March 13, 2017

Mr. Jim Gray
Director, Duty to Serve Program
Federal Housing Finance Agency
400 7th St. SW
Washington, DC 20024

Via email: DutytoServeStakeholders@fhfa.gov

Request for Input (RFI): Support for Chattel Financing of Manufactured Homes

Dear Mr. Gray:

The Manufactured Housing Industry of Arizona is pleased to submit comments in response to FHFA's January 2017 Request for Input (RFI) on Enterprise purchases of chattel manufactured home loans. The Manufactured Housing Industry of Arizona represents thousands of individuals within more than 100 businesses related to the manufactured housing industry in the State of Arizona, including manufacturers, retailers, lenders, contractors and suppliers of products and services. Arizona is home to 3 major manufacturers with 4 factories.

With the housing market quickly recovering in Arizona, lower income individuals and families are getting squeezed out of the American Dream of owning a home. These lower income home-buyers and homeowners rely on a chattel lending market that will serve them well in the purchase of a new home or the ability to sell their current manufactured home. Arizona has a unique market ranging from retirees to young families; from agricultural workers to industrial and mine workers; all deserving of a home of their own.

Without adequate chattel lending support, the Enterprises are not doing their duty to serve this lower income population of Arizona citizens, and should be graded accordingly.

Manufactured homes are a critical source of affordable housing for more than 22 million working families. Close to 60 percent of new manufactured homes sell for less than $70,000. Manufactured housing can offer this value to consumers because of technological advancements and cost savings associated with the factory-built process. The affordability of manufactured homes has long made these homes the preferred choice for many families, including first-time homebuyers, retirees and families in rural areas. However, compared to site-built homes, consumers do not share the same financing options. These limitations put consumers at a disadvantage in a number of areas including the ability to: purchase new and existing homes; reduce interest rates through refinancing, and sell homes to the broad range of interested buyers.

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Manufactured housing is one of three "underserved markets" identified in the 2008 HERA provision which creates a Duty to Serve (DTS) for Fannie Mae and Freddie Mac (the "Enterprises"). We believe that the Enterprises cannot meet this obligation without supporting chattel financing.

We are pleased to offer the responses below to the questions posed in FHFA's Request for Information. Thank you for the opportunity to offer this important feedback to you. We look forward to our continued engagement with the Enterprises and FHFA on this important initiative.

Sincerely,

Ken Anderson, President
Manufactured Housing Industry of Arizona

Responses to Questions

Sources of Chattel Loan Financing

1. *Describe the current sources of financing for chattel loans in the primary market (e.g., mortgage companies, federally insured depository institutions, manufactured housing community owners, specialized finance companies) and their relative market shares.*
   - The unavailability of a secondary mortgage market for chattel loans puts our consumers at a disadvantage relative to other housing types.

2. *Describe the current sources of financing for owner-occupied and for investor-owned chattel loans in the secondary market (e.g., hedge funds, individual private investors, real estate investment trusts) and their relative market shares.*
   - Most lenders hold loans in portfolio.

3. *Do manufactured housing communities fund their community-financed chattel loans? If so, explain how such a funding process works and what secondary market or other funding sources are used.*
   - These third party lenders provide financing for consumers to purchase homes from affiliated retailers to be placed in the communities.

4. *What types of financing providers do not participate in the chattel market, and what is the appropriate role that the Enterprises could play in broadening that market?*
   - For the most part, regional and national depository institutions do not participate in the chattel market due to a lack of a secondary market.

5. *What role do manufactured home dealers and manufacturers currently have in financing purchases of manufactured homes? What disclosures are provided? How do interest rates and other terms and conditions compare to non-dealer financing?*
   - A retailer employee must be licensed as a mortgage loan originator and the retailer's entity must be licensed or registered under the SAFE Act to participate in the financing process.

Origination of Chattel Loans

6. *Describe currently available home purchase and refinance chattel loan products, including their terms and features, e.g., amortization, credit score requirements, down payment requirements, fixed or variable rate interest. Describe the underwriting criteria for home purchase and refinance chattel loan products. Include the performance history of these products, noting any differences based on whether the home is located in a manufactured housing community or on privately-owned land.*
   - Most chattel loans are fixed rate, closed-end, level payment, fully amortizing, with terms ranging from eight to thirty years.

7. *Should the Enterprises value chattel-financed homes using an appraisal, the manufacturer's invoice plus cost of appurtenances (e.g., garage, patio, and set-up), the National Appraisal System facilitated by the National Automobile Dealers Association guide data, or other methods? What items should be included in the valuation (e.g., transportation of the home to the site, set-up costs, utility connections)?*
    - Some lenders determine the maximum amount for a purchase money chattel loan as a percentage of the manufacturer's invoice and include the costs associated with the sale of the home such as transportation, set-up, optional equipment like A/C, skirting, decks, etc.; others use appraisal services such as DataComp.

