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August 12, 2024

Marcea Barringer, Supervisory Policy Analyst
Federal Housing Finance Agency
Ninth Floor, 400 Seventh Street, SW
Washington, DC 20219

Re: 2025-2027 Underserved Markets Plans

On behalf of Next Step, I am pleased to provide comments on the Federal Housing Finance Agency's (FHFA) request for input on Fannie Mae and Freddie Mac's (the Enterprises) 2025-2027 Underserved Markets Plans.

Next Step Network is a national, nonprofit housing intermediary that works to promote expanded usage of factory-built housing as a viable solution to address housing affordability. Our organization works with partners across the country to provide a pathway to sustainable homeownership for low- and moderate-income families through housing counseling services, financial and homebuyer education, and leveraging new ENERGY STAR® and Zero Energy Ready manufactured homes.

Next Step is also a participating member of the Underserved Mortgage Markets Coalition, a collection of 35 affordable housing organizations that work to expand mortgage financing to groups traditionally underserved in the market.

For generations, the blueprint for wealth creation and equity building in this country has been predicated on the financial gains afforded by owning a home. Yet millions of households – particularly those individuals living in lower-income communities of color, on tribal lands, and in immigrant communities – have been barred from this quintessentially American path to prosperity by a lack of affordable housing choice. Manufactured homes are a critical part of the answer to our "missing middle" housing problem, and research from the Enterprises show that tens of millions of prospective homebuyers are "mortgage ready" but unable to purchase a home due in part to prohibitive and ever-increasing sale prices.

As a part of Duty to Serve, Next Step and our partners have had the opportunity to work with both Enterprises – in furtherance of their responsibility to serve the manufactured housing market. The work that the Enterprises have done to create a comparable mortgage market to site-built housing for manufactured homes is nothing short of transformational.

As FHFA considers the Enterprises' proposed 2025-2027 Duty to Serve Underserved Markets Plans, it is essential to recognize that continued and expanded participation in the manufactured housing market is critical. The Enterprises are mandated by Congress to help grow this market. To allow the Enterprises to reduce or lessen their market participation in their current, or subsequent, Duty to

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Serve plans will undo years of dedicated work and collaboration by housing advocates, industry, housing developers, lenders, municipalities, and other stakeholders.

Working collaboratively with these stakeholders, the Enterprises can help bring scalable solutions to better address the housing affordability needs of all prospective homebuyers. To that end, Next Step has specific comments on the Enterprises' proposed 2025-2027 Duty to Serve Underserved Markets Plans for FHFA's consideration:

General Comments Pertaining to Fannie Mae and Freddie Mac's 2025-2027 Underserved Markets Plans.

We commend both Enterprises for exceeding the real property loan target volume recommended by the UMMC. However, we also recognize that the Enterprises' baseline loan volume was calculated at an incredibly challenging time for the housing market. As market factors shift in ways that may make homeownership more attainable for hardworking individuals and families, we hope that the Enterprises will aim to go above and beyond their own conservative goals. For future plans, the Enterprises should consider aiming to serve at least the same share as they do in the rest of the of single-family market for borrowers below 100 percent AMI. Our colleagues at The Pew Charitable Trusts shared a more in depth analysis of this recommendation in their comment letter to FHFA.

We would also note the potential market impact of HUD's Preservation and Reinvestment Initiative for Community Enhancement (PRICE) program, a $225M investment in the manufactured housing market over the next six years. Applications for PRICE funds were due July 10, 2024, and notice of awards is not expected until October 2024. More than $2 billion in applications were submitted from state housing agencies, cities, counties, CDFIs, non-profits and Tribal entities and many of these applications included both new MH development, replacement, and loan programs. This demonstrates clear demand that Fannie Mae could leverage to increase real property loan purchases.

Additionally, we urge both Enterprises to consider adding separate goals for refinanced mortgages. Many homebuyers have been shut out of mortgages for manufactured homes in the past – only able to get personal property loans – but new programs could better serve these homeowners. They should be included in these new pilots and programs when they could benefit from refinancing.

We do note a lack of specificity in both proposed plans regarding the addition of a single-section CrossMod home design to the existing MH Advantage and CHOICEHome loan programs. This will make energy-efficient, new home construction with site-built features accessible to more people, increase attainable housing supply, and reach an underserved segment of the market that has largely been abandoned by traditional homebuilders.

In a letter to FHFA and the Enterprises dated May 30, 2024, Next Step and 11 other co-signing housing advocacy organizations that are part of the UMMC enumerated the critical importance of incorporating single-section home designs into the existing Enterprise mortgage loan programs. We have attached this letter in totality to our written comments.

Our current affordable housing crunch pushes attainable homeownership out of reach for too many American families. Delaying this activity, or omitting it entirely, will only seek to deepen our supply and affordability challenges.

The single-section CrossMod home will also strengthen the Enterprises' Duty to Serve efforts, better meeting the 100 percent area median income threshold for Duty to Serve in nearly every market. The existing Enterprise financing programs' eligibility, appraisal standards, and home specifications can seamlessly accommodate the single-section CrossMod design, mitigating any potential implementation challenges while advancing the affordable housing supply in this country.

