THE PEW CHARITABLE TRUSTS

2005 Market Street, Suite 2800
Philadelphia, PA 19103-7077
P 215.575.9050
F 215.575.4939

901 E Street NW, 10th Floor
Washington, DC 20004
pewtrusts.org
P 202.552.2000
F 202.552.2299

October 25, 2021

Office of the Director
Federal Housing Finance Agency
400 7th Street, S.W.
Washington, D.C. 20219

Re: Enterprise Equitable Housing Finance Plans Request for Input, September 2021

To Whom It May Concern:

Thank you for the opportunity to comment on the Federal Housing Finance Agency's (FHFA) Equitable Housing Finance Plans Request for Input. We write on behalf of The Pew Charitable Trusts, a global, non-governmental research and public policy organization dedicated to serving the public. In July 2020, The Pew Charitable Trusts launched its Home Financing project to study the dearth of small mortgages relative to the availability of low-cost site-built and manufactured homes, and the non-mortgage alternative arrangements Americans use to purchase homes when mortgages are not accessible.[1]

Research shows deep disparities in mortgage access by race and ethnicity. The homeownership gap between Black and White households is currently 28.1 percentage points, which is only slightly less than the all-time high of 30.8 percentage points attained in 2019.[2] Part of the reason for the disparities stems from the dearth of small mortgages—those that help borrowers finance the purchase of low-cost homes—which have been declining in recent years. This is true for all racial and ethnic groups, but Black and Hispanic borrowers have experienced a disproportionately large decline in small mortgage access over the last 15 years. Difficulties in accessing credit will likely have long-term impacts on the ability of these households to build intergenerational wealth.

These challenges are further exacerbated for families that want to finance the purchase of manufactured homes. As the largest source of unsubsidized affordable homes in the U.S., manufactured homes are a key source of housing for low- and moderate-income Americans.[3] However, manufactured home buyers face obstacles to obtaining safe, affordable financing, which can undermine the potential

---

[1] The Pew Charitable Trusts, "Home Financing," https://www.pewtrusts.org/en/projects/home-financing.
[2] Joint Center for Housing Studies of Harvard University, "The State of the Nation's Housing 2021" (2021), 3, https://www.jchs.harvard.edu/sites/default/files/reports/files/Harvard_JCHS_State_Nations_Housing_2021.pdf.
[3] Consumer Financial Protection Bureau, "Manufactured Housing Finance: New Insights from the Home Mortgage Disclosure Act Data" (2021), 3, https://files.consumerfinance.gov/f/documents/cfpb_manufactured-housing-finance-new-insights-hmda_report_2021-05.pdf.

of this housing stock as low-cost and affordable.[4] In a 2021 report on manufactured housing, the Consumer Financial Protection Bureau (CFPB) found strong evidence of disparities, including higher denial rates and higher interest rates for borrowers seeking to finance a manufactured home compared to a site-built home.[5]

Although most families use mortgages to finance the purchase of their homes, pending Pew research suggests that tens of millions of families have used nonmortgage alternative arrangements instead. These include lease-purchase agreements, land contracts, seller-financed mortgages, and personal property (chattel) loans for manufactured homes. Evidence shows these often introduce risk for buyers, such as hidden costs, threat of eviction, and a loss of equity.[6]

The pandemic and resulting recession have stressed existing problems in alternative financing and manufactured housing, but often these homeowners have been ignored in guidance or policy; for example, some federal and state housing assistance programs exclude buyers who did not use a mortgage to purchase their homes.[7]

Fortunately, there has been some movement at the state and federal levels to draw attention to these homeowners and include them in policy guidance and discussions. For example, the U.S. Department of Treasury is currently reviewing plans for its Homeowner Assistance Fund (HAF) guidance, which is notable because it explicitly includes homebuyers with land contracts and those with loans on their manufactured homes.[8] Measuring and reducing similar inequalities in the home financing market should be part of the vision for the Equitable Housing Finance Plans going forward.

In general, as FHFA and the Enterprises develop Equitable Housing Finance Plans, we encourage them to also focus on understanding which buyers use nonmortgage alternative financing arrangements, their pathways into those arrangements, and their experiences and outcomes.

Pew's responses to several of the questions from FHFA appear in the following pages. Though we are limiting our responses to topics we have examined, we are in the process of researching related housing issues. We look forward to engaging with FHFA, the Enterprises, lenders, advocates, and other stakeholders on these issues as they work toward a more equitable housing finance market in the coming months and years.

