae can offer through its secondary market execution. Specific flexibilities available to these residents in the marketplace include loan-to-value ratios exceeding 100%, debt service coverage ratios near or at 1.00, waivers of the requirement to order third-party due diligence reports, interest rate "guarantees" that allow residents to lock in financing terms and interest rates up to 18 months prior to closing the loan, and below-market loan note rates made available through low-cost capital from state Housing Finance Agencies (HFAs). Considering the availability of competitive product structures and the dearth of overall available transactions in the marketplace, Fannie Mae has encountered significant difficulty in serving the market for MHCs with non-traditional ownership that align with safety and soundness considerations.

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 seven MHC properties which are owned by residents, government entities, or nonprofit organizations, comprising an estimated 1,131 units and representing a 250% increase from the baseline.	Despite consistent industry engagement, Fannie Mae did not purchase any loans secured by MHC properties owned by residents, government entities, or nonprofit organizations. As of year-end, one prospective transaction on an MHC owned by a nonprofit is in the late stages of underwriting and is tentatively scheduled to be financed and delivered in the first quarter of 2024.	

☒ Continue efforts to support resident-owned communities through ROC pilot program implementation and other tactics.	Fannie Mae met with ROC USA Capital and National Cooperative Bank regularly throughout the year to further develop engagement strategies targeting resident-owned communities (ROC) for whom their existing financing would end in 2023 – 2025. While several ROCs ultimately chose financing through another capital source, Fannie Mae will remain engaged with these important stakeholders to pursue opportunities to finance ROCs in future years.	
☒ Perform an assessment of lender outreach and education efforts to identify opportunities to increase non-traditional MHC loan purchases.	Fannie Mae broadened its engagements in the ROC sector to include its first-ever trainings targeting technical assistance providers active in facilitating resident conversions in markets across the country. Fannie Mae conducted its first-ever direct-to-resident engagements by discussing its product offering with ROC board members. Fannie Mae also engaged in direct lender outreach following up on specific deals where existing non-Agency financing is approaching maturity. Insights gathered and actions taken accordingly are presented in greater detail below	

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's strategy has focused on engagements with counterparties active in supporting resident and other non-traditional ownership on a national scale. While this strategy did not produce immediate results in 2023, there are indications that Fannie Mae may be able to compete for deals during the next Duty to Serve plan cycle, during which comparatively more ROCs will be reaching maturity on their existing financing, and competitors in this niche market are expected to exhaust capital previously secured at low cost.

Based on outreach in 2023, Fannie Mae made the decision to maintain, and potentially increase, loan-level incentives offered to reimburse the cost incurred by community owners for third-party reports. These kinds of concessions provide significant incentive to non-traditional MHC borrowers, many of whom routinely exhaust their liquid funds to pay fees incurred with property inspection and loan origination as they close on a new loan. While these concessions represent a meaningful one-time investment that Fannie Mae can make in facilitating the finance of non-traditional MHCs, Fannie Mae remains constrained on its ability to offer the most competitive loan-level pricing to the marketplace for loans falling into higher-risk categories, as these transactions often do. The regulatory capital framework governing our capital requirements generally stipulates that the Enterprises must hold more credit risk capital for higher-risk multifamily mortgage loans, such as those with lower debt service coverage ratios and higher loan-to-value ratios. Higher retained capital requirements generally necessitate increased guaranty fees and higher note rates for the borrower, especially for smaller loan sizes, to which most resident and other non-traditionally owned community financing skews.

To the extent that Fannie Mae will be able to deliver impactful levels of financing to the market for non-traditional ownership of MHCs, that impact will come as mission-driven owners and resident-service providers achieve some degree of operational sophistication and pursue financing terms that are based upon secondary market standards for safety and soundness.