Next Step is disappointed that both Enterprises have opted not to include regulatory activities related to the further research or development of pilot programs for the purchase of home-only loans. Home-only loans are important for borrowers not only in communities, but also on tribal and private land. In fact, only half of home-only borrowers live in manufactured home communities; a quarter are on family or tribal land, nearly another quarter are on their own land, and 1-2 percent are in resident-owned communities. Failure to serve this part of the market also disproportionately impacts Black, Hispanic, and Indigenous manufactured home buyers who are more likely to need and apply for home-only loans than their White counterparts.

The Enterprises should develop programs to improve lender and secondary market participation. The lack of Enterprise programs has led to high barriers to entry for new lenders and an uncompetitive market. They should establish standards for home-only loans to enhance consumer protections, helping homeowners remain stably housed through financial shocks, and ensure that housing counseling and homebuyer education are a foundational component to home-only pilot development. Today, home-only loans have fewer consumer protections than mortgages, but FHFA and The Enterprises can make improvements.

Additionally, the quality of homes should be factored into discussions around safety and soundness. With the commitment of Clayton, the largest homebuilder in this space, to construct all homes to the DOE's ZERH standard a hugely significant number of homes financed as home-only will have greatly improved quality and energy-efficiency standards. These improvements translate to increased borrower ability to make timely monthly payments.

Fannie Mae – Regulatory Activity: Support manufactured homes titled as real property (MHRP) (12 C.F.R. § 1282.33 (c) (1)).

Next Step appreciates the thoughtful objectives included in Fannie Mae's plan related to the expanded adoption of conventional manufactured home financing and increasing the value of homeownership to the consumer.

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We support the configuration of Collateral Underwriter® (CU) to "consume manufactured housing appraisal data" and agree with the lack of standardization and database on appraisal for manufactured homes compound the risks for lenders evaluating stepping into this market. We would like to see Frannie Mae provide more research around developing systems to purchase bundled, seasoned manufactured home loans that have been manually underwritten, which would provide liquidity to this market. Our colleagues in the UMMC have significant data showing how manual underwriting is a successful way to reach Duty to Serve markets and is designed as the most effective way to provide eligible borrowers access to wealth-building homeownership capital. We strongly support the evaluation of manufactured home loans to broaden eligibility and remove exclusions.

We commend Fannie Mae for recognizing that there is an opportunity for increased flexibility and alignment in existing mortgage products to help expand the mortgage market for manufactured homes. Recent updates to the Community Development Block Grant Program (CDBG) and HUD's recent approval of duplex units provide much more incentive for municipalities to leverage manufactured homes as an infill housing solution.

However, we do note a lack of specificity in both proposed plans regarding the addition of a single-section CrossMod home design to the existing MH Advantage loan program.

Finally, we commend Fannie Mae for exploring how to adapt and adopt policies that reduce the overall cost of homeownership and add value to MH. Next Step and our colleagues in the UMMC do offer some specific feedback on the proposed targets and implementation steps:

1. Provide more specificity on how Fannie Mae plans to add a single-section CrossMod home design to the existing MH Advantage loan program.
2. Focus on Zero Energy Ready homes with on-roof or on-site solar panels that would meet the new zero emissions building definition and thus the criteria for Greenhouse Gas Reduction Fund (GGRF) financing—social securitization combined with the on-the-ground reach of the GGRF recipients could make that highly successful.
3. Encourage research and engagement on developing additional resources with partners to support loan originations of energy efficient homes with down payment assistance to offset the costs of energy-efficient homes and incentivize their installation.

Freddie Mac – Regulatory Activity: Purchase Single-Family Loans Secured by Manufactured Housing Titled as Real Property

We commend Freddie Mac for recognizing that there is an opportunity for increased flexibility in existing mortgage products to help expand the mortgage market for manufactured homes and for its commitment to include manufactured housing in its Develop the Developer Academy.

We also share Freddie Mac's concern regarding barriers for small mortgages – those $150,000 or less. Research from UMMC members in this space has shown that lenders struggle to make these

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loans and, as a result, borrowers often cannot obtain them. This work will be especially important for new pilots that finance only the purchase of the home and not the land with a mortgage as these loan amounts will tend to be smaller.

However, we do note a lack of specificity in Freddie Mac's proposed plans regarding the addition of a single-section CrossMod home design to the existing CHOICEHome loan program.

Additionally, we recommend that Freddie Mac review and adopt several of the proposed objectives in Fannie Mae's proposed plans that would make manufactured homes a more attractive and value-retention option for both municipalities and consumers.

Continued and expanded participation by both Enterprises in the manufactured housing space can help bring scalable solutions to better address the supply and affordability needs of American homebuyers.

Thank you again for both FHFA and the Enterprises' continued work in this space.

Sincerely,

Stacey Epperson

Stacey Epperson
President & Founder