---

[4] The Pew Charitable Trusts, letter to Federal Housing Finance Agency, "Pew Suggests Ways to Improve the Manufactured Housing Market," July 15, 2021, https://www.pewtrusts.org/en/research-and-analysis/speeches-and-testimony/2021/07/16/pew-suggests-ways-to-improve-the-manufactured-housing-market.

[5] Consumer Financial Protection Bureau, "Manufactured Housing Finance," 4, 25.

[6] The Pew Charitable Trusts, "Risky Home Financing Options Leave Millions Vulnerable," Sept. 11, 2020, https://www.pewtrusts.org/en/research-and-analysis/articles/2020/09/11/risky-home-financing-options-leave-millions-vulnerable.

[7] N. Bourke and R. Siegel, "Protections for Owners of Manufactured Homes Are Uncertain," The Pew Charitable Trusts, Sept. 11, 2020, https://www.pewtrusts.org/en/research-and-analysis/articles/2020/09/11/protections-for-owners-of-manufactured-homes-are-uncertain-especially-during-pandemic.

[8] U.S. Department of the Treasury, "Homeowner Assistance Fund Guidance," Aug. 2, 2021, https://home.treasury.gov/system/files/136/HAF-Guidance.pdf.

Thank you again for the opportunity to comment on this request for input and for undertaking this essential work.

Sincerely,

Nick Bourke
Director, Consumer and Home Financing
The Pew Charitable Trusts
nbourke@pewtrusts.org | 202.552.2123

The request for input listed the following 12 questions:

1. How should measurable goals be selected and set by the Enterprises? For example, is a pursuing a small set of focused goals or a wide portfolio of goals better?
2. What data, information, or analyses would be helpful for the Enterprises to consider or use to support their plans?
3. How should the Enterprises undertake setting objectives, measurable goals, and meaningful actions to sustainably address the racial and ethnic homeownership gap?
4. How should the Enterprises undertake setting objectives, measurable goals, and meaningful actions for formerly redlined areas? How should such areas be defined?
5. What other objectives and measurable goals should the Enterprises pursue in their plans?
6. What constitutes a "meaningful" action, and what kinds of meaningful actions should be taken by the Enterprises under their plans?
7. How can the Enterprises and FHFA ensure that actions taken under the plans provide sustainable housing opportunities and are consistent with safety and soundness?
8. What should FHFA consider in overseeing the Enterprises' plans? Should FHFA provide a rating or some other public assessment? If so, how should the plans be assessed?
9. How should the plans interact with Duty to Serve, Housing Goals, or other requirements?
10. Could special purpose credit programs (as defined in 12 CFR 1002.8) be included in the Enterprises' plans? How should such programs be structured?
11. Are there additional or different required objectives and goals that FHFA should consider for future Enterprise plans?
12. What communities and stakeholders should the Enterprises consult with in developing their plans?

Our comments will broadly focus on questions 1, 2, 3, 5, 6, 8, 9, 11, and 12, with an emphasis on examining supply challenges in the small mortgage market, the lack of personal property (chattel) loan programs for manufactured homes, and prevalence of and challenges related to nonmortgage alternative financing. FHFA has articulated a thoughtful, non-exclusive list of objectives that can help sharpen the Enterprises' efforts to set measurable goals that advance equity in housing finance. Several objectives are broad in scope, and we think a similar kind of holistic perspective in the Enterprises' plans can help draw attention to parts of the market that have typically been underserved.

Small mortgages are on the decline; plans should seek to expand small mortgage lending

The availability of small mortgages—those below $150,000—has been on the decline since the early 2000s. Between 2009 and 2019, originations between $10,000 and $69,999 fell by 38% and originations between $70,000 and $150,000 fell by 26%.[9] In contrast, originations above $150,000 rose by 65%.[10] The decline in small mortgage originations is not due to a reduction in the number of low-cost homes available for purchase. Instead, research indicates that borrowers struggle to obtain small mortgages for their low-cost properties. For example, a recent Urban Institute analysis found that among low-cost counties in the United States, only 21% of home sales below $70,000 were financed with a mortgage, compared with 70% of home sales between $70,000 and $150,000.[11]

The lack of small mortgages presents a challenge to many mortgage-ready families across the country who rely on this funding to purchase low-cost homes.[12] Because homeownership is an important method of achieving economic stability and building wealth, barriers to small mortgage access may deepen financial disparities and contribute to wealth inequality. This is particularly true since small mortgage applicants tend to have lower incomes than other mortgage applicants.[13]

One factor contributing to the low supply of small mortgages is the disproportionately high denial rate for these loans. An Urban Institute analysis indicates that small mortgages are denied more frequently than large mortgages in both the conventional and government channels.[14] In 2017, the real denial rate for loans between $10,000 and $70,000 was 52%, compared to 35% for loans between $70,000 and $150,000 and 29% for loans worth more than $150,000.[15] Differences in the real denial rate were not due to applicants' income or credit score, which indicates that these loans are being denied due to their size.[16]

One explanation for the higher denial rates is that small mortgages have comparatively high origination and servicing costs relative to larger mortgages. These higher costs may make it difficult for lenders to

---

[9] B. Eisen, "Small Mortgages Are Getting Harder to Come By," *The Wall Street Journal*, May 9, 2019, https://www.wsj.com/articles/small-mortgages-are-getting-harder-to-come-by-11557394201.

