Comments Concerning the Freddie Mac 2022-2024 Duty to Serve Plan and Modifications

Elements Of A Feasibility Study For Personal Property Manufactured Home Loans

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I. Executive Summary

This document contains elements of a feasibility study for establishing a secondary market for manufactured home personal property (chattel) loans. The analysis covers the following five areas:

- The market feasibility of entering this line of business, including safety and soundness concerns
- The economic feasibility based on the experience of past security issuers, government programs and private sector results
- Financial feasibility which is principally the loan origination and servicing practices including possible flexible underwriting practices to assist with this underserved market
- Program feasibility including the standards for lenders and for third parties (appraisers, manufactured home retailers and manufactured home installers)
- Program consumer protections and practices

Consumer demand for affordable, manufactured homes continues to rise as the median cost of a single family home is near $400,000 nationally, several times the price of a comparable size multi-section manufactured home. Also, at present, the three major secondary mortgage entities (Fannie Mae, Freddie Mac and Ginnie Mae) are not purchasing a meaningful number of manufactured home chattel loans. Ginnie Mae and FHA who administers the Title I manufactured home loan program is seeking public input to improve the level of program participation and this paper is intended to fulfill a similar purpose for Freddie Mac.

In building new programs, it is necessary to consider the history of both public and private lenders with manufactured home chattel loans. The pricing of guarantee fees, estimated level of default along with the recoveries from repossession, resale of the collateral and lender financial strength standards are all important aspects of a safe and sound program.

Manufactured home personal property lending varies from mortgage lending with different titling practices, appraisal practices, home sale practices and the level and type of borrower underwriting. This dissimilarity and the behavior of the loan portfolios at times of economic stress have made secondary market mortgage entities reluctant to enter the marketplace.

Operating a successful and sound chattel loan program will require careful monitoring of lenders and other program participants to ensure that the program operates at a break even basis. Flexibility in underwriting will allow more low-moderate income Americans to be become home owners and thereby accomplish the Duty To Serve goals established by Congress.

Finally, initiating and continuing to offer manufactured home personal property loans will require a lender-Enterprise partnership and cooperation with the Enterprises. A working group of manufactured home lenders should be formed so that the initial requirements imposed on these transactions are effective in controlling default risk and thereby assuring that this business line can be operated in a safe and sound manner.

II. Background and Program Objectives

Chapter II provides the background for this study including a definition of study goals, and an overview of the study approach. The size of the marketplace and the lack of information about this product line have inhibited participation by the Enterprises, private investor entities and other persons interested in the manufactured housing industry.

The absence of an Enterprise secondary market for personal property manufactured home loans is the largest obstacle to increasing choice for low-moderate income consumers and increasing liquidity in the availability of credit for this underserved segment of American society. With the appropriate lender controls, sound underwriting and servicing standards to reduce the likelihood and severity of loan defaults and appropriate guaranty pricing, this program should be able to operate on a breakeven basis. Low moderate income homebuyers have been waiting to have the same finance opportunities as other Americans. A well-structured and operated manufactured home chattel lending program could promote finance choice and equity for these underserved Americans.

The absence of proper financing mechanisms for personal property manufactured home loans has been noted in official government reports for over four decades. In April of 1982, the President's Commission on Housing issued a comprehensive report which included the following text about manufactured housing:

> "However, special limitations on the financing of manufactured housing continue to place serious inhibitions on what could be a valuable and affordable source of housing for millions of Americans. The Commission believes that the disincentives that now characterize the manufactured housing sector should be removed in order to make full use of this resource. " (Page 85)
>
> "**With regard to manufactured homes that are not attached to the land, more broadly based access to the credit markets should be developed for the financing of manufactured housing held as personal property**." (Page 86)

A. The Federal Housing Finance Agency (FHFA)'s Final Rule For Duty To Serve

1. Dual Purpose Of Section 1129 Of The Housing And Economic Recovery Act of 2008 (HERA)

In its December 29, 2016 Final Rule, the Federal Housing Finance Agency ("FHFA") stated that the purpose of the Duty to Serve Plans was to "increase the liquidity of mortgage investments and improve the distribution of investment capital available for mortgage financing for very low-, low-, and moderate-income families in those markets." Therefore, the objectives were both to expand the capital market's involvement in manufactured housing but also to target this assistance to three categories of Americans based on their income. Therefore, a plan that merely expands mortgage liquidity is necessary but not sufficient to meet FHFA's purpose. Freddie Mac has decided that this Duty to Serve obligation should include home only (chattel) financing for manufactured homes.

2. The Relationship Of Duty To Serve To Safety And Soundness

It is also important to note that Section 1129 of the Housing and Economic Recovery Act (HERA) also amended the Safety and Soundness Act, specifically Section 1335 to address underserved areas. Therefore, Congress implicitly was putting the Duty to Serve these three underserved markets inside the framework of Enterprise safety and soundness. In developing plans to implement the mandate to serve underserved markets, Congress directed that the Enterprises to "provide leadership to the market in developing loan products and flexible underwriting guidelines to facilitate a secondary market for mortgages for very low-, low-, and moderate income families with respect to [manufactured housing, affordable housing preservation and rural markets]". This document provides an initial framework for developing such a manufactured home personal property secondary market.

