PRIVILEGED AND CONFIDENTIAL

March 21~~XX~~, 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:

~~[Insert Company/State Association Name]~~South Dakota Manufactured Housing Association is pleased to submit comments in response to FHFA's January 2017 Request for Input (RFI) on Enterprise purchases of chattel manufactured home loans. This association represents the retailers, manufactured home dealers, finance companies, rental communities, along with the service and suppliers who provide over~~about~~ twenty percent (20%) of South Dakota's housing needs.
~~[Insert company/state association description –size, geographic location, market served].~~

Our industry is a substantial contributor to the housing needs of young families, retirees~~s looking to downsize~~, rural housing, and those simply looking for affordable housing. Buyers of our homes are penalized with more expensive interest rates and loan terms. If our chattel customers had access to the secondary market:

+ ~~t~~Their interest rates would easily be 1 to 2 percent less and this would make their monthly payments ~~ereby~~ much more affordable~~lower their monthly payments $50 to $100 per month~~;
+ They could have access to expanded repayment terms that would improve affordability of housing~~are now offered to site built housing;.~~ and

~~The lack of chattel financing often forces a customer to buy an older home needing substantial repair and a home that is costly to heat and cool~~+ ;

Our customers would have access to more lenders thereby improving the resale value of used manufactured homes.~~Their would be more lenders willing to write loans for manufactured homes on leased property. This would , they would have access to the same loan terms as traditional homes loan terms would be more favorable, monthly payments would be more affordable, they would have more financing options, and the resale value of used homes would greatly improve. outlets for ir access to affordable housing would greatly expand. we could save our customers because they want ur homes already offer about twice the valueAs a substantial contributor to young familes in need of affordable housing, [Explain why you think a secondary market for chattel lending is important for the consumers you serve].~~

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If customers had access to chattel lending on the secondary market, these customers would not be forced into buying overpriced, older, energy hungry homes that need substantial repair. Today, the only way they can obtain financing on the secondary market, is to buy these run-down site built homes.

We strongly believe that FHFA should exercise their discretion to require each enterprise to implement a pilot program to purchase a significant quantity of chattel manufactured home loans. The pilot program should include a cross section of loans varied by new home purchases, refinance, pre-owned home re-sales, seasoned loans held on portfolio, along with loans varied by geography and socio-economic diversity.

The manufactured homes of today are quality built homes. The homes are built solid. We invite you to come to South Dakota and experience the quality construction we are describing.

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We also invite you to consider the property tax benefits to our customers. These manufactured homes are well built and we find that our customers enjoy lower property taxes since our cost per square foot of construction is about half. Simply stated, since our homes on a per square foot basis are about half the money, a person buying one of our homes will pay about half as much property tax.

Our manufactured homes are energy friendly. Customers who buy our homes often experience a monthly energy bill savings of $100 to $200 per month. Manufactured homes are required by law to disclose insulation to our customers. We call this bragging rights.

Chattel manufactured home loans are good performers. Since our customers enjoy a good home, they make good on the loan.

We request the chance to show you the manufactured homes we offer and introduce you to our clients. This way, you can experience the manufactured home quality and find out what affordable financing would mean to our customers.

~~[Provide your thoughts on the relative weight chattel lending should receive in FHFA's scoring of the Enterprises' Underserved Markets Plans as it pertains to Manufactured Housing - i.e. should they be able to generate a score above minimally passing without it?]~~

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.

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.

Because the Enterprises do not afford our buyers comparable financing, our customers are penalized for being a good buyer. They should not have to pay more interest and be subject to less favorable terms simply because they want to buy a good home for less money. We strongly encourage you to stop this inequity and quit wasting taxpayer dollars to provide affordable housing when all you would need to do is open the door so chattel manufactured home loans are eligible for the secondary market. ~~[Insert a discussion of your efforts (if any) with Fannie Mae and Freddie Mac, such as your level of engagement with the Enterprises, and the extent to which you have shared information with the Enterprises.]~~

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.

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Sincerely,

Jerry Vogeler, Executive Director
South Dakota Manufactured Housing Association M170320A.DOC

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. Which entities are the 20 largest originators of chattel loans for chattel manufactured homes, and what is the approximate market share for each originator? Are there geographic or regional differences in funding sources? How is financing concentrated geographically?*
   - Relative to the site built market, manufactured homes do not share the same financing options, including a secondary mortgage market. These limitations put consumers at a disadvantage in several 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.
   - In current environment, financing for chattel loans typically comes from financial institutions that either retain loans or sell to other institutions for their portfolios. There are only a limited number of national lenders, some regional lenders, and small community lenders or credit unions that originate chattel loans.
   - A secondary market for manufactured home chattel financing is a simple and cost efficient approach to solving the affordable housing issue in the United States. By giving manufactured homes equal access to the secondary market, you would lower the cost of housing. Furthermore, this would not cost the taxpayers a dime.