[10] ibid.

[11] B.B. Alanna McCargo, Taz George, Sarah Strochak, "Small-Dollar Mortgages for Single-Family Residential Properties" (Urban Institute, 2018), 10, https://www.urban.org/research/publication/small-dollar-mortgages-single-family-residential-properties. According to an Urban Institute analysis, in counties with the highest concentration of low-cost homes, nearly 34 percent of households are renters, therefore potential homeowners have the lowest median income ($29,000) and highest minority share (35 percent) compared with other households.

[12] A. Horowitz and T. Roche, "Small Mortgages Are Hard to Get Even Where Home Prices Are Low," The Pew Charitable Trusts, Sep. 11, 2020, https://www.pewtrusts.org/en/research-and-analysis/articles/2020/09/11/small-mortgages-are-hard-to-get-even-where-home-prices-are-low.

[13] The Urban Institute, "Small-Dollar Mortgages for Single-Family Residential Properties", April 25, 2018, 16, https://www.urban.org/research/publication/small-dollar-mortgages-single-family-residential-properties/view/full_report.

[14] L. Goodman, B. Bai, and W. Li, "Real Denial Rates: A Better Way to Look at Who Is Receiving Mortgage Credit" (working paper, Urban Institute, 2018), 19-20, https://www.urban.org/sites/default/files/publication/98823/real_denial_rates_1.pdf.

[15] Ibid., 20. The real denial rate is calculated by excluding from the calculation high-credit-profile borrowers, whose credit profiles are strong enough that their mortgage applications are unlikely to be denied by lenders–in other words they have a zero-denial rate. Instead, the observed denial rate is calculated by comparing only the number of loans denied versus mortgages received by low-credit-profile borrowers–those whose applications might be denied.

[16] Ibid., 2-4.

profitably originate these loans. Loan production expenses were $8,243 per loan in 2020, while the average per-loan servicing cost has tripled since the pre-Great Recession period.[17]

Disparities in mortgage access—including small mortgage access—limit the ability of Black and Hispanic households to accumulate intergenerational wealth.[18] From 2009 to 2016, Black borrowers received only 7% of all small mortgages originated, while Hispanic and Asian borrowers received 10% and 2% of small mortgages, respectively, even though they account for larger shares of the U.S. population overall.[19] Although more research is needed to understand the distributional impacts of the ongoing decline in small mortgages, it is likely that an affirmative expansion of small mortgage access will broadly benefit historically underserved and disinvested communities.

FHFA and the Enterprises have already taken several steps to boost small mortgage lending. For example, Fannie Mae's decision to allow the inclusion of positive rent payment history in its risk assessment processes will help expand access to credit to a wider pool of borrowers.[20] Furthermore, FHFA's decision to expand the use of desktop appraisals may reduce turnover times and the overall cost of originating small loans.[21] Going forward, FHFA and the Enterprises should continue to prioritize small mortgage lending to financially capable borrowers. This would help reduce racial and ethnic disparities in homeownership and help borrowers avoid common pitfalls with nonmortgage alternative financing.

(Continued on next page.)

---

[17] Mortgage Bankers Association, "Retail Production Channel: Cost to Originate," Mortgage Bankers Association, July 23, 2021, https://www.mba.org/news-research-and-resources/research-and-economics/chart-of-the-week/chart-of-the-week-archive; J. Kan and M. Walsh, Mortgage Bankers Association, "M.B.A. Economic and Mortgage Finance Outlook" (presentation, MBA's National Servicing Conference and Expo 2019, Orlando, FL), https://www.mba.org/Documents/Market%20Outlook(2).pdf; Mortgage Bankers Association, "In-House Servicer Direct Servicing Costs by Function in 2020," Mortgage Bankers Association, June 4, 2021, https://www.mba.org/news-research-and-resources/research-and-economics/chart-of-the-week/chart-of-the-week-archive.

