Comments on the Fannie Mae and Freddie Mac Proposed 2025-2027 Duty To Serve Plans

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July 5, 2024

REQUEST FOR INPUT: FANNIE MAE AND FREDDIE MAC PROPOSED 2025-2027 DUTY TO SERVE PLANS, JUNE 2024

A. Relevant Obstacles And Lack Of Liquidity

1. **Do the proposed 2025-2027 activities and objectives address the most relevant obstacles to liquidity in the applicable underserved market?**
2. **Are the proposed objectives likely to increase liquidity in the applicable underserved market segment?**

The answer to both questions is a resounding "no"; the proposed activities and objectives do little or nothing to address the most relevant obstacles for low to moderate income Americans buying manufactured homes or living in manufactured home communities. These obstacles are the ability to purchase manufactured homes titled as personal property and to obtain financing for resident owned manufactured housing communities.

According to the Manufactured Housing Survey administered by the U.S. Census Bureau, 73% of new manufactured homes constructed in 2022 were titled as personal property, with 21% titled as real estate (see Fannie Mae Duty to Serve plan page 37). Congress required that the Enterprises "provide leadership to the market in developing loan products and flexible underwriting guidelines". There have been no new loan products or flexible underwriting guidelines to assist chattel home buyers or residents desiring to purchase manufactured home communities.

1. President Biden's Housing Supply Action Plan

(a). Administration Goals To Increase Housing Supply

Also, the latest Duty to Serve (DTS) plans are inconsistent with the Administration's initiatives to increase the supply of affordable housing. The Housing Supply Action Plan (HSAP) issued by the President on May 16, 2022 was intended to address the shortage of affordable housing (housing deficit) through increasing the supply of affordable housing and addressing the cost issues that make housing unaffordable. The HSAP plan included the following objectives:

> "Deploy new financing mechanisms to build and preserve more housing where financing gaps currently exist: manufactured housing (including with chattel loans that the majority of manufactured housing purchasers rely on (emphasis added), accessory dwelling units (ADUs), 2-4 unit properties, and smaller multifamily buildings."

The HSAP indicated that by the end of 2025, there would be hundreds of thousands of affordable units.

(b). Actual Results In The Two Years Since The Plan Was Announced

So far, the manufactured housing units with chattel loans have not materialized and will not materialize without expanding financing choice by the Enterprises. Also, the other HSAP benefits of producing manufactured homes including location efficiency, improving labor markets and reducing greenhouse emissions which are also priorities of the Administration have not be realized.

(c). <u>The Freddie Mac Feasibility Assessment</u>

The HSAP also mentions the Feasibility Assessment involving chattel loans to be completed by Freddie Mac. But the 2025-2027 Duty to Serve plans and Freddie Mac publications contain no description of this assessment, its results and conclusions and the path forward to serve this large percentage of low moderate income Americans. The Feasibility Assessment was to determine the "requirements and processes necessary to support loan purchase, including but not limited to credit, servicing, consumer protections, pricing, and risk structures" (see page 11 of the 2022-2024 Duty to Serve plan). Activity No. 2 (Support for Manufactured Housing Titled as Personal Property) includes the following commitment:

> "Freddie Mac intends to conduct a systematic and incremental risk management assessment to develop a product before entering the personal property market. We plan to develop requirements and a process to support loan purchases to assess and explore ways to manage the risks in this market. We also will evaluate securitization and/or risk-sharing structures. Subsequently, we plan to collaborate with FHFA in seeking approval to engage in loan purchase activity. Historically, Freddie Mac has provided deep liquidity to the conventional mortgage market and will apply our expertise to exploring the personal property market for financing manufactured homes.

The failure to include a manufactured home chattel loan initiative is a major disappointment given that of this is the third Duty to Serve plan. Also, it is hard to square with Freddie Mac's assertion on page MH-17 of the 2022-2024 DTS plan that "Freddie Mac is uniquely positioned to deliver insights and resources that help prompt new solutions and increase collaboration that could accelerate manufactured housing (MH) market growth and sustainable homeownership opportunities".