3. Required Methods Of Addressing Underserved Markets

FHFA further outlined the form for developing Activities (loan programs) to address underserved markets: objectives must be strategic, measurable, realistic, time bound and tied to the analysis of market opportunities. Specifically for manufactured housing, the Enterprises were to facilitate loans for homes titled as "real property or personal (chattel) property" (§ 1282.33 (c) (1), (c) (2)). In addition, eligible activities could also relate to manufactured home communities owned "by a governmental entity, nonprofit organization, or residents". Finally, eligible activities can include adding consumer protections for manufactured housing communities through lease protections such as the following:

- Lease terms
- Grace periods
- Written notice of rent increases
- The right to sell the home in place
- Sublease or assign their lease
- Post for sale signs
- The right to receive at least 60 day's advance notice of a planned sale or closure of the manufactured housing community.

B. Underserved Rural Populations

While large net worth financial institutions find it easier to meet the Enterprise Seller Servicer requirements, smaller financial institutions like community banks and credit unions should also be encouraged to participate. These local lenders have specialized knowledge about local communities and conditions which can be important in credit determinations. Guidelines tailored to these institutions can be an effective way to extend the number of lenders and thereby, credit to rural areas.

Manufactured homes tend to be more prevalent in rural areas, especially among the very low-, low-, and moderate-income families targeted by the HERA act. There are four specific high needs rural region areas for housing, including manufactured homes:

- Middle Appalachia which consists of 230 specific counties in Kentucky, Tennessee , N. Carolina, Ohio, Virginia and West Virginia
- The Lower Mississippi Delta which consists of specific counties and parishes in Arkansas, Louisiana, Mississippi, Missouri, Illinois, Tennessee, and Kentucky
- Areas designed as colonias under a federal, state, tribal, or local program
- A tract located in a persistent poverty county and which is not located in any of the three high needs rural regions identified above. Persistent poverty counties would need to have poverty rates equal to 20% or more as measured in the 1990, 2000 and 2010 census.

12 C.F.R. § 1282.1 also includes the term "high-needs rural population" which refers to persons located in a rural area that are members of a federally recognized Indian tribe located in an Indian area; or an agricultural worker. Like the definition of colonias, agricultural workers are those identified as such under a federal, state, tribal, or local program.

On September 28, 2022, FHFA published a proposed rule to change the definitions of a colonia and high needs rural regions. A new term "colonia census tract" is proposed for Section 1282.12 (b) which would be a census tract including a colonia. High needs rural regions would now include colonias in metropolitan and non-metropolitan areas. Finally, rural areas are proposed to be on one of the following:

- A census tract outside of a OMB designated metropolitan statistical area
- A census tract inside a metropolitan statistical area as designated by the Office of Management and Budget that is either:
    - Outside of the metropolitan statistical area's Urbanized Areas as designated by the U.S. Department of Agriculture's (USDA) Rural-Urban Commuting Area (RUCA) Code #1, and outside of tracts with a housing density of over 64 housing units per square mile for USDA's RUCA Code #2; or
    - A colonia census tract that is not outside of a metropolitan statistical area or if inside of a metropolitan statistical area, it must be outside of the metropolitan statistical area's Urbanized Areas as designated by the U.S. Department of Agriculture's (USDA) Rural-Urban Commuting Area (RUCA) Code #1, and outside of tracts with a housing density of over 64 housing units per square mile for USDA's RUCA Code #2;

These changes if implemented should expand the number of homes which will qualify for these special categories of properties.

1. <u>Why Do Manufactured Home Borrowers Want To Lease Their Land?</u>

Land values tend to be lower in rural areas. Since a significant portion of the increase in the value of single family housing is land value escalation, why don't more borrowers select land and manufactured home ownership combinations? The answer is that many borrowers are stretched financially to pay for the home and cannot afford the added cost of the land. Also, some borrowers do not want the burdens of maintaining the land and prefer to leave these responsibilities to other parties.

C. Serving Very Low Income, Low and Moderate Income Families

HERA Section 1129 did not define the terms very low-, low- and moderate-income families. However, these terms are defined in 12 USC 4502 (14), (16) and (24). Determining loan limits and loan eligibility for these income levels is one of the important parts of manufactured home chattel loan program feasibility.

1. Area Wide Income and Qualification for Loans

The Enterprises have initiated income restricted loan programs For example, lenders making Home Possible loans are required to use the Freddie Mac Home Possible Income and Property Tool which is based on the particular address and county wide area median income (AMI). Manufactured homes designations tend to be state wide rather than at the census tract, city or county level. Freddie Mac's eligibility tool uses the same income ratios for very low and low income that HUD uses (see Table One below).