[18] A. McCargo and J.H. Choi, "Closing the Gaps; Building Black Wealth through Homeownership" (The Urban Institute; Housing Finance Policy Center, 2020), 1-3, https://www.urban.org/sites/default/files/publication/103267/closing-the-gaps-building-black-wealth-through-homeownership_1.pdf.

[19] A. McCargo et al., "Small-Dollar Mortgages for Single-Family Residential Properties" (Urban Institute, 2018), https://www.urban.org/research/publication/small-dollar-mortgages-single-family-residential-properties.

[20] Fannie Mae, "Fannie Mae Introduces New Underwriting Innovation to Help More Renters Become Homeowners," accessed Oct 21, 2021, Aug 11, 2021, https://www.fanniemae.com/newsroom/fannie-mae-news/fannie-mae-introduces-new-underwriting-innovation-help-more-renters-become-homeowners.

[21] Federal Housing Finance Agency, "FHFA Announces Two Measures Advancing Housing Sustainability and Affordability," news release, Oct 18, 2021, https://www.fhfa.gov/Media/PublicAffairs/Pages/FHFA-Announces-Two-Measures-Advancing-Housing-Sustainability-and-Affordability.aspx; M. Neal et al., "How Automated Valuation Models Can Disproportionately Affect Majority-Black Neighborhoods" (Urban Institute, 2020), https://www.urban.org/research/publication/how-automated-valuation-models-can-disproportionately-affect-majority-black-neighborhoods. FHFA should take care, however, not to worsen appraisal gaps often associated with the purchase of low-cost homes or exacerbate existing wealth gaps. Given that desktop appraisals rely on publicly available data, this may result in the property being undervalued if the information in public records is not current, if there is no comparable sales data (like in rural areas), or if the property is in a neighborhood with many foreclosures. Conversely, if the property is in disrepair, the buyer could end up paying a large sum in repair costs in addition to the mortgage charges. For example, see Urban Institute's report on the impact of automatic valuation models on majority-Black neighborhoods.

Because nonmortgage alternative financing is plagued with risks and harmful outcomes, plans should emphasize increasing the availability of small mortgages while maintaining a cautious approach to nonmortgage alternatives

Though most people use a mortgage to pay for their home, tens of millions have used nonmortgage alternative financing arrangements.[22] As shown below, research suggests that these alternative arrangements are risky and that Black, Hispanic, and Indigenous homeowners are more likely than others to use them.[23] One factor driving these borrowers—many of whom can afford monthly payments for their housing—to alternative financing is a lack of mortgages, especially for amounts less than $150,000.[24] Thus, sellers frequently market these options as alternative pathways to homeownership.[25]

There are several reasons for the decline in small mortgages including, as noted above, high denial rates and fixed origination and servicing costs. The quality of the low-cost housing stock might also contribute to low levels of mortgage lending, since distressed and uninhabitable properties may not qualify for a certificate of occupancy as required by some mortgage lenders.[26] Research suggests that the dearth of small mortgages has encouraged otherwise financially capable borrowers to turn toward alternative arrangements, which are often riskier and have higher costs.[27]

These arrangements include land contracts, lease-purchase agreements, seller-financed mortgages, and personal property (chattel) loans for manufactured homes. Often pitched as another pathway to homeownership, nonmortgage alternative financing can lead to harmful outcomes for homebuyers.

Typical alternative financing arrangements differ from mortgages in important ways.[28] In some of these arrangements, the buyer lacks clear ownership of the property because transactions are not recorded or because the seller—and not the buyer as would be the case for a traditional mortgage transaction—holds the title or deed to the home for the duration of the financing term. In other instances, such as seller-financed mortgages and personal property (chattel) loans for manufactured homes, the seller gives the buyer the title or deed at the time of sale, but other consumer protection issues can arise.

---

[22] Pending Pew research estimates that tens of millions of families have used nonmortgage alternative financing to pay for their home.

[23] A. Carpenter, T. George, and L. Nelson, "The American Dream or Just an Illusion? Understanding Land Contract Trends in the Midwest Pre- and Post-Crisis" (Joint Center for Housing Studies of Harvard University, 2019), https://www.jchs.harvard.edu/sites/default/files/media/imp/harvard_jchs_housing_tenure_symposium_carpenter_george_nelson.pdf. A. Carpenter, A. Lueders, and C. Thayer, "Informal Homeownership Issues: Tracking Contract for Deed Sales in the Southeast" (Community and Economic Development Department, Federal Reserve Bank of Atlanta, 2017), https://www.frbatlanta.org/-/media/documents/community-development/publications/discussion-papers/2017/02-informal-homeownership-issues-tracking-contract-for-deed-sales-in-the-southeast-2017-06-14.pdf.