2. <u>No Progress In Addressing The Core Issues Affecting Manufactured Home Chattel Loans</u>

More than seven years ago, FHFA issued a Request for Input for information about the current financiers of manufactured homes and their market share, loan origination criteria, including the valuation of the collateral for the loan, credit underwriting, loan servicing and defaults and seller/servicer and secondary market issues, including risk sharing and guaranty pricing. Now in mid-2024, it appears from the public record that FHFA and the Enterprises have made little progress in addressing these questions or providing transparency about their conclusions concerning these issues.

3. <u>Enterprise Innovations To Increase The Supply Of Manufactured Housing</u>

In the prior Duty to Serve plan (see page MH-18), Freddie Mac indicated that it would "test the concept of a digital home buying experience that will differ significantly from today's process of purchasing a home on a retail lot. By providing homebuyers with the option to shop on-line, access to another source of affordable homes and financing could be scaled beyond traditional MH markets." The digital initiative is also absent from the Freddie Mac 2025-2027 Duty to Serve Plan.

4. Leadership In Providing Loans To Facilitate Resident Owned Communities

The other underserved manufactured home segment is the availability of financing for residents to purchase their manufactured home communities when community owners want to sell. Supporting this underserved population is important to preserve affordable housing and achieve self-determination for community members.

Freddie Mac estimates that there are 45,600 manufactured home communities in the US with only 2.4% being resident owned. This is far lower than the 10.36 million condo and co-op units, which comprise 7.3% of the US housing stock (see the 2021 American Housing Survey (AHS), https://www.census.gov/programs-surveys/ahs/data/interactive/ahstablecreator.html?s_areas=00000&s_year=2021&s_tablename=TABLE0&s_bygroup1=1&s_bygroup2=1&s_filtergroup1=1&s_filtergroup2=1).

In addition, the Enterprises are very active in purchasing non-Residential Owned Community (ROC) loans (see Table A below). One ROC community loan out of 493 manufactured home community loans in 2023 (see https://www.fhfa.gov/sites/default/files/2024-06/FHFA-2023-Annual-Report-to-Congress.pdf) with a tiny number of affected units is hardly what the Duty to Serve statute was intended to achieve. The combined Enterprise 2025-2027 DTS housing plans provide that the enterprises will purchase an average of 2 ROC loans per year. Once again, the DTS statute calls for new loan products and flexible underwriting; increased consumer protections in non-ROC community loans through tenant site lease protections although important is not a substitute for increasing the number of resident owned communities.

Table A: 2023 Resident Owned MH Community Loans Vs. Other Community Loans

Manufactured Housing	Number of Communities Helped	Units	Dollars
Communities Conventional Loans	492	90,827	Est. 4,300,000,000
ROC Loans	1	150	15,000,000
Ratio of Non-ROC to ROC	492 to 1	605 to 1	191 to 1

5. Promoting Equity And Inclusion By Increasing Financing Choice

The underlying purpose of the Duty to Serve law is the recognition that not everyone has access to the Enterprise housing purchase programs. Enterprise conventional home loans have been largely responsible for the accumulation of wealth by Americans over the past six decades. Government mortgage support allowed homeowners to accumulate a total of 45 trillion dollars in wealth with 30 year amortizing mortgages (see the latest Federal Reserve Board Survey of Consumer Finances issued in September of 2023). A majority of Americans now go into retirement with paid off homes and an average home equity of $200,000.

Low to moderate income Americans are largely frozen out of the conventional single family market since they cannot afford to buy conventional site-built homes at twice the price of manufactured housing. They also are not able to easily re-sell their manufactured home to purchase a new home if their housing needs change. It is hard to see how the Administration will achieve its equity goals while continuing to limit market opportunities for nearly ¾ of manufactured home purchasers.

B. Rural Housing Market

3. **Is there other information that the Enterprises should supply in their expanded Strategic Priorities Statements for the rural housing market to provide an adequate basis for their strategies to address access to liquidity and needs in all rural areas**?
4. **Are there other activities and objectives that the Enterprises should consider adding to their Plans for the rural housing market to address access to liquidity and needs in all rural areas?**

1. Manufactured Housing In Rural And High Needs Rural Areas

Manufactured housing is a significant component of the rural housing stock and in High Needs Rural Areas, nearly 20% of the homes are manufactured homes. Yet the Enterprises do not include personal property lending in their DTS plan for rural areas. Other than a single sentence on page 23 of the Freddie Mac DTS action plan and Page 38 of the Fannie Mae plan, there is no information supplied about how the Enterprises will achieve their strategic priorities of fully serving these underserved Americans in rural areas without entering the manufactured home personal property loan marketplace.