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

The market for conversion of MHCs to mission-driven ownership relies largely upon generating loan proceeds that exceed 100% of the property's appraised value. As such, it is unlikely that Fannie Mae will be able to participate in the market for acquisition or conversion loans without unsecured subordinate financing or grant funding being made available to the entity acquiring the community. Fannie Mae is increasingly aware of these types of financing sources being made available by states and localities with sources of funding that are specifically earmarked for improving financing outcomes for residents of MHCs. These competitive grant and soft debt products are often made available in combination with permanent loan products that offer flexible pricing and credit terms, creating "one-stop shops" for the financing needs of non-traditional MHC owners that are supported by the policy goals of elected officials and government entities rather than market-based risk management considerations. It is unlikely that Fannie Mae will ever be able to compete with these types of programs, nor should we need to compete with them, as they offer better options for low-income residents than those that could be achieved through a conventional secondary market-rate execution.

The underserved nature of the non-traditionally owned segment of the MHC market largely derives from its overall small size: less than an estimated 2% of all MHCs fall under this non-traditional ownership type. And while Fannie Mae cannot participate in the market for converting existing communities to non-traditional ownership given the capital/risk constraints noted above, we have observed that other capital providers are actively pursuing these transactions with a combination of permanent debt products supplemented with creative grant and soft debt structures. Further, while Fannie Mae has periodically participated in the market for refinance loans made to non-traditional owners hoping to extend their ownership of these communities, these owners largely benefit from the same acquisition financing opportunities discussed in this section. To the extent that individual markets have evolved to support resident and mission-driven ownership of communities through legal vehicles such as tenant opportunity to purchase, so too have those same markets developed financing opportunities designed to perpetuate that ownership via competitive financing structures. Combine these dynamics with the presence of a national community development financial institution (CDFI) focused on attracting and employing debt and equity capital to facilitate resident conversions at scale, and the resulting opportunity available to Fannie Mae on an annual basis will likely be no more than a handful of transactions.

Despite these limitations, Fannie Mae shares the belief that non-traditional ownership of MHCs has the potential to improve resident outcomes and attract new capital into the marketplace. We will continue to engage with lenders, resident-service providers, and other stakeholders to identify borrowers for whom we can offer competitive and sustainable loan product offerings.

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

Please see infeasibility request, where we have outlined our reasons as to why Fannie Mae was unable to achieve the Plan target.

Manufactured Housing
First Quarter Report: January 1 - March 31, 2023
Loan Purchase

ACTIVITY:

B. Manufactured housing communities (MHCs) owned by a governmental entity, nonprofit organization, or residents

OBJECTIVE:

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

SUMMARY OF PROGRESS:

Through March 31, 2023, Fannie Mae has not financed any MHC properties owned by government entities, nonprofit organizations, or residents. In the first quarter of the year, we met with senior leaders from ROC USA and National Cooperative Bank at our offices in DC to discuss strategies, tactics and opportunities to improve the utilization of our refinance program in 2023. Among the feedback we received was to explore opportunities to reduce the up-front closing costs borne by non-traditional owners when they choose conventional financing. Our competitors for this niche business, particularly local banks, may choose not to collect a good faith deposit from the borrower or may waive certain requirements for third-party due diligence reports if they are already familiar with the community, which is an attractive option for residents or non-profit borrowers without substantial resources to support loan closing costs. We will continue to conduct outreach through our resident-owned pilot and DUS lender network, as well to identify opportunities to finance communities meeting our property, sponsorship, and credit standards for MHCs.

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

Manufactured Housing
First Quarter Report: January 1 - March 31, 2023
Loan Purchase

ADDITIONAL INFORMATION (IF APPLICABLE):

The nature of this market segment is likely to present challenges for loan attainment in future years. Major barriers to scale include the limited overall size of the non-traditionally-owned MHC market, coupled with the fact that loan amounts needed to convert a manufactured housing community to cooperative ownership typically exceed the underwritten value of the property, the absence of a robust national legislative and economic framework supporting resident-ownership, and the current prevailing interest rate market.