[24] Alanna McCargo, "Small-Dollar Mortgages for Single-Family Residential Properties."

[25] H.K. Way, "Informal Homeownership in the United States and the Law," *Saint Louis University Public Law Review* XXIX, no. 113 (2010): 113-92, https://law.utexas.edu/faculty/hway/informal-homeownership.pdf.

[26] J. Akers and E. Seymour, "Portfolio Solutions, Bulk Sales of Bank-Owned Properties, and the Reemergence of Racially Exploitative Land Contracts," Cities 89 (2019): 46-56, https://www.sciencedirect.com/science/article/pii/S0264275118308345; U.S. Department of Housing and Urban Development, "Fha Single Family Housing Policy Handbook 4000.1" (2019), https://www.hud.gov/program_offices/housing/sfh/handbook_4000-1.

[27] ibid.

[28] The Pew Charitable Trusts, "Risky Home Financing Options Leave Millions Vulnerable."

Many jurisdictions do not consider buyers to be homeowners if they do not have the title or deed in hand. This makes the arrangements legally ambiguous, and buyers can have difficulty establishing ownership or responsibility for property taxes and maintenance. Since these arrangements generally lack the consumer protections afforded to mortgage borrowers, they can introduce a variety of other risks for buyers. Pew conducted dozens of in-depth interviews with legal aid professional across the country and examined the relevant literature in this space and found the lack of consumer protections is widespread and can lead to a host of issues for buyers: inflated sales prices, above-market interest rates, hidden costs or fees, substandard housing quality, the inability to receive the title at the end of the contract, few jurisdictions that require pre-sale appraisals, lack of disclosure about existing liens, and increased risk of eviction or foreclosure.[29]

About half of states have a land contract law on the books; about a dozen require the contracts to be filed with the appropriate recorder of deeds; and only one state has explicitly stated habitability requirements, which even then can leave habitability to be defined between the seller and buyer. In short, most Americans live in states that do not provide substantive consumer protections for those using nonmortgage alternative arrangements.

In contrast to evidence of risks and harms, research into benefits associated with alternative financing has been limited. Not enough is known about potential benefits of alternative financing, its prevalence, the costs that borrowers incur, or how many buyers ultimately end up holding clear title to their homes. This may be driven by the lack of positive experiences, the absence of systematic data on borrower outcomes (recordation of contracts), or a combination.[30]

What is clear is that, irrespective of the type of home, without the benefit of standard protections that the law gives to mainstream mortgage borrowers, consumers who use alternative financing arrangements can face steep challenges. This problem disproportionately affects certain communities and borrowers. For example, research shows that land contracts, in particular, continue to be particularly prevalent in the Midwest and Southeast, especially in communities of color.[31] One major study found that land contracts are disproportionately common in Black neighborhoods. Another found that contract sellers bought more foreclosed homes on land contracts in areas with large numbers of Black residents compared with predominantly White neighborhoods.[32] In discussions with Pew, legal aid professionals often remarked that these arrangements were more prevalent in Black and Hispanic

---

[29] A. Carpenter, A. Lueders, and C. Thayer, "Informal Homeownership Issues: Tracking Contract for Deed Sales in the Southeast" (Community and Economic Development Department, Federal Reserve Bank of Atlanta, 2017), https://www.frbatlanta.org/-/media/documents/community-development/publications/discussion-papers/2017/02-informal-homeownership-issues-tracking-contract-for-deed-sales-in-the-southeast-2017-06-14.pdf; Carpenter, George, and Nelson, "The American Dream or Just an Illusion?."

[30] D. Immergluck and P. Schaeffing, "Responsible Lease-Purchase: A Review of the Practice and Research Literature on Nonprofit Programs" (Social Science Research Network, 2010), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1691194. One example of research that has explored potential benefits focused on homeownership models that nonprofits are testing, including rent-to-own and shared equity.

[31] Carpenter, George, and Nelson, "The American Dream or Just an Illusion?."; H.K. Way, "Informal Homeownership in the United States and the Law," *Saint Louis University Public Law Review* XXIX, no. 113 (2010): 113-92, https://law.utexas.edu/faculty/hway/informal-homeownership.pdf.

[32] Akers and Seymour, "Portfolio Solutions." ibid.

communities, and clients that did not speak English as a first language face additional hurdles as these contracts usually are not offered in other languages.

