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March 11, 2022

Federal Housing Finance Agency
Office of the Director
Tenth Floor, 400 Seventh Street, S.W.
Washington, D.C. 20219

Attn: Strategic Plan for Fiscal Years 2022-2026 RFI

Dear Director Thompson,

On behalf of Next Step, I am pleased to comment on the Federal Housing Finance Agency's (FHFA) request for input on their Strategic Plan for Fiscal Years 2022-2026. FHFA, in its role as conservator and regulator of the Enterprises, has a critically important role in creating fair and equitable homeownership opportunities in diverse and underserved communities across the country.

Next Step® Network, Inc., is a national, nonprofit housing intermediary that promotes the expanded use of factory-built housing as a viable solution to address housing affordability. Our organization mobilizes a national network of mission-driven nonprofits, leaders in the manufactured housing industry, and lending institutions serving home buyers and homeowners in their communities. Next Step's system—Manufactured Housing Done Right®—connects responsible financing, comprehensive homebuyer education, and delivery of high-quality, ENERGY STAR® manufactured homes at scale, creating a model that brings more value to homeowners and communities.

The opportunity to own a home is the bedrock of wealth creation and equity building for American families. However, we face unprecedented challenges that create barriers to homeownership. The COVID-19 pandemic has exposed the fragility of international supply chains, driving costs of raw components necessary to homebuilding. Outmoded zoning models, combined with prejudice against affordable housing projects, have helped create an environment where homes priced for low- to moderate-income buyers are rapidly disappearing. The Black homeownership rate in America is lower than a decade ago.¹ The

¹ National Association of Realtors. "A Snapshot of Race and Home Buying in America." Accessed on March 2, 2022 (<https://www.nar.realtor/research-and-statistics/research-reports/a-snapshot-of-race-and-home-buying-in-america>).



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climate crisis is no longer theoretical. We live with it every day, and reports detail that the impact of unchecked climate change will prove disastrous for communities across the U.S.²

In the face of these challenges, there is opportunity. Our current housing situation demands a swift, coordinated response by government, private sector, nonprofit, and community partners.

FHFA is uniquely poised to be a leader in this effort. In the next five years, FHFA – working in concert with its regulated entities – can set the stage for a new, egalitarian revival of American homeownership. Next Step and our partners believe that the innovations present at the intersection of homebuilding and factory construction can play a significant role in this revival.

Strategic Goal 1: Secure the regulated entities' safety and soundness

Objective 1.4: Identify options for incorporating climate change into regulated entity governance

Next Step believes that there are proactive measures that FHFA can take to mitigate the impact of climate change effects, severe weather events, and natural disasters on housing.

Residential energy use accounts for roughly 20 percent of greenhouse gas emissions in the United States.³ As we examine our impact on climate change, there is an urgent need to reassess the processes that govern single-family home construction and energy-efficiency standards for all new homes. Manufactured homes present an opportunity to mitigate excess waste created by new home construction and lower greenhouse gas emissions generated by individual households.

Compared to site-built, single-family home development, building homes in a factory environment dramatically reduces the amount of waste and excess material generated by construction. Clayton Homes, the largest homebuilder in the manufactured housing market, has garnered ISO 14001 certification (greener building guidelines for companies to follow to reduce energy use and waste) at 40 of their home building facilities and 11 of their supply facilities across the country.⁴

Individual manufactured homes can be constructed to meet stringent energy-efficiency standards. Manufactured homes can be built to meet ENERGY STAR® certifications standards,

² Associated Press. Washington Post. "Every second counts": Global reactions to UN climate report." Accessed on March 2, 2022 (https://www.washingtonpost.com/world/every-second-counts-global-reactions-to-un-climate-report/2022/02/28/020c5714-9896-11ec-9987-9dceee62a3f6_story.html)

³ Goldstein, B., Gounaridis, D., and Newell, J. (2020, July 20). The carbon footprint of household energy use in the United States. Retrieved March 2, 2022, from <https://www.pnas.org/content/117/32/19122>

⁴ Clayton Homes (2020, March 30). What is ISO 14001? Retrieved March 2, 2022, from <https://www.claytonhomes.com/studio/what-is-iso-14001/>



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lowering the number of home emissions and saving households up to 30 percent on their home energy costs. Innovations in home energy standards are also applicable to manufactured home construction. In testing the efficacy of building and placing manufactured homes that qualify for Zero Energy Ready Home certification, the Levy Partnership determined that homes built to this standard can have significant energy, cost, and emissions impacts with average reductions of 50 percent in conditioning energy, 53 percent in whole-home CO₂ emissions, and 28 percent in utility bills.⁵

Manufactured homes should also be part of the long-term solution for sustainable housing in a post-disaster environment and not merely be viewed as expendable, temporary housing. Using smart, energy-efficient manufactured homes in this way is not unprecedented. Immediately following Superstorm Sandy, the Robin Hood Foundation partnered with the nonprofit organization Affordable Housing Alliance in Monmouth County, New Jersey, and Next Step to place quickly and affordably 22 new, ENERGY STAR[®]-qualified homes in the Pine Tree Community of Eatontown, New Jersey. This work was completed before a single, new site-built home was constructed in the wake of the storm's damage.