Fannie Mae

Manufactured Housing
Second Quarter Report: April 1 - June 30, 2023
Loan Purchase

ACTIVITY:

B. Manufactured housing communities (MHCs) owned by a governmental entity, nonprofit organization, or residents

OBJECTIVE:

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

SUMMARY OF PROGRESS:

Through June 30, 2023, Fannie Mae has not financed any MHC properties owned by government entities, nonprofit organizations, or residents and does not have any active deals in pipeline. We are projecting being unable to meet our ambitious target of seven properties nor our baseline of two properties. We built upon our first quarter outreach in the second quarter by conducting our first-ever training targeting the certified technical assistance providers (CTAPs) in the ROC USA network in the hopes of directly uncovering and addressing specific feedback or pain points related to our resident-owned community loan product offering. While we became aware of several refinance transactions which appeared to meet our program standards in the first half of this year, each of those ROC borrowers chose to transact with other capital sources with whom these borrowers were already familiar. Local banks and credit unions, CDFIs, and state housing finance agencies in particular have all created permanent loan products for ROCs in certain geographic markets across the country which either rival our program terms or provide more flexibility in terms of loan-level pricing or credit underwriting standards. While we will continue to pursue transactions which would be accretive to this goal, we note that the market appears to be well-served as many capital providers have stepped in to offer refinance loans to well-situated ROCs across the country.

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

Manufactured Housing
Second Quarter Report: April 1 - June 30, 2023
Loan Purchase

ADDITIONAL INFORMATION (IF APPLICABLE):

The nature of this market segment is likely to present challenges for loan attainment in future plan years. Major barriers to scale include the limited overall size of the non-traditionally owned MHC market, competition from local financial institutions and housing authorities, the fact that loan amounts needed to convert a manufactured housing community to cooperative ownership typically exceed the underwritten value of the property, and the absence of a robust national legislative and economic framework supporting resident ownership.

Manufactured Housing
Third Quarter Report: July 1 - September 30, 2023
Loan Purchase

ACTIVITY:

B. Manufactured housing communities (MHCs) owned by a governmental entity, nonprofit organization, or residents

OBJECTIVE:

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

SUMMARY OF PROGRESS:

Through September 30, 2023, Fannie Mae has not financed any MHC properties owned by government entities, nonprofit organizations, or residents and does not have any active deals in our pipeline. We built upon our first and second quarter outreach in the third quarter by engaging with our pilot lender and the designated technical assistance provider regarding a prospective refinance opportunity in the Northeast. This community has existing debt maturing in the second quarter of 2024, and with interest rates significantly increasing in recent months, it is unlikely that the community would choose to refinance earlier than they would need. This means that the timeline on which we could compete for this deal does not align with our stated 2023 loan purchase goals.

While we will continue to pursue transactions that would be accretive to this goal, both through our pilot program and traditional DUS lending model, we note that the market appears to be well-served as many capital providers have stepped in to offer refinance loans to Resident-Owned Communities (ROCs) across the country. We are aware of at least five communities with existing financing scheduled to mature in either 2023 or 2024 that have elected to pursue financing with other sources. These sources include state housing finance agencies, local banks and credit unions, and CDFIs that typically offer more flexibility on product terms and pricing. Considering this data, we observe that the market for refinance loans for well-established manufactured housing communities, whether under cooperative ownership or otherwise, is essentially a microcosm of the broader commercial real estate market. Challenges in the broader market include the significantly increased interest rate environment and the ensuing decrease in the willingness of borrowers to take on new debt, as well as inflated expenses such as taxes and insurance. We project that the unique constraints inherent in the market for non-traditionally owned MHCs, combined with these broader macroeconomic trends, will continue to constrain our loan purchase efforts in 2023 and beyond.

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):

The nature of this market segment is likely to present challenges for loan attainment in future plan years. Major barriers to scale include the limited overall size of the non-traditionally owned MHC market, competition from local financial institutions and housing authorities, the fact that loan amounts needed to convert a manufactured housing community to cooperative ownership typically exceed the underwritten value of the property, and the absence of a robust national legislative and economic framework supporting resident ownership.