In sum, available research suggests that alternative arrangements are often a poor substitute for conventional financing and that many borrowers who use alternative arrangements can afford to make the monthly payments necessary to repay a small mortgage. This warrants a policy approach that emphasizes increasing the availability of small mortgages while maintaining a cautious approach to nonmortgage financing alternatives. However, it would be premature to conclude that nonmortgage alternative financing arrangements are universally harmful to consumers. More analysis is needed to understand why some buyers choose alternative arrangements and to what extent the perceived benefits of those arrangements materialize.

Equitable Housing Finance Plans should reflect and expand on similar objectives in Duty to Serve

Manufactured housing finance is more complex than site-built housing financing in many ways due to the variation in land ownership options and loan semantics. Under Duty to Serve, the Enterprises have made strides in buying manufactured home mortgages and improving tenant protections; however, there are opportunities to explore additional changes and addressing these issues could significantly improve consumer outcomes. Pew has previously submitted comments on the Duty to Serve plans.[33] Below is a selection of those comments as they relate to FHFA's Equitable Housing Finance Plans Request for Information.

Manufactured home buyers face unique hurdles accessing financing

Personal property loans are used by 42% of buyers purchasing a manufactured home–some of whom also own their land and could have used a mortgage.[34] These loans are typically more expensive than traditional mortgages, lack the same quality of consumer protections, and may have limited access to federal and state homeowner support programs.[35] According to CFPB research, personal property loan and manufactured home mortgage borrowers have similar household finances yet, in 2019, the median interest rate on a personal property loan was 8.6% compared with 4.9% for manufactured home mortgage loans.[36] On a $70,000 loan over 20 years that amounts to nearly $37,000 more in interest over the life of the loan. For these reasons, the Enterprises should be concerned about the difficulties consumers face in accessing mortgages on manufactured homes and consider if their participation in a secondary market for personal property loans could reduce borrower costs.

Disparities exist across different parts of the manufactured home financing market and are often worse compared to the site-built market–from higher denial rates to higher interest rates if approved.

---

[33] https://www.pewtrusts.org/en/research-and-analysis/speeches-and-testimony/2020/10/23/pew-encourages-expanded-access-to-mortgages-stronger-consumer-protections-for-low-income-homebuyers.
[34] Consumer Financial Protection Bureau, "Manufactured Housing Finance," 14.
[35] Bourke and Siegel, "Protections for Owners of Manufactured Homes Are Uncertain."
[36] Consumer Financial Protection Bureau, "Manufactured Housing Finance," 25.

According to the CFPB, Hispanic, Black, and Indigenous borrowers are disproportionately more likely than other borrowers to use personal property loans.[37] Further, denial rates are far higher for manufactured home applications (including personal property loans and mortgages) than for site-built mortgage applications. Specifically, denial rates are 33% for manufactured home mortgages and 50% for personal property loans compared to 7% on mortgages for site-built homes. Manufactured home buyers with super-prime credit scores (720 or above) are more likely to be denied for a loan than site-built buyers with subprime scores (under 620).[38] These higher denial rates for manufactured home loans suggest that demand far surpasses the available financing.

For these and other reasons (such as regulatory and zoning constraints) manufactured housing appears to be failing to reach its potential to improve financial and housing stability, not only for the 17.5 million people who currently live in these homes, but also for other families struggling with rising rents and untenable home prices in the absence of more affordably priced homes.[39] The Mortgage Bankers Association has identified the lack of a secondary market for personal property loans as a hurdle for lenders to finance manufactured home purchases due to liquidity constraints.[40] It is a key challenge that prevents manufactured housing from keeping pace with the demand for low-cost homes, but the Enterprises have not launched a personal property loan pilot program to study the performance of such loans and possibly stimulate a functional secondary market that supports costs savings or better consumer outcomes. In particular, because Black, Hispanic White, and Indigenous families are more likely to use personal property financing than other families (even holding landownership constant), excluding the personal property (chattel) loan segment of the manufactured home financing market disproportionately excludes minority families.[41]

Need to improve manufactured home real property titling

Available research suggests that automatically titling manufactured homes as personal property—a practice that occurs in the vast majority of states—prevents buyers from accessing mortgages. In 2019, 76% of new manufactured homes were titled as personal property even though a majority of those who financed also owned their land and instead could have qualified for a mortgage.[42]

While retitling manufactured homes as real property is required in most states to access mortgages, the retitling process is onerous, expensive, and may not demonstrate clear benefits for owners. This likely leads to disparities in mortgage access as evidenced by the higher share of Black, Hispanic, and Indigenous families using personal property loans. But the Enterprises have only taken steps to purchase

