Mr. Jim Gray
Director, Duty to Serve Program
Federal Housing Finance Agency
400 7th St. SW
Washington, DC 20024



July 8 2017

Re: Comments regarding Duty to Serve Plans submitted by Fannie Mae and Freddie Mac in response to the Final Rule on Duty to Serve.

Pursuant to FHFA's request for Input regarding the Plans submitted by the Government Sponsored Enterprises (Fannie Mae and Freddie Mac) please accept the comments below as submitted by Richard Ernst, President of Financial Marketing Associates, Inc.

I have spent virtually all my career (45 years) in the finance and consulting field of the Manufactured Housing Industry. Some of my proudest accomplishments are:

- Representing a regional Midwestern bank in the origination and servicing of FHA, VA and Conventional Manufactured Housing Loans and originating over $300 million in loan volume.
- Creating a private loan conduit between a private financial services entity (The Associates Finance) and the Independent Community Bankers Association. This conduit resulted in over 400 community banks joining the program across the county, even including Alaska. Community banks could offer their customers longer term fixed rate loans for the purchase of manufactured housing with or without land. Once the loan was originated the banks would then sell their loans to Associates on a non-recourse basis and generate fee income for the bank. Further, the bank not only served a customer they otherwise would not have served and generated revenue for the bank, they also then could claim Community Reinvestment Act credit since these loans would be qualifying loans.
- Created a wholly owned finance subsidiary for Palm Harbor Homes that originated manufactured home loans with land and without land and negotiated loan sale agreements with 3rd party sources.
- Created a joint venture mortgage operation between three manufactured housing manufacturers and Wells Fargo Home Mortgage. This JV provided a consistent source of Construction Loan and permanent mortgage financing for the retailers and their customers.



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- With the passage of the SAFE Act created 3rd Party Service Provider Platform that delivered compliant loan origination and servicing for loans previously made and funded by land lease community operators.
- Provided consulting services to land lease communities across the country on the SAFE ACT, Dodd Frank Mortgage Lending rules and determined the best course of action in compliance with those new regulations.
- Served as Interim President of the Manufactured Housing Institute
- Served 3 terms as Chairman of the Financial Services Division of MHI
- Served as the Industry Spokesperson in an interview with PBS

Because of the experiences listed above, I trust my comments will reflect my detailed understanding of the objectives and work facing the Enterprises in developing a secondary market for chattel loan transactions which I believe is an absolute requirement in serving those borrowers in the very low, low and moderate-income brackets desiring to purchase manufactured housing.

The bulk of my comments will be on the plans for a pilot chattel program but I will start with comments regarding the Enterprises manufactured housing programs titled as real property.

**Manufactured Housing titled as Real Property**

Both Enterprises have considerable history of purchasing loans for manufactured housing titled as real property and have had excellent results from the comments made by the Enterprises. I've been told on several occasions that these loans perform virtually the same as their site built single family loans. Below is a list of initiatives that the Enterprises should seriously consider improving their volume of manufactured housing real estate loans.

- Both Enterprises should break out and publish: loan volume annually, portfolio performance (delinquency, default, and recovery) data. This data could go a very long way in building investor confidence in this specific loan product.
- Both Enterprises should redouble their educational efforts with appraisers to include, in the absence of comparable manufactured home transactions the use of site built homes for comparables.
- Both Enterprises should consider working with an independent third party to develop a database of new manufactured home sales that were sited on real property and obtained a real estate mortgage. This extremely valuable information is not captured because these sales are considered privately contracted and ineligible to be listed in the Multiple Listing Service. By the time these transactions are in the MLS (on a subsequent sale) they are often outdated and not reflective of the subject property.
- Fannie Mae has indicated they will be restarting a program introduced in 2007-2008 called "MH Select". I was personally involved in educating



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manufacturers and retailers about the advantages of this program and believed it had great promise. I believe the requirements need to be revisited to make sure they are not overly burdensome. Also, the Enterprises need to know how the requirements of the program might be even more problematic given HUD's overreach on AC (Alternate Construction Letters) and SC (Site completion inspection requirements)



- Finally, any additional Loan Level Pricing Adjustments added to these loans should be removed and any additional underwriting "overlays" should be removed. If these loans perform like their site built counterparts, then the programs should be the same.

**Chattel Pilot Program Proposals**

**FNMA**

My comments below are not to be construed as criticisms entirely but hopefully as constructive comments.

While several of the FNMA staff members have engaged with the industry and attended trade shows, national and regional meetings and conducted a series of roundtable discussions, my view is that many of those interactions are "one-way discussions". While I know they are listening, the feedback on their thought process and their views on what a program might look like or requesting specific input which would lead to an open dialogue would certainly give those of us involved a much better understanding of what is going on behind the scenes at FNMA.

