Manufactured Housing Institute

July 10, 2017

Mr. Jim Gray
Manager, Duty to Serve Program
Federal Housing Finance Agency
400 7th Street SW
Washington, DC 20219

Manufactured Housing Institute (MHI) Comments on Proposed Duty to Serve Underserved Markets Plan by Freddie Mac

Dear Mr. Gray,

The Manufactured Housing Institute (MHI) is pleased to submit comments in response to FHFA's Request for Public Input regarding the proposed Duty to Serve Underserved Markets Plan of Freddie Mac ("Plan").

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. Eighty percent (80%) of those homes (approximately 64,000 homes) are titled as personal property ("chattel").

Manufactured homes are a critical source of affordable housing for more than 22 million people. Close to 60 percent (60%) of new manufactured homes sell for less than $70,000. The median income for manufactured homeowners is just under $30,000 per year, which is less than half of the median household income of an owner of a single-family home.

Meeting the Underserved Market Needs of Manufactured Housing

Congress enacted the Duty to Serve ("DTS") in 2008 and identified manufactured housing as an underserved market, citing Fannie Mae and Freddie Mac's exit from the chattel loan purchase market and declining purchase volume of real property manufactured home loan purchases.

MHI appreciates the extensive work done by Fannie Mae and Freddie Mac to develop their proposed DTS Plans, including a commendable degree of specificity regarding real property loan purchase volume goals and developing more flexible underwriting guidelines. However, both Plans include a number of "soft" Activities (such as research, conferences, roundtables, and provision of educational materials), and both Plans include Objectives to promote loans to manufactured home communities, which do not increase the availability of manufactured home loans to very low, low and moderate-income borrowers.

Ultimately, it is imperative that "soft" Activities and purchasing loans for manufactured home communities should not be a substitute for Activities that have a tangible impact, using objective metrics like chattel and real property loan volume.

Further, MHI is concerned that the Plans do not appear to include efforts to purchase manufactured home loans on a flow basis (i.e., through the establishment of underwriting guidelines that allow seller-servicers to sell all loans that meet such guidelines). MHI is also concerned that the Plans do not adequately address collaboration with private mortgage insurers to develop chattel loan private mortgage insurance or exploration of risk sharing structures (including lender recourse) which could mitigate Enterprise chattel loan risk and thereby allow for a more robust expansion of chattel loan purchases.

Following are MHI's recommendations for essential components in the Enterprises' DTS plans:

Essential Components of Duty to Serve Plans – Manufactured Housing

CHATTEL LOANS. Each Enterprise should carry out, **at a minimum**, the following:

(1) Continue existing efforts to conduct research, convene meetings, and work diligently with qualified entities to address and resolve Enterprise concerns about risks and operational challenges of purchasing chattel loans.

(2) Engage in serious discussions with private mortgage insurers, lenders, and other interested parties in an effort to develop appropriate risk sharing structures.

(3) Create incentives for seller-servicers to make low balance loans.

(4) Price servicing fees to reflect the high-touch attention needed for acceptable loan performance and offer incentives to servicers to reduce delinquency and loss severity below specified benchmarks.

(5) Develop underwriting guidelines and procedures that would enable the Enterprises to purchase chattel loans on a flow basis and work on developing an effective secondary market for such loans that would allow cost-effective securitization.

(6) Begin a Pilot Program to purchase chattel loans within two years with adequate safeguards for the GSEs and risk-sharing for the lender-participant that:

- Ensures long-term sustainability beyond the Pilot Program;
- Considers the existing market processes without reinventing the industry; and
- Has been thoroughly analyzed to address the above enumerated issues.

Each Plan should include specific performance targets for quality of loan performance and service to the consumer and the industry.

(7) With adequate performance in the initial Pilot, a strategy for continuity should be included in the Plan for future purchase and securitization of chattel loans on a flow basis.

REAL PROPERTY LOANS. Each Enterprise should carry out, **at a minimum**, the following:

(1) Increase the volume of purchased loans, compared to 2016 volume levels, as follows:
(a) Year 1 – 5% increase over 2016 (base year) level.
(b) Year 2 – 15% increase over 2016 (base year) level.
(c) Year 3 – 25% increase over 2016 (base year) level.