Table One Income Limits for Freddie Mac's Home Possible program

Category	42 USC 5402	Freddie Mac Eligibility Tool	HUD Income Limits
Very Low	Less than or equal to 50% of the Area Medium Income	Less than or equal to 50% of the Area Medium Income	Less than or equal to 50% of the State Median Family Income
Low	More than 50% but less than or equal to 80% of the Area Medium Income	More than 50% but less than or equal to 80% of the Area Medium Income	More than 50% and less than 81% of the State Median Family Income
Moderate Income	Less than or equal to 100% of the Area Medium Income		81% and less than 120% of the State Median Family Income

2. HUD State Median Family Income

Appendix A contains the 2022 HUD median family income (MFI) levels by state. While the US median family income for a family of four is $90,000, the median family income varies from $67,000 in West Virginia to $120,400 in Massachusetts, nearly double the West Virginia MFI. This simplifies income limit calculations but using larger geographic divisions rather than county level income limits will result in some anomalies where metropolitan areas span several states.

3. Defining Income Limits For Very Low, Low And Moderate Income Americans

Using county or even census tract data for setting loan limits would be burdensome for manufactured home lenders, especially given the small volume of homes and the costs of determining and maintaining local income data. Using State Median Family Income is a more feasible alternative given the prevailing practices in the manufactured housing industry.

Table Two shows the maximum loan limits for the states with the highest number of manufactured homes purchased in 2021. All of these States except for California and New York have median family incomes less than the US average at $90,000. Together, the Top-20 States have an aggregate market share of over 83% of new manufactured home sales.

Table Two: Top-20 States For New Manufactured Homes Sales And Median Family Income

State	Market Share	HUD Median Family Income	Moderate Income Limit (120% of Median Family Income)
Texas	18.09%	$85,300	$102,360.0
Florida	7.54%	$79,300	$95,160.0
North Carolina	5.71%	$80,100	$96,120.0
South Carolina	5.06%	$78,400	$94,080.0
Louisiana	5.01%	$72,400	$86,880.0
Alabama	4.94%	$73,600	$88,320.0
Georgia	4.41%	$83,200	$99,840.0
Mississippi	3.92%	$65,000	$78,000.0
Kentucky	3.60%	$73,600	$88,320.0
Michigan	3.43%	$84,200	$101,040.0
Tennessee	3.32%	$77,800	$93,360.0
California	3.22%	$101,600	$121,920.0
Arizona	2.13%	$82,800	$99,360.0
Oklahoma	2.13%	$76,000	$91,200.0
Arkansas	1.97%	$69,400	$83,280.0
Pennsylvania	1.89%	$90,100	$108,120.0
Indiana	1.89%	$82,100	$98,520.0
Missouri	1.72%	$81,700	$98,040.0
Ohio	1.67%	$83,300	$99,960.0
New York	1.66%	$99,500	$119,400.0
US Top-20	83.3%		

D. Setting And Adjusting Maximum Loan Amounts For Chattel Home Loans

1. National Loan Limits

Under the Housing and Economic Recovery Act, Congress set the maximum loan amount for 1-4 family mortgages and then required annual adjustments in the conforming loan limits based on the annual percentage increase in the FHFA housing price index (October to October). FHFA does not collect or maintain a comparable index for chattel manufactured homes but the Census Bureau publishes monthly average sales prices for single and double wide homes (see Table Three below). Given the significant increase in inflation and asset prices in 2021-2022, a similar price adjustment for housing inflation would allow for low income Americans to continue to be able to purchase and finance manufactured housing.

2. Recommended Maximum Loan Limits

Table Three contains the average manufactured home sales data for 2021 separated into single and multi-section units. As with single family site built homes, 2021 saw a high double digit increase in the average sales price for manufactured homes. The Census sales data tends to be available 6-7 months after the sales close and it is unlikely that the price inflation seen in 2021 will be repeated throughout all of 2022. Assuming that the chattel program begins in late 2023, a 3-5% increase in the spring of 2023 average sales prices would allow for an October – October adjustment methodology. Initially, maximum loan limits could be set at the average sales price with limited exceptions for high cost states.

Table Three 2021 US Census Bureau Average Manufactured home Sales Price by Date and Size

	Total	Single Section	Double Section or Larger
December	$123,200	$80,900	$150,300
November	$111,900	$76,400	$139,900
October	$112,000	$81,700	$138,200
September	$118,300	$78,800	$141,300
August	$112,000	$80,000	$138,000
July	$118,700	$76,000	$137,800
June	$106,800	$70,200	$128,100
May	$106,500	$69,900	$128,300
April	$100,200	$66,700	$122,500
March	$98,100	$63,300	$123,200
February	$98,300	$65,400	$122,500
January	$95,000	$64,100	$118,500

E. The Importance Of Enterprise Participation In The Secondary Market

There are other government loan programs that serve manufactured home chattel buyers. The Government National Mortgage Association (Ginnie Mae) has a seller servicer program that guarantees securities backed by manufactured home chattel loans. Ginnie Mae has higher net worth standards for manufactured home servicers to decrease the likelihood of security issue defaults due to inadequate capitalization. Only a very few manufactured home loan backed securities were issued in 2020 and previously issued securities are slowly being liquidated.