I have heard many times that the manufactured housing industry and the financing is a "big black hole" and that there is very little data available publicly. That statement on its face should be obvious particularly since neither of the Enterprises offer a secondary loan purchase market for almost 80% of the loan transactions nor has the ABS market returned which I believe is strictly due to the smaller size of the opportunity. I mention this because I believe FNMA has not been open and engaging in detailed discussions of what their thought process is and what they see as their challenges or asking for dialogue to fully "flush" the issues out. It gives one the impression that FNMA is a grudgingly reluctant participant in even having to consider a Chattel Pilot and unfortunately, I think their proposed plan reflects that.

While Fannie Mae's plan has some specifics, there are many areas I would like them to address, not only the substance but the timing for addressing and solving.



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- In their plan to move forward with modest purchases in year 2, will they only purchase QM loans? If so do they have any statistical data from their real estate loans that would indicate how many very low, low and moderate-income borrowers can meet the critical QM tests i.e. Ability to repay; Debt to income ratio not to exceed 43%; full compliance with Appendix Q? Does restricting purchases to QM defeat in some ways DTS?
- Will their plan cover new, preowned and refinance?
- What will they require on valuations?
- Have they engaged PMI companies or other insurers for risk mitigation? What will the criteria be for loss sharing agreements?
- What will the maturities be?
- Is it their intent to securitize or utilize CRA to resell loans to institutions?
- One would assume they would automate underwriting if so when would that be developed?



Attending industry trade shows and conferences while welcome should count for very little in the way of DTS credit. It does nothing for the borrowers needing access to lower costs of capital, transfer of interest rate risk, more robust financing of preowned homes and a refinancing market. Their proposal to purchase $15-25 million in loans to gain "experiences" is woefully modest. At a minimum, they should purchase $100 million in seasoned loans in all credit brackets where the borrowers(s) meet the ATR (ability to repay), DTI (debt to income ratios); with the appropriate risk mitigation or loss sharing agreements in place and all loan terms i.e.; down payment, underwriting (QM) fully in place. This will give them actual data they can track and study the "habits" of chattel customers and the actual loan performance.

They should also develop within the first 12 months a flow purchase program with automated underwriting, program terms, and purchase eligibility. Their volume objective should be $50 million in year two and $100 million in year three. Business sectors should include new, preowned and refinancing and across the credit spectrum where very low, low and moderate-income borrowers are most prevalent.

Both Enterprises should be very cautious and only establish Seller Servicer relationships with lenders having experienced personnel in chattel finance and having the financial strength to stand behind any loss sharing or mitigation offered by the lender.



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I would also caution that any thought that either of the Enterprises would begin their pilot with purchases of only the higher credit quality loans would not be well received and frankly would not be of interest to lenders active in the market today. No lender wants to sell off their higher credit quality business and be left with the business sectors that have higher credit risk.



**Freddie Mac**

I am also disappointed with the pace or timetable to have a Pilot up and operating at Freddie Mac. The difference however is there is much more transparency and open dialogue with their Manufactured Housing Initiative Task Force. I recently finished a full day meeting with their task force where they detailed all the areas they are working on and the people charged with those efforts. Many of those efforts discussed should be in the plan with timetables established to reflect that the plan is on target to begin a flow program in year two.

All the areas I have outlined for Fannie Mae should also apply to specifics that should be in Freddie Mac's plan.

Freddie Mac knows they need help from experienced people and are reaching out to assemble the assets that can help bring the creation of a Pilot to a more certain conclusion. I am much more optimistic that their objective is the creation of a Pilot that mirrors a permanent program and is sustainable for the long term. That optimism comes from the meetings and interactions but should be outlined in the plan.

My previous comments regarding attendance at trade shows and industry meetings while appreciated and their visibility helps those in the industry who are not involved in the MHIT efforts to see a sincere effort to learn more about the industry. I again repeat that little DTS credit should be given for attending meetings and trade shows.

My previous comments regarding the purchase of seasoned loans ($100 million) to provide them the granular loan detail where they can turn their analysts loose on developing all the tracking data needed that then could be used in the Pilot structure seems to me the most prudent way to get off the ground and gain access to information in the development of a flow purchase program with approved seller servicers. Their goal should be $50 million in flow business loans in year two and $100 million in flow loans in year three. Business should be across the credit spectrum for borrowers meeting the QM requirements and should be for new, preowned and refinancing.



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I also want to personally acknowledge that my entire career has been in the private sector. It is clear to me that the government or quasi-government entities operate much differently.

I also must acknowledge and appreciate the resources that are being committed to this Plan. I am hopeful that the investment will finally yield a Chattel Loan purchase program that lays a new foundation for the future of manufactured housing finance and for the many families in need of affordable housing in this country. Manufactured housing is a key to beginning to solve this enormous problem.

Respectfully,

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