[37] Ibid., 5.
[38] Ibid., 16, 41.
[39] Center for Housing Research, Virginia Tech, "Regulatory Barriers to Manufactured Housing Placement in Urban Communities" (xi-xii, https://www.huduser.gov/portal/publications/mfghsg_hud_2011.pdf; Consumer Financial Protection Bureau, "Manufactured Housing Finance," 8.
[40] S.A. O'Connor, senior vice president, public policy and industry relations, Mortgage Bankers Association, letter to Federal Housing Finance Authority, "Re: Chattel Financing of Manufactured Homes Request for Input," March 20, 2017, https://www.fhfa.gov/forms/Lists/DTSChattelList/Attachments/26/MBA%20Response%20to%20FHFA%20Chattel%20RFI%20FINAL.pdf.
[41] Consumer Financial Protection Bureau, "Manufactured Housing Finance," 31.
[42] Ibid., 14.

mortgages for manufactured homes titled as real property.[43] It is also noteworthy that Fannie Mae is expanding its pilot mortgage loan program for manufactured homes located in resident-owned communities and exploring the purchase of mortgage loans for homes on leasehold land.[44] Successful pilot programs that facilitate a secondary market for mortgages on manufactured homes could improve the supply of such loans, thereby improving access for buyers and owners to these less expensive and better protected loans.

Lending for manufactured homes on tribally owned lands

Indigenous households are more reliant on manufactured housing and personal property loans than other consumers, in large part due to requirements around titling of tribally owned lands. However, Freddie Mac proposes meeting the needs of this population by trying to use real property mortgage financing even as they lay out why this is unlikely to succeed.

Over 75% of American Indian or Alaska Native loan applications in census tracts primarily on tribally owned lands were for loans to finance a manufactured home.[45] Freddie Mac notes that mortgage lenders struggle originating loans to purchase these properties for two reasons: 1) because of "complexities of land ownership where the land may be held in trust by the federal government, interacting with tribal courts and tribes, competing environmental reviews, obtaining title status reports, and difficulties in obtaining appraisals;" and 2) because mortgage "product adoption [by lenders] may be slower than expected" due to market conditions.[46] These land ownership and market dynamics have historically excluded Indigenous Peoples from mortgage financing.

Our preliminary research in this field also suggests that more could be done to improve the market for personal property loans. Fannie Mae's proposal mentioned continued willingness to work with FHFA, "to understand safety and soundness considerations and the viability" of a personal property loan pilot. We encourage this process, especially if it provides more publicly available research findings including information about loan performance. A well-designed pilot for safe and affordable personal property loans would be relatively small in overall investment, as these loans tend to be under $100,000. If successful, a pilot could demonstrate ways to stimulate a broad secondary market for personal property loans that is systemically sound and beneficial to consumers in terms of lower costs and improved outcomes.[47]

---

[43] Federal Housing Finance Agency; Division of Housing Mission and Goals, Request for Input: Fannie Mae and Freddie Mac Proposed 2022-2024 Duty to Serve Plans, (2021), 5, 8, https://www.fhfa.gov/PolicyProgramsResearch/Programs/Documents/RFI-Proposed-2022-24-DTS-Plans.pdf.
FN_MH_RealProp_1: Acquire Purchase Money Mortgage (PMM) Loans Secured by MHRP and FR_MH_Real Prop_A: Increase Single-Family Loan Purchases of Manufactured Housing Titled as Real Property
[44] FN_MH_RealProp_2: Explore Opportunities to Facilitate Financing of Loans Secured by MHRP Located in Certain Manufactured Housing Communities
[45] R.M. Todd, "Race, Location, and Manufactured-Home Loans on American Indian Reservations" (Federal Reserve Bank of Minneapolis, 2018), https://www.minneapolisfed.org/article/2018/race-location-and-manufactured-home-loans-on-american-indian-reservations.
[46] Freddie Mac, "Freddie Mac Duty to Serve Underserved Markets Plan for 2022-2024" (2021), MH9, MH11, https://www.fhfa.gov/PolicyProgramsResearch/Programs/Documents/FRE-2022-24-proposed-UMP.pdf.
[47] O'Connor, letter.