F. Presidential Action (President Biden's Housing Supply Action Plan

On May 16, 2022, President Biden issued a Housing Supply Action Plan to increase the supply of affordable housing for low to moderate income Americans. Part of this plan was the announcement that Freddie Mac would begin a three year process to start a secondary market for chattel titled manufactured homes which are the most underserved manufactured home buyers.

G. Increasing Equity In The Availability Of Credit For Manufactured Home Purchasers

1. Promoting Equity By Increasing Homeownership And Financing Opportunities

Congress has already identified manufactured home purchasers as credit disadvantaged by passing the Duty to Serve provisions. The Consumer Finance Protection Bureau (CFPB) has noted that the credit landscape does not provide manufactured home buyers the same degree of equity in the terms for credit. Specifically, the agency concluded that:

> "Compared to mortgages, chattel loans have higher interest rates, shorter loan terms, lower loan amounts, fewer consumer protections, and are rarely refinanced".

The CFPB data shown in Chapter V below shows that in essence, there are relatively few lenders that offer large numbers of chattel manufactured home loans.

2. Diversity And Inclusion

In its 2021 New Insights report, the Consumer Finance Protection Bureau concluded that "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". The illiquidity of the current marketplace is offering fewer lender choices to these Americans. Also, higher interest rates can slow the accumulation of wealth as higher finance costs may limit other investments.

3. Opportunity For The American Dream And The Shortage Of Affordable Housing

A companion to diversity is opportunity to become a homeowner. While about 8% of Americans live in manufactured homes, the market penetration in growth areas like the South Census Region is greater than the national average. As noted in the Freddie Mac Duty to Serve plan, there is a significant shortfall in single family housing production with the lowest end of the market having the greatest undersupply. Also, the production shortage is coupled with the largest US generation (the Millennials) who are now in their prime first home buying period. A chattel loan secondary market would help encourage more affordable home production and placement.

4. Initiatives To Expand Equity And Inclusion In The Finance System

(a). The Credit Reinvestment Act List Of Eligible Activities

The Community Reinvestment Act (CRA) was passed more than 40 years ago to address the needs of low-moderate income borrowers who tended to be underserved. At present, eligible activities for CRA credit do not include manufactured home personal property loans. As part of its outreach to other government agencies, FHFA or the Enterprises can suggest adding this loan product which could expand credit availability, increase competition and result in new product offerings.

The Federal Reserve Board of Governors, the Office of the Comptroller of the Currency and the Federal Deposit insurance corporation have asked for public comment on expanding the affordable housing definition to include "complex and novel solutions such as…..and manufactured housing" (see Question No. 10: 87 FR 33884, published on 06/03/2022). Also, these agencies proposed that the affordable housing definition include "Activities that directly assist low- or moderate-income individuals to obtain, maintain, rehabilitate, or improve affordable owner-occupied housing". Chattel loan financing for manufactured housing would meet these criteria.

5. New Loan Products And Manufactured Home Chattel Loans

The Enterprises have introduced new products such as energy efficient mortgages (Homestyle Energy mortgages, GreenChoice mortgages) where there were relatively few lenders who have the experience to give the Enterprises definitive loan information and fully assess credit risk. Yet, the Enterprises introduced these new products anyway, why? Because there is a strong public purpose in fostering energy efficiency. Congress has determined that there is a public purpose in making affordable manufactured homes more available.

6. <u>Fairness To All Americans And The Wealth Gap</u>

Income inequality and the absence of the American dream of homeownership for many low to moderate income Americans is one of the most important unsolved problems in America. Historically low interest rates have bolstered asset markets and led to prosperity for some while less wealth creation for low to moderate income Americans. Many renters are potential manufactured home owners but feel constrained by the relatively few financing choices they have.

H. <u>Structure Of This Report</u>

The essential parts of such a feasibility plan are shown in Chapters Three-Eight below. This report has been divided into Chapters about market, economic and program feasibility, program participants, borrower qualifications and consumer protection.

Chapter Thee will cover the existing market conditions and the macro-environment for manufactured home chattel loans. Chapter Four will cover economic feasibility which will include guarantee pricing and results from other chattel home loan programs. Chapter Five will focus on borrower eligibility, credit risk assessment and loan conditions, Chapter Six will focus on program participants (lenders, retailers, appraisers, installers and other third parties). Chapter Seven will focus on underwriting criteria, loan amounts, defaults, disposition of collateral backing the loan and possible measures to recover losses such as lender repurchases for violations of seller servicer or program guidelines. The Final Chapter will cover consumer protections.

III. Market Feasibility And Safety And Soundness Concerns Of FHFA

A Digging Out From The Past 20 Years Of Low Home And Loan Production

1. What Has Happened Over the Last Two Decades?

Manufactured housing construction has been in long downturn from the apex of 382,000 homes in 1999 to as little as 50.000 homes being produced in 2008. While current home production is roughly double the manufactured housing production nadir during the financial crisis, it is nowhere near the levels seen in the 1990s.

