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National Association of Federally-Insured Credit Unions

March 20, 2017

Federal Housing Finance Agency
Office of General Counsel
400 7th St., SW, Eighth Floor
Washington, D.C. 20219

RE: Chattel Pilot Request for Input

Dear Sir/Madam:

On behalf of the National Association of Federally-Insured Credit Unions (NAFCU), the only national trade association focusing exclusively on federal issues affecting the nation's federally-insured credit unions, I am writing to you in regard to the Request for Input on Chattel Financing of Manufactured Homes. Overall, NAFCU supports the steps the Federal Housing Finance Agency (FHFA) has taken to increase the liquidity of the mortgage market and improve the distribution of investment capital available to very low-, low-, and moderate-income families. Nonetheless, NAFCU's members have expressed concerns regarding the entrance of Fannie and Freddie into the chattel loan market given the history of manufactured housing loans in the secondary market.

Therefore, NAFCU requests that the FHFA diligently evaluate the chattel loans market prior to requiring the GSEs to decide whether they should pursue a pilot program, thereby extending the time allotted for the GSEs to make such a decision. NAFCU also requests that the FHFA continue to be transparent in the implementation of the chattel loans pilot program through regular updates and opportunities for stakeholders to provide feedback so the industry may closely follow the progression of the program.

General Comments

On December 13, 2016, the FHFA published its final rule to implement the Duty to Serve requirements of the *Federal Housing Enterprise Financial Safety and Soundness Act* of 1992 (Safety and Soundness Act), as amended by the *Housing and Economic Recovery Act* of 2008. The Safety and Soundness Act establishes a duty for Fannie Mae and Freddie Mac (the GSEs) to serve three underserved markets: manufactured housing, affordable housing preservation, and rural markets. The FHFA's final rule specifies that as part of its obligation for the manufactured housing market, the GSEs may participate in a pilot program to support the financing of manufactured housing titled as personal property, or "chattel."

In contrast to your run-of-the-mill 30-year, fixed rate mortgage, loans for manufactured housing may be titled as either real estate property or chattel, typically have a shorter term of 15 to 20 years, carry a higher interest rate – often times qualifying the purchase loans as higher-priced mortgage loans, and are subject to fewer consumer protections, including disclosures for borrowers in the loan application process. However, manufactured housing is the only realistic option for homeownership for many Americans. In 2015, roughly 18 million Americans lived in manufactured homes and 80 percent of new manufactured homes in that year were titled as chattel.

NAFCU is grateful that the FHFA has recognized the importance of providing Duty to Serve credits for chattel loans, especially given the large percentage of chattel loans issued in the manufactured housing market and their role in the affordable housing market. But the GSEs must tread carefully. This final rule comes after a period of disengagement with the manufactured home loans market in the early 2000s, which was largely due to a wave of defaults and repossessions caused by loose lending practices and the GSEs' failure to closely scrutinize the quality of manufactured home loans.

NAFCU's members are also uncertain whether Fannie and Freddie are presently capable of recognizing and fully understanding the intricacies that credit unions face when serving manufactured housing portfolios. This uncertainty is fueling a concern that as a consequence of the chattel loans pilot programs our nation may face a more concentrated version of the 2008 crisis. Such a result would be devastating for the larger effort to reform the housing finance market. Thus, NAFCU cautions the FHFA against proceeding too quickly with the chattel loans pilot program.

Recommendations to Avoid Another Crisis

There is serious trepidation among NAFCU's member credit unions that the implementation of the FHFA's chattel loans pilot program will cause a negative disruption in the mortgage market. Namely, credit unions are worried that lenders will increasingly enter the chattel loan market because of the associated higher interest rates, ignoring the fact that there is typically a higher rate of delinquency for manufactured housing loans. Delinquencies in the chattel loan market often occur later in the life of the loan, such that the manufactured home is worth much less than the outstanding unpaid loan balance. This type of circumstance creates a risky environment susceptible to a crash.

Additionally, credit unions often face difficulties in their chattel lending programs because titling requirements vary so widely – not only from state to state, but also even among counties. NAFCU is concerned that the FHFA has not allocated enough time to (1) researching and understanding the intricacies of the chattel loans market, and (2) ensuring the GSEs will be able to formulate a system capable of bringing uniformity to an otherwise unstandardized market. Accordingly, some of NAFCU's member credit unions are concerned about the logistics of the chattel loans pilot programs. In particular, the less than month-long timeline for incorporating comments from this Request for Input into the GSEs' decisions on whether to pursue such pilot programs is inordinately brief.

More time should be allotted to permit the GSEs to fully evaluate the chattel loans market before making a decision on whether to craft a pilot program and what that pilot program should look like. The FHFA itself, in its Request for Input, says it expects the GSEs to need time beyond the draft Underserved Markets Plan to fully evaluate the public input. NAFCU agrees and suggests the FHFA refrain from pressuring the GSEs to incorporate extensive information about their potential chattel loans pilot program in their draft Underserved Markets Plan. The FHFA should not rush a process that requires an immense amount of attention to detail and patience, especially considering the limited data about chattel lending.

Although the GSEs will be ahead on other aspects of their proposed Plans, a slower process for the chattel loans pilot program will likely lead to a more streamlined and unimpaired implementation. Therefore, NAFCU asks that the FHFA further study the chattel loans market in each state before asking the GSEs to decide whether they will pursue a pilot program. Collecting information and data from stakeholders through a Request for Input is a great start, but it is not enough. The FHFA should commission a study to more comprehensively evaluate the chattel loans market. Then, when the GSEs do submit their Underserved Markets Plans, NAFCU believes that the GSEs should be required to provide a detailed explanation of why they are or are not choosing to launch a pilot program.

Moreover, in their Plans, the GSEs should set a strict limit on the volume of chattel loan purchases for the initial phase of the pilot program. This volume may and should, however, subsequently increase from year to year. Building in a gradual increase would require the GSEs to more closely analyze the stability and sustainability of the pilot program and would allow the FHFA to more effectively review the performance results of a chattel loans pilot program. This approach would better prepare the FHFA to decide whether to establish a permanent program to purchase and securitize chattel loans.

NAFCU supports the FHFA's decision to provide Duty to Serve credit for chattel loans, but would also like to see more research from the GSEs regarding the chattel loans market and an extended timeline for the GSEs to decide whether to pursue a chattel loan pilot program. Transparency is essential in the rulemaking process and the subsequent implementation of a final rule. NAFCU would like to see a push for continued transparency in the roll out of the chattel loans pilot program and more opportunities for stakeholders to provide feedback to the FHFA regarding their experiences in the chattel loans market and their interactions with the GSEs.

Conclusion

NAFCU appreciates the opportunity to provide our comments on the Request for Input on Chattel Financing of Manufactured Homes. If you have any questions or concerns, please do not hesitate to contact me at (703) 842-2212 or akossachev@nafcu.org.

Sincerely,

Ann Kossachev
Regulatory Affairs Counsel