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. Which entities are the 20 largest holders of chattel loans secured by manufactured homes, and what is the approximate market share for each entity?*
   - Most lenders hold loans in portfolio.
   - There is not a current secondary market at this time – GSEs need to help create this market through the Duty to Serve.
   - The lack of a secondary market for chattel manufactured home loans is a barrier to solving the affordable housing program in the United States. This is important to solving the shortage of affordable housing not only for workers but also retirees. Manufactured homes are the solution.
   - The only reason the GSE's are not allowing finance access for chattel manufactured home loans is that they know they will generate more interest earnings from more expensive homes. If consumers are given a choice, they will buy the product that will give them the most housing for their money. That product is manufactured homes.
   - The lack of a secondary market for chattel manufactured home loans results in artificially increasing the cost to consumers for manufactured homes. This happens as a result of higher interest rates, shorter loan repayment terms, and higher down payment requirements.

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.*
   - Many communities have affiliates that purchase loans from third party lenders.
   - These third party lenders provide financing for consumers to purchase homes from affiliated retailers to be placed in the communities.
   - Access to the secondary market for manufactured homes, will lower the cost of living for many families. Access to the secondary market will allow families to own a home rather than rent. This will allow families to pay less per month for housing. This will mean that

families will have an extra $100 to $200 per month. For families on a limited budget, this is not only helpful, but essential.

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? What risks should be considered in expanding into this 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.
   - There are several risks new providers might cite for not entering the chattel market: lack of familiarity with the community operator and chattel lender relationship; titling and lien perfection laws; and default servicing laws that differ from mortgage lending laws.
   - Today, there are lenders who have a good track record financing manufactured homes on a chattel basis. Naturally, if interest rates for those loans are lower, the performance of these loans would remain good or even improve. We suggest one strategy for the GSE's to consider is purchasing portfolios from existing lenders.
   - We suggest staying with the proven underwriting standards for manufactured home chattel loans. Loans that perform is not only good for the lenders but all other parties. We welcome the chance to discuss these proven underwriting standards with you.

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?*
   - Currently manufactured home dealers do not have a role in financing purchases of manufactured homes.
   - 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.
   - Loan pricing often is built on a confluence of factors including LTV, credit score, term to maturity, age of the home and whether it is single or multi-section, and if discount points are charged.
   - Staying with the proven underwriting standards of existing chattel lenders will be critical to the performance of the loans. The customers buying these manufactured homes need and deserve access to the secondary market. The secondary market should not be restricted to those buying expensive homes. The secondary market should also help those buying affordable homes.

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.
- Parameters for financing appurtenances (e.g. garages, patios) and other dealer-added options and on-site installed design elements vary from lender to lender.
- We invite you to visit with existing lenders of chattel manufactured home loans. Valuation is not a secret. You need to replicate what is commonly accepted. Today, loans are based on a percentage of the manufactured home invoice. The loans include transportation, set-up, A/C, skirting, decks, concrete foundations, gutters and downspouts, garages, etc. Features that improve the living experience of the resident, also improve the performance of the loan.

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.
    - The industry believes that the resale market is larger than the purchase market.
    - Lack of a secondary market is hurting the resale value of manufactured homes.
      Since there are few lenders in the manufactured home market, the ability to resell a manufactured home is restricted. A secondary market would be helpful to the seller in that they could sell their home for what it is worth rather than being forced to sell the home for below market prices. These fire sales of used homes happen simply because there is not sufficient lenders who will make loans on pre-owned manufactured homes.

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.
    - Please refer to our answer above.

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.
    - The industry sees few challenges to standardizing loan and collateral documentation.
    - Enterprises should use what is working now.

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?*
    - *We have found no value in housing counseling. This is not a requirement of existing lenders and loan performance is good. We fail to understand why counseling should be required as the same home will be financed, just at better repayment terms and lower interest rates.*

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?*
    - The current protections for chattel loan borrowers already cover a wide range of issues.
    - 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.
    - We ask that you simply follow the existing guidelines that current manufactured home chattel lenders utilize. If you are in need of someone with expertise in this area, please call me and I will put you in touch with an expert who can help you craft the program.

Commented [A1]: Is this addition correct, Tom?

Commented [A2R1]: The final rule defers this question to the Enterprises, but does allude to our support for this in the final rule.

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?*
    - We have found this to be a non-issue.

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?*
    - Require lender recourse if someone does not follow the rules. Establish your underwriting criteria and then force participants to follow the rules. Your hammer for enforcement is recourse.

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?*
    - Currently, HMDA data does not separate Land-Home Loans from Chattel Loans. Separate HMDA data for each product will be helpful in studying the demographics of the market and characteristics of each type of loan.
    - 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.
    - Prudent lenders will obtain consumer consent to the exchange of information between the landlord and the lender about the status of site lease and loan payments.
    - While manufactured home communities work with lenders, they do not typically provide collection services for the lender.

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.
    - The industry does not foresee these requirements affecting pricing of loans.

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.
    - Lenders and manufactured home community owners have a shared interest in a manufactured home chattel loan. Community owners want to see the loan perform as a resident that is paying on their loan is likely to also being paying their monthly lot rent.
    - Working with established practices, procedures and lenders would be in your interest.

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.
    - Absent consumer consent to the exchange of information between the landlord and the lender, the lender may not know until the borrower is evicted and the home is subject to a landlord’s lien.