2. The Financing Differential

The differential between conventional and government first mortgage loans and manufactured home personal property loans continues to persist at a typical spread of around 400 basis points. This spread is especially impactful for low income Americans who cannot afford single family homes.

B. Demand for Housing Ownership Remains Strong And Consistent Over Time

In assessing the manufactured housing market, it is necessary to look at the current and future likely demand for this type of affordable housing. The Federal Reserve Bank of New York's Consumer SCE Survey shows that there is a continuing interest in the part of renters to own their own home (see Table Four). Nearly 70% of renters would prefer or strongly prefer to own vs. renting a home. The interest in homeownership persists over time (2015-2021) and rental preference remains under 20%.

Table Four: Consumer Preference for Home Ownership vs. Renting

	Percentage		
Year	Prefer/Strongly Prefer Renting	Indifferent	Prefer/Strongly Prefer Ownership
2015	17.22	14.24	68.55
2016	16.49	9.39	74.11
2017	16.16	11.55	72.28
2018	20.06	13.38	66.56
2019	19.35	9.32	71.33
2020	16.13	12.72	71.15
2022	19.83	11.00	69.17

C. Homeownership Desires Of Americans

Continuing with the end user analysis among the target population for the Duty to Serve program, the expectation of homeownership continues to decline in comparison to that of higher income Americans (see Table Five below). Among low to moderate income Americans, the expectation of becoming a homeowner has dropped from over 20% in 2015-2017 to around 10% in later years. Manufactured housing can increasingly be in demand as these Americans look for affordable housing.

Table Five: Homeownership Expectations for Low and Moderate Income Americans

	Homeownership Expectation Percentage by Income Range		
Year	25th income Percentile	75th Percentile	Median Expectation of Homeownership
2015	20%	85%	50%
2016	25%	96%	51%
2017	20%	90%	60%
2018	10%	87%	50%
2019	10%	93%	50%
2020	12%	90%	50%
2021	10%	90%	50%
2022	9%	80%	41%

D. Models for the Manufactured Home Chattel Loan Program: Freddie Mac's Home Possible and Other Programs

Last year, Freddie Mac reported that it provided $1.2 trillion in liquidity to the single-family market. As part of that liquidity, Freddie Mac financed approximately 157,000 loans through the Home Possible program, which helps very low to low-income borrowers with low downpayments and more liberal loan standards. The overwhelming majority of Home Possible loans were to first -time homebuyers.

Freddie Mac also assisted many families to lower their housing costs through refinancing of existing mortgages. Other programs to target underserved markets were the CHOICEReno ExPress program for financing home renovations along with programs to help tenants build credit histories through credit bureau reporting of rental payments. These successful programs could be models for the ultimate scale and scope of a properly constructed and operated chattel loan program.

E. Size of Market And Scale Of The Manufactured Housing Industry

A large percentage of new manufactured homes sold are being titled as chattel. Estimates of the percentage of new manufactured home buyers who use chattel loans vary from less than 50% to nearly 80%. There are roughly 100,000 new manufactured homes sold each year with the majority (57%) being multi-section homes. The percentage of financed homes can be estimated at roughly 80% of total production. If the chattel portion of the financed homes is approximately 70%, this results in a potential loan market of around 50,000 new homes at current production levels. Should the opening of a secondary market increase demand to that of the 1990s (see Table Six below), loan volume could be triple that estimate.