Fannie Mae and Freddie Mac Support for Chattel Financing of Manufactured Homes

8. *Is there an industry standard used to value a used chattel-financed home, and should resales of chattel-financed homes be excluded from a chattel loans pilot?*
    - Historically, used homes were valued at 90% of the NADA value; DataComp provides the NADA values in its appraisals as the cost approach value, but uses market comparables as well.

9. *Should a chattel loans pilot allow for the refinancing of existing chattel-financed homes and, if so, how should the Enterprises value these chattel-financed homes?*
    - Manufactured homeowners have the same need for refinancing as site-built homeowners.

10. *Describe current chattel loan and collateral documentation and variations, and discuss challenges to standardizing loan and collateral documentation.*
    - Currently chattel loans are documented by promissory notes and security agreements.

11. *Are there typical warranties or other add-ons (e.g., insurance) provided by dealers that increase the purchase price of chattel-financed homes? If so, please describe the terms, conditions, and benefits of these add-ons and the typical costs to borrowers.*
    - New homes typically come with a one year manufacturer's warranty and are backed by dispute resolution mechanisms established by HUD.
    - Additionally, consumers can purchase "service contracts" from several companies that would protect the structure of the home, the systems originally supplied by the manufacturer (e.g. plumbing, electrical system, etc.), and appliances included in the home at the time of delivery, after the one year manufacturer's warranty has expired.

12. *Under what circumstances, if any, should housing counseling be required as a condition for receiving a chattel loan to be purchased by an Enterprise, and if so, where and how should the counselors be trained?*
    - Counseling should be available but not mandatory.

Borrower and Tenant Protections

13. *What protections for chattel loan borrowers should be required beyond those currently provided by federal, state, and local law, and how should those protections be overseen?*

- As alluded to in the final rule, the enterprises could require compliance with selected provisions of Regulation X's consumer protections for chattel loans to be eligible for Duty to Serve credit and require a "Notice of Default" and "Right to Cure" both before and after repossession.

14. *What tenant protections are appropriate and workable for chattel loans when the home is located in a manufactured housing community as compared to when it is located on privately-owned land?*
    - The lease term must be for a minimum of one year and renewable absent good cause.
    - There must be at least 30 days' advance written notice of a rent increase.
    - Tenants must receive at least 120 days' advance notice of a planned change in land use within which time the tenants, or an organization acting on behalf of a group of tenants, may match any bona fide offer for sale. The community owner shall consider the tenants' offer and negotiate with them in good faith.

Credit Enhancements, Standardization, and Risk Sharing

15. *What third party credit enhancements (e.g., letters of credit) might be available for chattel loans or securities backed by chattel loans? Which entities are the potential providers of these credit enhancements, and what are the appropriate terms, conditions, and pricing of the credit enhancements?*
    - Currently there are no third party credit enhancements available for chattel loans or securities backed by chattel loans.

16. *In designing chattel loans pilots, how might the Enterprises incorporate lender recourse or sharing credit risk with private investors?*
    - Lender recourse could entail liability for a percentage of the loss when a repossessed home is resold.

17. *What changes in data collection and reporting and what other efforts at standardization are needed across the manufactured housing industry to increase the marketability of manufactured home chattel loans and to enhance consumer capacity to resell used manufactured homes?*
    - Promoting existing data aggregators which have extensive sale and resale data, both compiled and granular, would promote standardization and enhance consumer capacity to resell used manufactured homes.

Chattel Loan Servicing

18. *Describe the current practices for chattel loan loss mitigation, including any roles played by manufactured housing communities and any regional variations in mitigation practices.*
    - Chattel loan loss mitigation typically begins when a payment is not received on or before its due date, resulting in letters, email and phone calls to the homeowner. If a loan remains delinquent after the late charge grace period expires, most lenders will send a notice of default and right to cure. Cure periods are typically thirty days.

19. *What efforts at chattel loan loss mitigation (e.g., short sale, deed-in-lieu, and modification) should be required in a chattel loans pilot, and how might these requirements affect the pricing of the loans and the interest of investors in purchasing securities backed by the loans?*
    - Like the real estate market, short sale, deed-in-lieu, and modification are all useful loss mitigation tools.

20. *What are the current practices for disposition of repossessed chattel-financed homes? What are the available channels for resale, and what are typical recovery rates for each channel as a percentage of the unpaid principal balance on the chattel loan?*
    - Homes repossessed in communities are typically sold in place and remain in the community; homes repossessed from private land are typically taken to the lot of a retailer for resale.

21. *What are the servicing practices if the owner of a chattel home fails to pay ground rents for the underlying real estate but is current on the note payment for the home?*
    - Practices vary from lender to lender.

22. *Comparing energy efficiency of chattel-financed homes with site-built housing;*
    - Manufactured homes, because they are built in a factory using performance standards, take into consideration the entire building envelope, can be as energy efficient as site-built homes which rely on prescriptive standards that may not be cost effective for the consumer.