Manufactured Housing Institute

June 6, 2017

Mr. Jim Gray
Manager
Office of Housing and Community Investment
Federal Housing Finance Agency
400 7th Street SW
Washington, DC 20219

RE: Comments Regarding the Proposed Duty to Serve Evaluation Guidance (Guidance 2017-1)

Dear Mr. Gray,

The Manufactured Housing Institute (MHI) is pleased to submit comments in response to FHFA's Request for Public Input regarding FHFA's Proposed Evaluation Guidance (Guidance 2017-1), under the Enterprises' statutory Duty to Serve requirement.

MHI is the only national trade organization representing all segments of the factory-built housing industry. MHI members include manufactured home builders, lenders, home retailers, community owners and managers, suppliers and others serving or affiliated with the industry. MHI's membership includes 50 affiliated state organizations. MHI members represent over 85 percent of manufactured homes produced each year. In 2016, the industry produced over 81,000 homes, approximately nine percent of new single family home starts.

The comments below are MHI's recommendations and feedback regarding the Evaluation Guidance's proposed assessment of the Enterprise's Duty to Serve manufactured housing plans and the proposed process that FHFA will undertake to evaluate the implementation of those plans to ultimately lead to an assessment of the impact of the actions on the underserved manufactured housing market. These comments will be augmented by comments MHI expects to submit regarding the Enterprises' respective proposed Underserved Market Plans.

MHI first would like to make the following broad observations about the Evaluation Guidance:

1. MHI appreciates the significant work put into the Evaluation Guidance, and supports the underlying approach of using objective and numerical scores to evaluate compliance.

2. However, MHI has significant concerns that an over-reliance on the grading system, combined with a wide range of actions that the Enterprises can take to receive credit, might produce scores that technically result in a passing grade – while the overall Enterprise impact on making manufactured housing less of an Underserved Market could be minimal or non-existent.

3. Specifically, for manufactured housing, while research, meetings, and other "soft" activities may be valid in the first year of the plan, it is essential that the evaluation in subsequent years be based on tangible activities and impact, including: (a) loan purchases, (b) an increased number of

participating seller-servicers, (c) development of new or more flexible loan products, and/or (d) progress in developing a secondary market for chattel loans.

4. Further, since chattel loans constitute 80 percent of new manufactured homes, MHI believes that the Enterprises should <u>not</u> be able to receive an overall passing grade for manufactured housing in any given year if there is failure to make satisfactory progress in the chattel component of the manufactured housing plans. Our suggestions for this approach will be addressed in our comments on each Enterprises' proposed plan – but generally this should mean:

   (1) In year one, neither Enterprise should be able to receive a passing Manufactured Housing grade <u>unless</u> they diligently work to consider and address loan risk and operational challenges that have made them reluctant to purchase chattel loans to date and develop chattel loan product guidelines suitable for use in a chattel loan pilot.

   (2) In the second year, neither Enterprise should be able to receive a passing grade on Manufactured Housing if they do not begin purchasing chattel loans on a pilot basis – <u>unless</u> they can document that they are unable to purchase such loans in a safe and sound manner or that they need more time to begin such purchases.

   (3) In the second and third years, unless such documentation is provided, neither Enterprise should be able to receive a passing grade on Manufactured Housing if they do not purchase a substantive number of chattel loans – and begin substantive work on standards and processes for purchasing loans on a flow basis and securitizing such loans through the secondary market.

5. The Duty to Serve regulation provides that FHFA may, at its discretion, designate one Statutory Activity or Regulatory Activity in each underserved market that FHFA will significantly consider in determining whether to provide a Non-Objection to that underserved market in a proposed Plan. For the first Plan cycle, FHFA has not made such a designation in the Guidance.

   We urge FHFA to reconsider this decision and to significantly consider developing chattel loan product guidelines suitable for use in a chattel loan pilot. As stated above, chattel loans constitute 80 percent of new manufactured homes. Moreover, as FHFA notes repeatedly, chattel loans serve very low, low and moderate income borrowers, particularly those in rural areas. Because no secondary market exists for these loans, fulfilling the Duty to Serve mandate requires FHFA to significantly consider developing chattel loan product guidelines in determining whether to provide a Non-Objection to that underserved market in the proposed Plans.