Table Six: Historical Data For Manufactured Home Placements by State

State	**1998**	**1997**	**1996**	**1995**	**1994**	**1993**
Alabama	19,519	17,323	19,869	17,239	15,263	11,394
Alaska	76	97	99	138	88	90
Arizona	8,611	8,545	8,095	6,999	6,258	4,654
Arkansas	8,473	7,730	8,332	7,580	6,516	5,122
California	6,673	5,058	3,855	3,523	4,088	3,763
Colorado	4,829	4,930	5,020	4,555	3,930	2,535
Connecticut	142	188	178	128	100	112
Delaware	1,470	1,404	1,313	1,375	1,452	1,368
Florida	20,246	18,971	17,388	15,951	17,805	17,148
Georgia	22,261	21,412	22,296	20,133	18,121	13,525
Hawaii	0	0	0	0	0	5
Idaho	2,980	2,634	2,635	3,167	3,712	2,779
Illinois	3,783	4,334	4,649	4,790	4,226	3,727
Indiana	9,388	8,913	9,465	9,315	8,196	7,100
Iowa	2,071	2,137	2,474	2,649	2,598	2,307
Kansas	3,885	3,416	3,610	3,158	2,872	2,150
Kentucky	11,630	11,723	11,762	12,203	10,344	10,505
Louisiana	10,825	9,864	10,038	8,249	6,784	5,088
Maine	1,616	1,681	1,750	1,792	1,764	1,594
Maryland	830	913	827	949	943	883
Massachusetts	252	185	192	192	202	182
Michigan	12,065	11,836	12,159	11,356	10,059	9,322
Minnesota	3,270	3,217	3,163	3,031	2,611	2,309
Mississippi	11,759	10,809	13,055	11,059	9,121	6,681
Missouri	8,046	8,314	9,485	9,385	8,274	6,381
Montana	1,919	1,681	1,749	1,772	1,871	1,453
Nebraska	1,114	1,132	1,146	1,059	869	649
Nevada	2,133	2,505	2,655	2,301	2,087	1,661
New	993	825	957	814	761	486
New Jersey	569	424	356	371	318	259
New Mexico	6,885	7,204	8,247	7,412	5,681	4,879
New York	4,421	4,209	5,133	5,355	5,225	5,336
North Carolina	33,042	33,318	32,411	31,855	28,275	24,561
North Dakota	775	940	897	707	600	449
Ohio	8,017	8,009	8,051	8,243	7,504	6,909
Oklahoma	7,349	7,017	5,964	5,063	3,877	2,629
Oregon	6,223	6,567	6,484	7,450	7,597	6,454
Pennsylvania	6,060	6,266	7,115	6,930	7,267	6,546
Rhode Island	30	28	31	50	39	31
South Carolina	19,969	20,062	22,445	19,375	15,326	13,484
South Dakota	1,664	1,463	1,692	1,843	1,759	1,373
Tennessee	14,394	15,393	15,941	15,748	13,422	11,691
Texas	45,277	37,154	39,594	32,949	26,339	18,439
Utah	1,992	1,967	2,230	1,933	1,560	910
Vermont	579	551	561	560	558	512
Virginia	7,308	7,610	7,039	7,510	6,974	6,267
Washington	6,874	6,419	6,257	7,252	7,332	6,849
West Virginia	4,344	4,451	4,398	4,703	4,471	3,584
Wisconsin	3,640	3,625	3,733	4,010	4,041	3,624
Wyoming	1,188	1,140	954	775	598	306
Dust. Pending	11,683	8,082	5,595	4,932	4,225	2,816
Totals **	**373,143**	**353,676**	**363,345**	**339,889**	**303,903**	252,881

F. Total Potential Enterprise Home Loan Volume

1. New Homes

As shown in Table Three above, new single wide homes have averaged $75,000 and multi-section homes averaging about $125,000 over the past year. Total potential financeable sales would be in the area of 5-6 billion dollars based on the 2021 sale volume and after reductions for cash and non-chattel sales. Assuming that 25% of the new manufactured home sales being sold as chattel are financed by the Enterprises with an average downpayment of 15%, the potential chattel loan volume would be about 1-2 billion dollars at current production levels. This would be a small fraction of the 2021 Home Possible (HP) dollar volume based on a HP average loan of $200.000.

2. Estimating The Number Of Used Manufactured Homes

According to the Manufactured Housing Institute, there are about 4.2 million homes in leased land communities. The percentage of leased land lots vs. the number of homes placed on private land is about 40%, so extrapolating this estimate would indicate a total of around 10 million manufactured homes which is significantly higher than some other estimates (7-8 million homes). There is also a percentage, albeit small of pre-1976 mobile homes. Thus new manufactured home production is roughly 1% of the total manufactured homes in existence which is similar to the situation with site built homes. The 8 million home estimate has been used for planning purposes.

3. Used Home Turnover Rates

The percentage of used homes sold each year is not widely tracked nor is there definitive information on how many sales are financed vs. cash sales. A significant portion of manufactured home sales are to seniors and many of them are able to pay cash to buy their homes.

According to data from Sun Communities for 2021, there were 3,325 used home sales, or 3.4% of their total used home sites under their ownership. This is similar to the percentage of single family existing homes sold each year. Therefore, with an estimated 8 million homes, the total used home sales could be approximately 250,000 transactions. However, cash sales are likely to reduce this used manufactured home loan estimate to 200,000.

If the average used home loan was $30,000, that would be a total of 6 billion dollars and loans could be potentially double that amount given the late model used homes prices shown in Appendix B. Therefore, the combined potential new and used manufactured home loan volume each year could be between 7-13 billion dollars.

4. Phase-In Of Chattel Loan Purchases By The Enterprises

New lenders will have a learning curve for Enterprise origination and servicing practices, especially the disposition of repossessed homes. Also, it will be 3-5 years before the loans have the time to season and experience a recession and more normal economic times. Proceeding slowly and deliberately with lender training, ensuring a balance of loans in the loan pools and reasonable program oversight will all make the program more likely to succeed.

A phased in approach to implement the Duty to Serve provisions is shown on Table Seven. New home loan purchases would start at 1,000 in Year One and increase 500 homes each year. Used home loans would start at 500 and also increase each year. An average new home loan of $100,000 and a used home loan of $60,000 are used for this general estimate; prices increase 5% per year in Years 2-5.

Depending on the area of country selected and the type, age and size of the manufactured homes, the purchase prices and the loan amounts could vary widely. An annual dollar volume of 130 million in Year One would be about 1-2% of the total dollar volume of all manufactured homes sold increasing to about 3-5% in Year Five. .