2. Encouraging More Manufactured Home Real Property Loans

Manufactured homes placed on permanent foundations and taxed as real property have been supported by the Enterprises and other government agencies for many years. While Fannie Mae is proposing to increase industry engagement (see Page 49-51 of the DTS plan), The Enterprises should develop and distribute a guide for consumers who are placing their home on private land but are using personal property rather than mortgage financing. The consumer guide should describing the costs and benefits of permanent foundations and titling manufactured homes as real property. It could describe the savings in interest charges, better ability to resell the home and the financial impact of this action.

C. Other Activities or Objectives

5. **Are there other activities and objectives the Enterprises should consider adding to their Plans for the manufactured housing and affordable housing preservation markets to address access to liquidity and other housing finance needs in those markets?**

1. Partnering With Other Lenders And Sources Of Funds For Manufactured Home Communities

(a). Increasing Community Development Financial Institutions Involvement

The Enterprise DTS plans do not describe partnerships or other innovative methods to foster the financing of cooperatives to purchase manufactured home communities. The Federal Home Loan Banks have 71 non-depository Community Development Financial Institutions (CDFIs) which could be encouraged to enter manufactured home community lending.

One CDFI is ROC USA Capital which makes pre-development, purchase and construction loans to resident-owned communities that work with a ROC USA certified technical assistance provider. Over the last fifteen years, ROC USA Capital has financed 112 resident-owned community purchases with an average loan of $3.7 million (see https://www.rocusa.org/become-a-roc/financing/). This organization also provides technical assistance to help home owners prepare to purchase and manage the community after purchase and loans for pre-purchase due diligence so that home owners are fully informed before agreeing to purchase the community.

Loans that passed due diligence are more likely to be successful and over the last fifteen years, <u>there has been no community who has defaulted on a ROC Capital community purchase loan</u>. With an average of 7 ROC community purchase loans each year over the past 15 years, ROC Capital with a book of business of around 150 million dollars has accomplished more than the Enterprises with a total multifamily book of business of over 900 billion dollars.

2. <u>Disparate Treatment Of Manufactured Housing Buyers</u>

In February of 2024, the Enterprises introduced temporary enhancements to their flagship affordable housing programs (Freddie Mac's Home Possible and Fannie Mae's HomeReady). These enhancements include a $2,500 loan level price adjustment (LLPA) credit for very low-income borrowers which can be used for down payment or closing cost assistance. This is an example of how flexibility in loan origination criteria can be deployed to help low-moderate income borrowers.

However, this same flexibility in LLPAs is not shown for very low risk manufactured home loans. Manufactured homes purchase loans or cash out refinance loans with loan to value ratios below 60% have to pay a LLPA while condominiums with this same Loan to Value ratios are not charged a LLPA.

3. <u>Coordinating With Other Federal Agencies</u>

There are other opportunities to advance DTS goals for resident owned communities. HUD has recently released a solicitation for a 225 million dollar funding opportunity to assist manufactured housing communities through the Preservation and Reinvestment Initiative for Community Enhancement (PRICE) grants. This marks the first time the federal government has made grant funding available specifically for investments in manufactured housing communities, including resident-owned communities. A portion of the funds has been reserved for tribes and tribal nonprofit organizations.

The PRICE goals parallel those in the Duty to Serve plans. Eligible applicants can apply for funding to preserve long-term affordability for residents of manufactured housing or manufactured housing communities (MHCs), to revitalize or redevelop MHCs, and to primarily benefit low-and-moderate income (LMI) residents. The Enterprises should explore how these PRICE grants could be used in conjunction with Enterprise support to improve resident-owned Communities.

D. Market Conditions

6. **Should the Enterprises adjust the methodology used to set loan purchase baselines for 2025-2027 given market conditions including a high-interest rate environment**
7. **What other market conditions should FHFA consider when assessing the proposed activities and objectives?**

1. Interest Rates On Manufactured Home Personal Property Loans Are Favorable

Market conditions, especially interest rates for manufactured home personal property loans remain in a range of 8-10%, not much different than in 2022-2023. The historical spread between manufactured home personal property loans and conforming single family purchase loans has narrowed from as much large as 500 basis points to 100 -200 basis points.