Alternative financing borrowers are often omitted from federal and state protections and programs; while progress has been made, plans should ensure routine evaluation of disparities in eligibility criteria between nonmortgage financing arrangements and mortgages

Alternative financing borrowers living in site-built homes and those with manufactured homes titled as personal property are often left out of federal and state protections and programs because they do not have federally backed mortgages. For example, virtually none of these arrangements was eligible for the federal COVID-19 protections in the CARES Act, and they were largely omitted from pandemic-related legislation at the state level.[48] This is deeply troubling given that the low- and moderate-income families who live in manufactured housing tend to work in industries that lost the most jobs during this crisis and are therefore more likely to suffer the consequences of the recession than site-built homeowners.[49]

However, in the past year, other agencies have called attention to these issues. In March 2021, the CFPB issued a report on housing challenges during the pandemic and noted the need for more research on borrowers in alternative arrangements, such as land contracts.[50] And currently the U.S. Department of Treasury is reviewing plans for its HAF guidance. Specifically, this guidance will provide almost $10 billion in federal assistance to homeowners experiencing financial hardship in eligible states, territories, and tribally owned lands. Homeowners must meet certain criteria, which includes those with land contracts or a loan on their manufactured home. This broad definition of homeowner includes some of the most financially vulnerable homeowners who are often ignored in policy.[51]

These are positive steps that include manufactured home owners who finance their purchase with a personal property loan and those in alternative financing arrangements. We encourage the Enterprises to evaluate disparities in consumer protection standards and program eligibility requirements between nonmortgage financing arrangements and mortgages more broadly and on a routine basis.

Next steps

As the Enterprises develop their plans, we encourage them to maintain a focus on the variety of ways in which people are financing their homes—particularly in communities where mortgage access is limited in some way—and address the unique, but related, disparities associated with each of them. Connecting with prospective homebuyers and those working with these borrowers to learn more about the options available to them when considering a home purchase will help inform the Enterprises' questions and plans regarding improving access to small mortgages and increasing safety and quality of nonmortgage alternative financing options. Lastly, we suggest the Enterprises begin with a publicly available baseline assessment of disparities and inequities in home financing today before laying out the objectives and goals.

---

48 The Pew Charitable Trusts, "Protections for Owners of Manufactured Homes Are Uncertain."; J.J. Choi and L. Goodman, "22 Million Renters and Owners of Manufactured Homes Are Mostly Left out of Pandemic Assistance" (2020), https://www.urban.org/urban-wire/22-million-renters-and-owners-manufactured-homes-are-mostly-left-out-pandemic-assistance.

49 Choi and Goodman, "22 Million Renters and Owners of Manufactured Homes Are Mostly Left out of Pandemic Assistance."; Bourke and Siegel, "Protections for Owners of Manufactured Homes Are Uncertain."

50 Consumer Financial Protection Bureau, "Housing Insecurity and the Covid-19 Pandemic" (2021), 20, https://files.consumerfinance.gov/f/documents/cfpb_Housing_insecurity_and_the_COVID-19_pandemic.pdf.

51 U.S. Department of the Treasury, "Homeowner Assistance Fund Guidance."

Further, we encourage the Enterprises to consider these objectives, especially as they relate to nonmortgage alternative financing borrowers and manufactured home residents.

1. **Housing quality.** Conducting, and making available publicly, research and data on the quality of low-cost homes, the extent to which housing quality drives small mortgage denials and use of nonmortgage alternatives, and what is needed to bring the quality of low-cost homes up to standards required for mortgage eligibility.
2. **Lease-purchase market and outcomes.** Conducting, and making available publicly, research and data on the rapidly expanding rent-to-own/lease-purchase market, including investigation of the rate at which residents ultimately secure mortgages—particularly Federal Housing Administration loans—and convert to homeownership as well as the factors that impact that rate, such as underwriting standards and housing quality.
3. **Personal property loan research and pilot programs.** Conducting, and making available publicly, research and data resulting from the Enterprises' 2018-2021 plans regarding the personal property loan market and the feasibility of and challenges to launching a pilot program. Considering also the opportunity to learn more about personal property (chattel) lending for Indigenous Peoples on tribally owned lands through a targeted pilot program.
4. **Small mortgages.** Focusing on opportunities to learn from lender data, e.g., an evaluation of Fannie Mae's rental payment history underwriting program and a regular review of outcomes from FHFA's recent change to permanently allow the option of desktop appraisals. Considering pilot programs, particularly on underwriting, to better understand challenges lenders face making small mortgages. Reviewing policies and practices to identify any barriers or impediments to supporting, facilitating, and making available small mortgages.

In the coming months, Pew will be publishing new data on the share of Americans who have used nonmortgage alternative financing to purchase a home and more details on applications and denials for manufactured home buyers. Future work will explore homeowners' pathways into alternative financing, their experiences, and outcomes, as well as challenges lenders face expanding the supply of small mortgages.

We thank you again for the opportunity to comment on this Request for Information and look forward to continuing to engage with FHFA, the Enterprises, lenders, housing advocates, and other researchers, as your plans develop.

# # # #