Table Seven: Estimated New and Used Home Volume over Years 1-5

Year	New Homes	Dollar Volume (5% Escalator in Years 2-5)	Used Homes	Dollar Volume (5% Escalator in Years 2-5)	Total Annual Dollar Volume
1	1000	$100,000,000	500	$30,000,000	$130,000,000
2	1500	$157,500,000	1000	$63,000,000	$220,500,000
3	2000	$220,500,000	1500	$99,225,000	$319,725,000
4	2500	$291,440,625	2000	$138,915,000	$430,355,625
5	3000	$364,650,300	2500	$182,542,500	$547,192,800
Total Investment					$1,647,773,425

This level of investment will be sufficiently large to evaluate program performance while limiting the size of the Enterprise investment until program solvency is shown by actual results. Also, the Enterprises could make approximately 50% of the loans to very low and low income borrowers while the other 50% is made to moderate income borrowers. Based on the results, the Enterprise can fine-tune its approach and decide if modification, expansion or contraction of the program is appropriate.

G Concentration Among High Volume Lenders

There is significant concentration of market share in the manufactured housing industry with the top three home producers building 2/3s of the current total production of new manufactured homes. Second, some of these top producers have lender affiliates or subsidiaries that are approved seller servicers under the Ginnie Mae secondary market. Further information about these lenders and default characteristics of loan pools can be found in the Economic Feasibility Chapter.

H Encouraging CDFIs to Consider Manufactured Home Lending

In the last two decades, many manufactured home lenders have left the industry. As previously mentioned, one source of potential new lenders that lend in rural areas and Indian Country is Community Development Finance Institutions (CDFIs) some of whom are looking more at manufacturing housing due to the rising cost of site-built housing. CDFI's have been asking FHFA for direct funding and the costs for expanding the number of manufactured home lenders in rural areas could be an eligible use of funds. CDFIs could also partner with the Enterprises in educating borrowers concerning how to build credit histories, budgeting and home ownership.

I. Competition With The Enterprises

The Government National Mortgage Association (Ginnie Mae), part of the Department of Housing and Urban Development is the other major secondary market entity and it has participated in the secondary market for manufactured home chattel loans. Ginnie Mae buys FHA Title l insured loans as chattel manufactured home loans cannot qualify for the Title II home mortgage insurance program.

As of September of 2021, Ginnie Mae's manufactured home loans in pools have an outstanding principal balance of 196 million dollars, a decrease of 28 million dollars from Fiscal Year 2020. At present, there are only three current manufactured home security issuers. The FHA Title l program has also been experiencing declining lender interest in recent years and for the last fiscal year, only five Title I manufactured home loans were reported for insurance.

However as part of President Biden's Housing Supply Action Plan, on July 27 2022, Ginnie Mae and FHA have asked for public input in the areas of loan limits and Title I loan origination and underwriting standards. Ginnie Mae also asked about their current net worth requirements and other requirements in Chapter 30 of Ginnie Mae's MBS Guide. So, the Enterprises do not have a significant secondary mortgage market competitor for chattel loan purchases at present although Ginnie Mae and FHA Title I loan program revisions could change that situation.

2. Secondary Market Chattel Manufactured Home Securitizations

Separate from the Ginnie Mae's involvement in manufactured home chattel markets, there have been few secondary market securitizations of manufactured home loans over the last three years. Two of these secondary market offering were issued by First Key (the Towd Point Mortgage Trust 2019-MH1 and the TPMH 2020—MH1 trust). The 2019 trust consisted of 25,324 loans with an outstanding principal balance of 526 million with 82% chattel loans and the remainder home and lot combinations. The Towd Mortgage Trust 2020-1 consists of 12,555 seasoned loans with a principal balance of 507 million with 98% chattel loans with an average age of 9.5 years since origination vs 21 years for the earlier trust.

The most recent securitization was Cascade Financial Services (Cascade MH Asset Trust 2021-MH1) with 1,889 loans having an outstanding principal balance of 162.7 million and loans were seasoned for only 12 months. Accordingly, the average loan amount was over $85,000. Half of the pool consists of Texas loans and nearly all of the loans were issued in the last four years. About 75% are chattel loans with the remainder home and lot combinations. Given the scale of the manufactured housing industry, the impact on these securitizations on finance for these underserved communities has been very modest.

J. Controlling Default Risk: Past Performance Of Securitized Loans From 1995-2002

Rapid growth in manufactured home sales in the 1990s led to irresponsible lending and sales practices similar to the subprime lending crisis of a decade later. The statement of Kevin Clayton, president of the largest originator and servicer of manufactured of home loans said it best in 2008 as the real estate industry moved into its greatest crisis period since the Great Depression.

“Finance and Financial Products

I will write here at some length about the mortgage operation of Clayton Homes and skip any financial commentary, which is summarized in the table at the end of this section. I do this because Clayton’s recent experience may be useful in the public-policy debate about housing and mortgages. But first a little background.

Clayton is the largest company in the manufactured home industry, delivering 27,499 units last year. This came to about 34% of the industry’s 81,889 total. Our share will likely grow in 2009, partly because much of the rest of the industry is in acute distress. Industrywide, units sold have steadily declined since they hit a peak of 372,843 in 1998.