Elevated credit costs for all home loans are likely to remain for the next 1-2 years. Given the similarity in interest rates, this is the favorable time to expand personal property purchase programs to assist low to moderate income Americans.

2. Small Loan Origination Economics

Low-moderate income Americans are likely to purchase less expensive homes, including manufactured housing many of which involve loans of $150,000 or less. The fixed costs involved in loan origination and servicing can make such loans unprofitable and thus lenders will shy away from them. The Enterprises should determine the expected small profit or loss per loan and determine if loan level price adjustments or other means could be used to bridge the gap for consumers of all housing types. For example, the current LLPA for low loan to value manufactured home loans could be eliminated.

E. Impact of FHFA rules and Directives And Safety and Soundness Concerns

8. **Should the Enterprises include additional explanation of how FHFA rules and directives impact their proposed Plans?**
9. **Are there any safety and soundness concerns related to the proposed activities and objectives?**
10. **What additional information might be helpful in evaluating the proposed activities and objectives?**

1. Additional Explanation About FHFA Rules And Directives And Agency Decisions

The Enterprises only state in their DTS plans that FHFA has safety and soundness concerns but these concerns are never specified. The lack of transparency about the reasons for FHFA reticence is especially noteworthy given the completion of the Feasibility Assessment (emphasis added) by Freddie Mac (see Page 14 of the DTS plan). This leaves lenders, investors, manufacturers and consumers in the dark about these safety and soundness concerns or whether it is possible in the future to address them.

Freddie Mac has noted that a lack of standardization in loan originations, no automated underwriting models and that lenders vary concerning their collateral appraisal methods. These challenges are real but the Enterprises have the knowledge and experience in developing new loan products and changes in credit underwriting and risk assessment. Also, lending is constantly evolving (examine what is an acceptable debt to income ratio today vs. two decades ago, credit scores etc.) and manufactured home personal property loans will also change and evolve over time.

Also, the disclosure of the Feasibility Assessment itself would be very helpful in filling in gaps about manufactured home personal property lending and may encourage other financiers to consider entering this marketplace. Other Freddie Mac manufactured housing research has been published on their web site; why has the Feasibility Assessment been treated differently?

Furthermore, the public record contains a great deal of information relevant to the decision about the safety and soundness of manufactured home chattel loans. For example, in the comments for the 2022-2024 Duty to Serve plan, there is a comprehensive study of the Elements Of A Feasibility Study For Personal Property Manufactured Home Loans including program objectives, market feasibility economic feasibility, program feasibility, lender and third party rules, loan origination, credit underwriting and consumer protections.

2. <u>All Enterprise Purchased Loans Are Highly Regulated For Safety And Soundness</u>

Manufactured home loans, including personal property loans are not unique in having challenges in lending. For example, Fannie Mae has a 1,174 page Selling Guide and a 771 page Servicing Guide which are effectively Fannie Mae's explanation of how to originate, report and service site built and modular home loans in a safe and sound manner. Therefore, these transactions are highly regulated with very specific procedures to control risk and protect consumers. Why couldn't a similar effort be undertaken for the manufactured home personal property lending industry?

3. <u>Let's Address The Enterprise's Impact On The Manufactured Housing Industry</u>

In the late 1990s and early 2000s, the Enterprises ramped up manufactured loan purchases primarily through one lender who is now longer in existence. These purchases performed poorly for a number of reasons and the Enterprises suspended further purchases of manufactured home personal property loans in the early 2000s.

The impact of the absence of a secondary market for manufactured home personal property loans can be shown by comparing manufactured home shipments in the year 2000 (250,000 homes) with shipments of 130,000 in the year 2003 (see Table B below). While there are always other factors, the absence of a secondary market is the primary reason for the drop in manufactured home shipments from 2000 to 2003. The Great Recession had a further effect on all housing and the absence of an Enterprise manufactured home secondary market for 72% of the homes produced has left production at roughly half of what could be expected.