Strategic Goal 2: Foster housing finance markets that promote equitable access to affordable and sustainable housing

Objective 2.1: Promote sustainable access to mortgage credit

As both Enterprises work to address and resubmit their 2022-2024 Duty to Serve Plans, FHFA should encourage Fannie Mae and Freddie Mac to consider the needs of individuals seeking to purchase a manufactured home – particularly first-time homebuyers – by investing in expanded access to housing counseling services and homebuyer education. The development of pilot programs in these spaces can help determine the effectiveness in creating more sustainable homeownership leveraging counseling services and down payment assistance.

Prospective homebuyers who receive education and counseling services are empowered to make the best finance and purchase decisions for themselves and their families – creating a path to wealth creation through homeownership. The Enterprises should also explore the impact of down payment assistance for manufactured home purchases to better facilitate the homeownership needs for American families.

⁵ The Levy Partnership, Inc. (2020, October 1). Zero Energy Ready Certified Manufactured Homes. Retrieved March 2, 2022, from https://static1.squarespace.com/static/5a5518914c0dbf4226cd5a8e/t/60072ceeb3a2649ecf61e2c/1611082991296/Final+Report_ZERMH_TLP_10.22.20+-+comp.pdf



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A down payment remains the primary obstacle for 77 percent of first-time home buyers. Our partners at Down Payment Resource report that only 26 percent of down payment assistance programs in their database allow for manufactured housing.

The Enterprises should also make explicit in their plans efforts to increase awareness of their manufactured home loan products to lower-income communities of color and in immigrant communities. The inherent affordability of manufactured homes can help close the homeownership gaps in these communities, fostering improved racial equity in the housing market. By building and supporting coalitions of housing and community-based organizations, the Enterprises can ensure that prospective manufactured home buyers have access to the tools and wraparound services they need to achieve homeownership success.

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 space. Our organization and partners remain firmly rooted in the belief that manufactured housing can be a primary solution to address both the supply and affordability gap. Continued and expanded participation by both Enterprises in the manufactured housing space can help bring scalable solutions to better address the housing needs of all Americans.

We are pleased that FHFA has asked both Fannie Mae and Freddie Mac to reconsider and submit revised Duty to Serve proposed plans for 2022 through 2024. The initial proposed plans were woefully inadequate, representing a retrenchment from the incremental progress of the first plan cycle as the affordable housing crisis and the racial wealth gap worsen.

Both Enterprises must significantly increase their target loan volumes in their 2022-2024 Plans to affect a shift toward mortgage-titled home purchases, as opposed to higher-cost home-only loans. The current targets as proposed are woefully inadequate to affect this shift.

In 2020, Freddie Mac purchased 6,634 single-family manufactured home loans, representing just seven percent of manufactured home shipments made that year. Fannie Mae's 8,798 loan purchases represented just nine percent of manufactured homes shipped. Yet both Enterprises have set their single-family manufactured home loan purchase volume targets for 2022 lower than the number of loan purchases made in 2020. Meanwhile, in 2021, the U.S. Census Bureau reports that manufactured home shipments surpassed the 100,000 mark for the first time in 15 years.⁶ As housing demand continues to rise, while the cost of traditional site-built homes

⁶ U.S. Census Bureau. Shipments of New Manufactured Homes. Accessed on February 22, 2022 (<https://www.census.gov/data/tables/time-series/econ/mhs/shipments.html>).



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swells above \$400,000⁷, more American households are embracing manufactured homes as an option to meet their housing needs.

We urge FHFA to direct the Enterprises to be aggressive in setting their targeted loan purchase volume. Our current housing needs certainly necessitate more – not fewer – affordable homeownership opportunities.

Emphasis by the Enterprises on facilitating the financing of loans in fee simple developments is also critically important. Not only will this generate the opportunity for enhanced loan purchase volume, but also it will make meaningful progress toward addressing our current supply gap of more than seven million affordable homes.

Objective 2.2: Advance equity in housing finance, including through compliance with fair lending laws and regulations

Based on U.S. Census figures, just 44.6 percent of Black households and 47.5 percent of Hispanic households own their homes, compared to 74.2 percent of Non-Hispanic White Households.⁸ Intrinsically tied to lower homeownership rates for households of color is a pervasive lack of housing supply and affordable housing options. Manufactured housing presents an opportunity to increase housing supply efficiently at scale for communities of color while reducing the costs to both developers and homebuyers.