<u>Response to Specific Questions Posed in the Request for Public Input</u>

1. ***Should FHFA make partial credit available for objectives that are not fully accomplished? If so, are the levels of partial credit appropriate (6 points for substantial and 3 for moderate accomplishment of the objective)? Is the partial credit approach for loan purchase and investment objectives, which relies on baseline measures set by the Enterprises, an effective method? If not, how should FHFA make partial credit available for objectives not fully completed?***

2. ***FHFA proposes setting the score needed to receive a passing rating under Step One at 70 percent. Is the proposed threshold of 70 percent too low or too high?***

MHI RESPONSE
Neither of these two questions can be answered in a vacuum – i.e., without knowing the adequacy of the final approved plans and the adequacy of the objectives in those plans. If the plans are substantial and objective, then partial credit and a score of 70 is appropriate – providing there is real and continued progress in meeting the ultimate overall goals (purchasing loans and making a secondary market for chattel loans and increasing the number of purchased real property manufactured home loans).

3. ***Has FHFA clearly articulated the implementation and impact criteria in a reasonable way in Appendix B? Should FHFA consider different or additional evaluation criteria?***

MHI RESPONSE
These criteria are reasonable and fairly understandable.

4. ***Should FHFA assign individual scores at the objective level as proposed under Step Two, or should FHFA instead assign a single score under Step Two for all actions undertaken by an Enterprise in each underserved market? How should FHFA balance providing clear guidelines to the Enterprises with minimizing complexity?***

MHI RESPONSE
Consistent with the remarks at the beginning of this comment letter, MHI believes that a single score is preferred, so that the overall effort is judged holistically, with an objective assessment of overall efforts and a clear focus on the impact in the real world.

5. ***FHFA proposes to create concept scores at the Plan development stage which would then serve as a guide for assessing the achievements toward objectives at the evaluation stage. Is this proposal an effective approach? When should FHFA share a preliminary concept score with an Enterprise?***

MHI RESPONSE
MHI supports the creation of concept scores, which would enhance transparency and attainment of objectives. These should be provided as early as is feasible.

6. ***Once FHFA assigns a score for each objective, FHFA proposes to average the scores of all of the objectives within an evaluation area (outreach, loan products, loan purchases, investments and grants) and produce a single score for each evaluation area. FHFA would then calculate a weighted average for all of the Enterprise's objectives in a particular underserved market. Should FHFA weight objectives by evaluation areas? Has FHFA proposed to weight the evaluation areas appropriately?***

MHI RESPONSE
Consistent with the remarks at the beginning of this comment letter, MHI would not support an averaging and equal weighting of all four objectives. Specifically, MHI would support giving greater weight to loan products and loan purchases that are the most tangible and objective measurement of whether an Enterprises' actions are having a real impact in addressing the underserved market needs of manufactured housing. Credit could be given to outreach – but only if it results in or tangibly promotes a measurable increase in the number of participating seller/servicers or an increase in participation levels of existing seller/servicers.

7. ***Has FHFA selected appropriate activities for which to award extra credit? Has FHFA appropriately calibrated the size of the extra credit adjustment?***

8. ***Has FHFA appropriately limited extra credit only to those objectives achieving a Step Two final score of at least 40? Should extra credit be available for objectives receiving a Step Two final score of 30 or less?***

MHI RESPONSE
Extra credit in manufactured housing for additional progress or activities in the chattel loan space is appropriate. Specifically, extra credit should be given: a) in year one of the Plan, for developing chattel loan product guidelines suitable for use in a chattel loan pilot and for launching the pilot, (b) in year two, for carrying out substantive work on how to purchase chattel loan purchases on a flow basis and creating an effective secondary market for such loans, and (c) in year three, for actually purchasing chattel loans on a flow basis and securitizing them in the secondary market.

However, MHI believes strongly that extra credit is not appropriate for the other two identified activities - communities with pad lease protections and residential economic diversity activity. While both are laudable goals, they should not be a substitute for the most pressing Underserved Market needs of manufactured housing – the purchase and development of a secondary market for chattel loans and an increase in purchase levels of real property manufactured home loans.

9. ***Are the cut-offs for determining whether an Enterprise qualifies for each of the four passing ratings appropriate?***

MHI RESPONSE
See our answer to questions 1 and 2. The appropriateness of the cut-offs is directly related to the adequacy of the final approved plans and their objectives.

10. ***How might the overall evaluation process (Steps One, Two, and Three) be revised to strike an appropriate balance between providing simplicity and specificity in evaluating the Enterprises' Duty to Serve activities?***

MHI RESPONSE
Consistent with our other comments and answers to questions, MHI would be comfortable with a more holistic and simplified evaluation, focused more on accomplishing objective progress in making an impact in addressing mortgage credit and secondary market needs for manufactured home loans.

Sincerely,

Lesli Gooch

Lesli Gooch, Ph.D.
Senior Vice President, Government Affairs & Chief Lobbyist