Table B: US Census Bureau: Manufactured Home Shipments 1998-2008

Year	Shipments of New Homes (thousands)
2008	81.9
2007	95.8
2006	117.4
2005	146.9
2004	130.7
2003	130.8
2002	168.5
2001	193.1
2000	250.4
1999	348.1
1998	373.1

During 2003-2007, the single family lending industry expanded their mortgage offerings to include increased number of subprime loans, 100% Loan to Value loans, Alt-A loans, adjustable rate mortgages with optional payments so that non-prime lending was nearly half of total lending (see the Brookings Institution Study The Origins of the Financial Crisis). Yet, after being placed in conservatorship, the Enterprises did not refrain from low downpayment mortgages, or stop purchasing adjustable rate mortgages. In fact, today the Enterprises offer 3% downpayment mortgages, innovative loan purchases to achieve social purposes etc.

Instead of closing the market after the 2008 Great Recession, the Enterprises increased underwriting scrutiny, imposed servicing regulations to help prevent more foreclosures and explored risk sharing to avoid excessive concentration of risk. The same strategies for tightening loan origination, credit underwriting, loan servicing, including loss mitigation and foreclosure if necessary have not been employed for manufactured home personal property loans. Why?

4. Safety And Soundness Concerns Through The Experience Of The Largest MH Lender

While there are many processes in the loan cycle, ultimately, success is measured in terms of correct pricing, controlling expenditures and minimizing defaults and foreclosure losses. The experience of the largest manufactured housing lender holding for investment a 25 billion dollar loan portfolio with hundreds of thousands of manufactured home personal property loans can give the Enterprises and FHFA valuable information to model a chattel manufactured loan program.

Publicly available (see SEC 10-K filings) delinquency and repossession data for this lender over 20 years shows the same pattern of 3-4% delinquency and a very low percentage of non-performing loans over time (see Table C for the most recent data). Also, the trend in non-performing loans is stable for loans originated during the pandemic period staying at roughly 50 basis points for seasoned loans from the period of 2019-2021.

Table C: Performing and Non-Performing Loans by Year of Origination

A summary of performing and non-performing home loans before discounts and allowances by year of loan origination as of December 31, 2023 follows (in millions).					
Origination Year	2023	2022	2021	2020	2019
Performing	$5,716	$4,368	$3,321	$2,575	$1,820
Non-performing	8	11	17	12	11
Total	$5,724	$4,379	$3,338	$2,587	$1,831
Non-performing Percentage	0.14%	0.25%	0.51%	0.46%	0.60%

5. Conclusions

1. What Progress Has Been Made In Serving Manufactured Housing Buyers?

At the end of the 2025-2027 DTS period, 20 years will have passed since the Housing and Economic Recovery Act of 2008 established the Duty to Serve mandate for underserved manufactured home purchasers. During that same period, the Enterprises investigated and introduced a number of innovative loan programs such as the Home Style Renovation and Home Ready loan programs, Home Style Energy Mortgages, and now in 2024, a new program to give credits for downpayments and closing costs. Site built home loans can even qualify for 105% combined loan to value loans under the Community Seconds program. No similar innovations have occurred for manufactured housing.

2. What Progress Has Been Made In Helping Low-Moderate Income Manufactured Home Buyers?

Further, according to Fannie Mae Fannie Mae Statistical Summary Tables for April 2024, the average Fannie Mae single family home loan was around $325,000 in 2023. The maximum Enterprise conforming loan limits can be as high as $766,500 in most areas of the US and a maximum of $1,149,825 in certain high cost areas. This is many times greater than a manufactured home loan for a double wide home; a low downpayment, high balance site built loan could pose a risk in a housing downturn.

Also, the average mortgage loan in 2023 had to Debt to Income percentage of 37.9%. A typical borrower with principal, interest, taxes and insurance costs of $2,400 per month and $400 per month in other debts like auto loans, credit card loans and student loan debt, would need an income of more than $90,000 to qualify for a loan. This is substantially greater than the US median family income and roughly double the typical income for a manufactured home purchaser.

Also, many families have much greater debt burdens, especially given the rise in the cost of automobiles and education. Congress clearly wanted the Enterprises to serve low-moderate income Americans along with higher income families and by extension, support sustainable and affordable housing arrangements through resident owned manufactured home communities.

FHFA should be commended for holding Listening Sessions. However, there has not been any significant feedback to the public about how and when public input is being used in decision-making. FHFA and the Enterprises should restructure the DTS plans to focus on truly underserved Americans who want to buy manufactured homes or live in resident owned manufactured home communities.