Fannie Mae

2023
Manufactured Housing
Loan Purchase

ACTIVITY:
C. Manufactured housing communities (MHCs) with certain pad lease protections (12 C.F.R. § 1282.33 (c) (4))

OBJECTIVE:
1. Increase the number of loan purchases of MHCs with tenant site lease protections.

SUMMARY OF RESULTS:

Objective's components detailed in the Plan	*Corresponding actions taken*	*Explanation of any deviations from the Plan (if applicable)*
☒ Increase the purchase of MHC loans that include tenant site lease protections meeting the FHFA Mission criteria to $2,000,000,000 delivery UPB, reflecting an approximate 10% increase from the baseline.	In 2023, Fannie Mae exceeded its target by financing 331 manufactured housing community (MHC) properties with tenant site lease protections (TSLPs) for residents, totaling 61,833 pads and $2.875 billion in mission-adjusted unpaid principal balance (UPB).	

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 exceeded its MHC financing target in 2023, providing more than $2.8 billion in financing for nearly 62,000 MHC units with TSLPs, compared with the roughly $1.9 billion in financing for 47,000 units in 2022. This was accomplished despite a sizable contraction in the overall MHC marketplace, as measured by the estimated ~20% decrease in overall MHC transactions in 2023.[1]

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

Exceeding targets amid a slower market environment highlights the ability of the Multifamily business to manage its MHC portfolio and acquisitions in a way that balances Duty to Serve (DTS) aspirations with calculated risk management and profitability considerations. It also underscores the normalization of TSLPs as mandatory renter protections within the manufactured housing (MH) market. In addition to outperforming the original targets to serve the MHC market by compelling implementation of basic tenant protections, Fannie Mae's purchases notably supported MHCs in high-needs rural regions (HNRRs). In fact, the percentage of total HNRR properties financed through the Multifamily MHC execution in 2023 nearly doubled from 13% to 23% year-over-year despite Fannie Mae's total HNRR loan purchases decreasing modestly over that time frame. This shows that even as the total available market for other DTS Objectives contracted in 2023, the MHC platform remained a viable option for serving residents of HNRRs.

The expansion of tenant protections across the entire Multifamily MHC business (as of 2021, all MHC loans must agree to implement TSLPs for all tenants for the duration of our loan) has made this Objective largely dependent on Fannie Mae's ability to manage MHC loan attainment in the context of our broader Multifamily business considerations. We believe that Fannie Mae has strengthened our ability to do this in 2023 by prioritizing and pursuing larger MHC transactions, which allow for operational efficiencies, support more advantageous pricing, and offer flexibility for Multifamily capital markets and pricing teams. Still, Fannie Mae's ability to achieve future MHC financing targets will be a product of the credit risk characteristics of the loans we quote and acquire, the aggregate credit risk characteristics of our guaranty book of business, and multiple external factors such as the FHFA volume cap, the inability of MHC loan purchases to count towards our Housing Goals attainment, and the management of the overall composition of our Multifamily portfolio.

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

Fannie Mae participated in numerous industry conferences and continued to solicit feedback regarding the implementation of the TSLPs in the marketplace. In our second full year of requiring these protections, most borrowers and lenders once again noted general acceptance of the program and, in some cases, cited tangible benefits to owners and operators offered by TSLPs in the form of reduced turnover. An area of focus for market participants continues to be the interpretation of the subleasing provisions, which specify that tenants may sublet or assign their pad leases without unreasonable restraint. Fannie Mae believes the subleasing provisions are intended to apply only in the case of a sale of the home, but this provision has been interpreted by some others as potentially applying to subleases of the site lease that were not made in connection with the sale of the home. In these situations, third-party investors purchase homes in certain MHCs, thereby agreeing to a site lease with the original MHC borrower, and then leasing the home while subleasing the pad to a new tenant. Believing the TSLPs will compel them to accept these subleases of the pads, MHC borrowers may be consenting to subleases that charge higher-than-typical rents on the park-owned homes in contradiction to the Objective. An update to this provision in the DTS rule clarifying that the sublease provision should only apply in connecting with the tenant's sale of their manufactured home would instill greater borrower and lender confidence in the TSLP program.

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

N/A

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

ACTIVITY:

C. Manufactured housing communities (MHCs) with certain pad lease protections

OBJECTIVE:

1. Increase the number of loan purchases of MHCs with tenant site lease protections.

SUMMARY OF PROGRESS:

Through March 31, 2023, Fannie Mae purchased 43 MHC loans with tenant site lease protections, covering 7,030 units and a total of $322M in mission-adjusted unpaid principal balance at acquisition. Since making 100% implementation of the tenant site lease protections a standard condition of our manufactured housing community business, our ability to meet our Duty to Serve loan purchase target has become subject to broader Multifamily business considerations, including cap constraints and the need to generate a viable economic return on our loan purchases. Through engagements with our customers regarding the manufactured housing community market, we understand that broader macroeconomic trends, including interest rate volatility as a result of the Federal Reserve's monetary policy and other inflationary pressures, are causing some MHC sponsors to wait to lock rates or pursue new financing until the impact of such trends becomes clearer. We will continue to monitor our pipeline and explore pricing and credit concessions which may be appropriate to offer to certain borrowers in order to meet our loan purchase obligations. Still, this loan purchase target is aggressive and will have to be consistently monitored in the context of our broader Multifamily business.

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):

Fannie Mae

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

ACTIVITY:

C. Manufactured housing communities (MHCs) with certain pad lease protections

OBJECTIVE:

1. Increase the number of loan purchases of MHCs with tenant site lease protections.

SUMMARY OF PROGRESS:

Through June 30th, 2023, Fannie Mae purchased 95 MHC loans with tenant site lease protections, covering 18,977 units and a total of $918.2M in mission-adjusted unpaid principal balance (UPB) at acquisition. While our current progress puts us on track to meet the baseline of $1.8 billion in mission adjusted UPB, we remain reliant on continued production through the remainder of the year to do so. Meeting this baseline, and the plan target of $2 billion in mission-adjusted UPB, will be heavily dependent upon several large transactions which are in our current pipeline but have not yet been committed. We will continue to monitor our pipeline and explore pricing and credit considerations which may be appropriate to offer to certain borrowers in order to meet our loan purchase obligations. Still, this loan purchase target is aggressive and will have to be monitored in the context of our broader Multifamily business considerations.

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):

Many of the factors affecting Fannie Mae's broader multifamily loan purchase activity are relevant to our pursuit of manufactured housing community transactions, including higher interest rates affecting borrower proceeds and market volatility causing some borrowers to delay rate locking until the impact of the Federal Reserve's monetary policy decisions and other macroeconomic factors becomes clearer. Of particular note, for MHCs is the challenge in securing flood insurance and business income insurance at a level sufficient to meet Fannie Mae’s guide requirements. Some borrowers and lenders have indicated that insurers, particularly those active in coastal areas, have been reluctant to provide coverage or are asking for a historically high policy premium which may complicate the underwriting for certain transactions.