(2) Develop and offer at least one new loan product that addresses challenges such as underwriting flexibility, borrower qualification, non-traditional credit profiles and property use restrictions.

(3) Study the appropriateness of existing G-fee/LLPA levels for real property manufactured home loans and if appropriate, reduce such fees.

(4) Conduct outreach to new lenders and approve at least 10 new seller-servicers each during the 3-year Plan period.

(5) Develop and offer new loan products that make financing available for the industry's emerging new class of HUD Code manufactured homes, which have aesthetic features and consumer amenities that are comparable to site-built homes but can be offered at much lower prices due to the efficiencies of the factory-built process. Such features could include: updated home styles, pitched roofs, Energy Star features, garages, porches, premium finishes and upgraded exteriors.

LOANS TO MANUFACTURED HOME COMMUNITIES. As discussed in MHI's comment letter on the proposed Duty to Serve Rule, MHI believes that purchasing commercial loans for manufactured housing communities does not address an "underserved market" need, and therefore the Enterprises should not receive Duty to Serve credit for such loans. However, MHI does believe that the purchase of such loans, particularly for resident-owned and smaller, non-profit communities, is a laudable activity and therefore MHI generally supports the steps outlined in the Plans to pursue these Objectives.

<u>Discussion of Chattel Loans</u>

Chattel Loans are the Key Element in Addressing Underserved Markets. In its DTS rule, FHFA acknowledged that homes titled as personal property constitute more than 80 percent (80%) of new manufactured home purchases in recent years. Moreover, while more can be done to purchase real property manufactured home loans, the greatest underserved market need is chattel loans. As FHFA and the respective DTS Plans document, interest rates are substantially higher for such loans, lenders are less plentiful, and except for a very small amount of Ginnie Mae FHA Title 1 loan purchases, there is no secondary market for chattel loans.

Therefore, an essential component of an Enterprise Duty to Serve Plan is a commitment to carry out a pilot program for purchase of chattel loans at meaningful levels, plus good faith work toward purchasing chattel loans on a flow basis. MHI recognizes that the Enterprises have been reluctant to purchase chattel loans because of concerns about the level of risk and perceived operational challenges. At the same time, it is now nine (9) years since Congress passed Duty to Serve, and neither of the Enterprises are purchasing such loans.

MHI is confident chattel loans can be purchased safely and profitably, with proper underwriting standards and appropriate compensating fees and risk sharing. As evidence to support this conclusion, MHI points to lenders that continue to be active chattel lenders, and who have been originating such loans safely and profitably for years. MHI and its members have been working with Fannie Mae, Freddie Mac, and FHFA to help the Enterprises address questions regarding chattel loan risks and operational challenges and MHI has offered extensive comments and suggestions in the DTS rulemaking process about how the Enterprises could safely purchase such loans. A mix of appropriate downpayment requirements, compliance with existing Truth in Lending Act ability to repay requirements (including prudent debt-to-income ratio requirements), consumer loan origination and servicing, land tenure and pad lease protections, and partnering with experienced, well-capitalized seller-servicers will yield positive results.

Pursuant to the purpose of a pilot, the Enterprises should be required as a part of their Plans to start purchasing chattel loans to test out their performance. The Year 2 and Year 3 pilot target levels proposed in this letter are miniscule from a risk perspective. For example, $50 million is roughly only 1/6 of 1/10 of 1% (.000167) of Fannie Mae's 2016 purchase volume.

Moreover, it is important that such a pilot program should be representative of the entire market, and specifically should include:

(a) New home and pre-owned home financing.
(b) Loans that come from a variety of geographic locations.
(c) Loans that can be purchased across the FICO and income spectrum.