The Consumer Financial Protection Bureau released a report based on 2020 Home Mortgage Disclosure Act (HMDA) data available for manufactured housing. Several key insights from this report can inform how the Enterprises incorporate manufactured housing activities into their Equitable Housing Finance Plans.

Around 42 percent of manufactured housing loans are chattel loans.⁹ Compared to mortgages, chattel loans have higher interest rates, shorter loan terms, lower loan amounts, fewer consumers protections, and are rarely refinanced. Hispanic, Black and African American, American Indian and Alaska Native, and elderly borrowers are more likely than other consumers to take out chattel loans, even after controlling for land ownership.¹⁰ Black and

⁷ Federal Reserve of St. Louis. Average Sales Price of Houses Sold for the United States. Accessed on February 22, 2022 (<https://fred.stlouisfed.org/series/ASPUS>).

⁸ U.S. Census Bureau. Homeownership Rates by Race and Ethnicity: Non-Hispanic White Alone in the United States [NHWAHORUSQ156N], retrieved from FRED, Federal Reserve Bank of St. Louis. Accessed Oct. 22, 2021. <https://fred.stlouisfed.org/series/NHWAHORUSQ156N>, October 22, 2021.

⁹ Consumer Financial Protection Bureau's Offices of Research and Mortgage Markets. Manufactured Housing Finance: New Insights from the Home Mortgage Disclosure Act Data. Accessed on Oct. 15, 2021. <https://www.consumerfinance.gov/data-research/research-reports/manufactured-housing-finance-new-insights-hmda/>.

¹⁰ Ibid.



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African American borrowers are the only racial group that is underrepresented in manufactured housing lending overall compared to site-built but overrepresented in chattel lending compared to site-built.¹¹

The chattel lending market is much more concentrated than the traditional mortgage market, with the top five manufactured housing lenders accounting for nearly 75 percent of home purchase chattel loans recorded in HMDA.¹²

FHFA should encourage the Enterprises to make explicit in their Equitable Housing Finance Plans efforts to increase awareness of their manufactured home loan products to Hispanic, Black and African American, American Indian and Alaska Native, and elderly borrowers. The inherent affordability of manufactured homes can help close the homeownership gaps in these communities, fostering improved racial equity in the housing market.

Objective 2.3: Serve as a reliable source of information and analysis on the state of housing finance markets and related issues

FHFA and its regulated Enterprises should actively seek research opportunities that further explore manufactured homes as an effective, scalable affordable housing solution. Prospective research areas should include zoning, appraisals, appreciation, and energy efficiency. Works published by FHFA, and its regulated entities, will continue to bring increased attention and awareness to this space.

Objective 2.4: Facilitate greater availability of affordable housing supply, including affordable rental housing

To have a meaningful impact on the manufactured housing market, FHFA must first act urgently to create a climate in which the Enterprises can produce ambitious three-year plans. FHFA has taken a positive first step by rejecting the initial plans proposed by the Enterprises. Second, the Enterprises must be held to a far higher standard for ambitious plans that make tangible progress toward reaching the manufactured housing market than is reflected in the proposed plans for 2022 through 2024. The Enterprises cannot be expected to offer ambitious plans until specific Duty to Serve disincentives promulgated by the previous FHFA Director are rescinded, and FHFA sends a clear message that Duty to Serve is taken seriously and expects to see ambitious plans to better reach underserved markets if the Enterprises are to receive approval for 2022-2024 plans.

Additionally, Next Step recommends that FHFA continue to conduct outreach to key housing stakeholders that traditionally have not participated in this space (such as developers and realtors).

¹¹ Ibid.

¹² Ibid.



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Stakeholders such as these serve as gatekeepers to America's housing market and are key influencers to help change the perception of manufactured homes.

Objective 2.5: Support leveraging of technology and data to further promote efficiency and cost savings in mortgage processes

Improved technology processes and enhanced user experience can be an equalizer in the mortgage process for underserved communities. Migrating the mortgage process to online platforms can support the needs of both prospective borrowers and mortgage lenders. This also provides an opportunity to embed educational housing resources (i.e., access to independent housing counselors) into the mortgage process. FHFA can help convene tech innovators, lending institutions, and community advocates to support conversions to mortgage processes that create more equal opportunities for borrowers and reduce environmental impact.

We thank FHFA and the Enterprises again for the opportunity to provide input on the forthcoming Strategic Plan for Fiscal Years 2022-2026. We look forward to continuing our relationship with FHFA and its regulated entities by building and supporting coalitions of housing and community-based organizations to advocate for increased homeownership opportunities using affordable, energy-efficient manufactured homes.

Respectfully submitted,

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