Research, Meetings, and Outreach Are No Substitute for Loan Purchases. The Enterprises have been studying the possibility of purchasing chattel loans for many years. While it may be appropriate for them to continue to do so in the first year of their Plans to ensure safety and soundness, such efforts should not simply be an end in themselves and or an excuse to continue to engage in such efforts in lieu of the actual purchase of a meaningful number of chattel loans. Instead, it is critical that such "soft" Activities be done only as part of a good faith effort to expeditiously resolve whatever outstanding concerns the Enterprises may have about the potential risks and operational challenges of purchasing such loans.

Purchase of Loans on a Flow Basis. While there are benefits to the purchase of chattel loans from existing portfolios, chattel underserved market needs can be met only through the purchase of loans on a "flow basis" – i.e., through the promulgation of appropriate underwriting standards, and a commitment to purchase all loans that meet such standards from qualified seller-servicers. MHI is concerned that the Plans do not appear to include efforts to work towards this result.

Exploration of Risk Sharing Options. The Plans should include substantive efforts to explore the use of risk sharing for chattel loans – including private mortgage insurance and lender recourse. Risk sharing will encourage prudent origination and servicing consistent with Enterprise safety and soundness.

Development of a Secondary Market and Securitization Execution. An essential component of the purchase of loans on a flow basis is subsequent securitization. The Enterprises are operating under the objective of reducing their portfolio holdings. Thus, the buildout of a chattel purchase program on a flow basis necessitates the development of a functioning, cost-effective secondary market for such loans.

<u>Freddie Mac's Plan – Suggested Specific Modifications</u>

MHI recommends the following modifications to Freddie Mac's proposed Plan:

1. **CHATTEL LOAN PURCHASE TARGET – PILOT PROGRAMS**
   - Year 2 – increase to 830 loans ($50 million), instead of an unspecified amount.
   - Year 3 – increase to 1,660 loans ($100 million), instead of an unspecified amount.

2. **REAL PROPERTY PURCHASE TARGETS**
   - Year 1 – 5% increase over the current base, or 4,880 loans (instead of the proposed 2% to 4% increase in loan volume).
   - Year 2 – 15% increase over the current base, or 5,345 loans (instead of the proposed 2% to 6% increase in loan volume).
   - Year 3 – 25% increase over the current base, or 5,810 loans (instead of the proposed 4% to 8% increase in loan volume).

   Note: Target Levels could be revised to reflect market changes, such as interest rates.

3. **Add as an Additional Objective:**
   REVIEW G FEES/LLPAs – AND REDUCE AS APPROPRIATE.

4. **Add as an Additional Objective:**
   LENDER OUTREACH – WITH GOAL OF APPROVING 10 NEW SELLER-SERVICERS.

5. **Add as an Additional Objective:**
   BEGIN WORK ON DEVELOPING CHATTEL LOAN PURCHASES ON A FLOW BASIS.
   This should include (a) the development of underwriting guidelines for origination by experienced, well-capitalized seller-servicers of chattel loans for sale to Freddie Mac on a flow basis, (b) efforts to explore the use of risk sharing for chattel loans, and (c) substantive discussions with participants in the secondary market, in an effort to facilitate a secondary market for chattel loans.

6. **Extra Credit:**
   Extra credit should be awarded if Freddie Mac implements a program to purchase chattel loans on a flow basis during the 3-year Plan period.

Finally, MHI commends Freddie Mac for its research to date and the commitment in its Plan to develop more flexible underwriting guidelines, and make appropriate changes with respect to "borrower qualification, appraisal guidance, property use restrictions, land ownership designations, and product parameters to further support the expense of siting and installing the home."[1]

[1] Freddie Mac DTS Plan, May 8, 2017, page 16.

<u>Conclusion</u>

While research, meetings, and other "soft" Activities may be valid in the first year of the Plans, it is essential that in subsequent years the Plans focus 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 (d) carrying out a pilot program for purchase of chattel loans, and (e) good faith efforts to develop a program to purchase and securitize chattel loans on a flow basis.

As stated above, chattel loans finance eighty percent (80%) 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 direct the Enterprises to develop chattel loan product purchase guidelines and begin to purchase chattel loans no later than 2019.

MHI looks forward to its continued engagement with the Enterprises and FHFA to implement a successful Duty to Serve program for manufactured housing.

Sincerely,

Lesli Gooch

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