At that time, much of the industry employed sales practices that were atrocious. Writing about the period somewhat later, I described it as involving “borrowers who shouldn’t have borrowed being financed by lenders who shouldn’t have lent.”

To begin with, the need for meaningful down payments was frequently ignored. Sometimes fakery was involved. (“That certainly looks like a $2,000 cat to me” says the salesman who will receive a $3,000 commission if the loan goes through.) Moreover, impossible-to-meet monthly payments were being agreed to by borrowers who signed up because they had nothing to lose. The resulting mortgages were usually packaged (“securitized”) and sold by Wall Street firms to unsuspecting investors. This chain of folly had to end badly, and it did.

Clayton, it should be emphasized, followed far more sensible practices in its own lending throughout that time. Indeed, no purchaser of the mortgages it originated and then securitized has ever lost a dime of principal or interest. But Clayton was the exception; industry losses were staggering. And the hangover continues to this day.

This 1997-2000 fiasco should have served as a canary-in-the-coal-mine warning for the far-larger conventional housing market. But investors, government and rating agencies learned exactly nothing from the manufactured-home debacle. Instead, in an eerie rerun of that disaster, the same mistakes were repeated with conventional homes in the 2004-07period. Lenders happily made loans that borrowers couldn’t repay out of their incomes, and borrowers just as happily signed up to meet those payments. Both parties counted on “house-price appreciation” to make this otherwise impossible arrangement work. It was Scarlett O’Hara all over again: “I’ll think about it tomorrow.” The consequences of this behavior are now reverberating through every corner of our economy.

Clayton’s 198,888 borrowers, however, have continued to pay normally throughout the housing crash, handing us no unexpected losses. This is not because these borrowers are unusually creditworthy, a point proved by FICO scores (a standard measure of credit risk). Their median FICO score is 644, compared to a national median of 723, and about 35% are below 620, the segment usually designated “sub-prime.” Many disastrous pools of mortgages on conventional homes are populated by borrowers with far better credit, as measured by FICO scores.

Yet at yearend, our delinquency rate on loans we have originated was 3.6%, up only modestly from 2.9% in 2006 and 2.9% in 2004. (In addition to our originated loans, we’ve also bought bulk

portfolios of various types from other financial institutions. Clayton's foreclosures during 2008 were 3.0% of originated loans compared to 3.8% in 2006 and 5.3% in 2004.

Why are our borrowers – characteristically people with modest incomes and far-from-great credit scores – performing so well? The answer is elementary, going right back to Lending 101. Our borrowers simply looked at how full-bore mortgage payments would compare with their actual – not hoped-for – income and then decided whether they could live with that commitment. Simply put, they took out a mortgage with the intention of paying it off, whatever the course of home prices.

Just as important is what our borrowers did not do. They did not count on making their loan payments by means of refinancing. They did not sign up for "teaser" rates that upon reset were outsized relative to their income. And they did not assume that they could always sell their home at a profit if their mortgage payments became onerous. Jimmy Stewart would have loved these folks.

Of course, a number of our borrowers will run into trouble. They generally have no more than minor savings to tide them over if adversity hits. The major cause of delinquency or foreclosure is the loss of a job, but death, divorce and medical expenses all cause problems. If unemployment rates rise – as they surely will in 2009 – more of Clayton's borrowers will have troubles, and we will have larger, though still manageable, losses. But our problems will not be driven to any extent by the trend of home prices.

Commentary about the current housing crisis often ignores the crucial fact that most foreclosures do not occur because a house is worth less than its mortgage (so-called "upside-down" loans). Rather, foreclosures take place because borrowers can't pay the monthly payment that they agreed to pay. Homeowners who have made a meaningful down-payment – derived from savings and from other borrowing – seldom walk away from a primary residence simply because its value today is less than the mortgage. Instead, they walk when they can't make the monthly payments.

Home ownership is a wonderful thing. My family and I have enjoyed my present home for 50 years, with more to come. But enjoyment and utility should be the primary motives for purchase, not profit or refi possibilities. And the home purchased ought to fit the income of the purchaser.

The present housing debacle should teach home buyers, lenders, brokers and government some simple lessons that will ensure stability in the future. Home purchases should involve an honest-to-God down payment of at least 10% and monthly payments that can be comfortably handled by the borrower's income. That income should be carefully verified.

Putting people into homes, though a desirable goal, shouldn't be our country's primary objective. Keeping them in their homes should be the ambition."

There are many important truths in Mr. Clayton's 2009 statement and his eponymous firm has been the largest producer and financier of manufactured housing for many years. First, the collapse of the secondary market in 2000-2003 was not due to macroeconomic factors but shoddy ("atrocious")

business practices by lenders and manufactured home retailers. Lenders who should not have lent to unqualified borrowers are a path to financial disaster.

Second, eligibility standards (downpayments and verification of funds, verification of employment) are critical in loan success and increasing the likelihood that low income borrowers can still succeed in paying off their loans. Finally, defaults do not occur due to upside down loan to value conditions but due to loss of employment, family disintegration, illnesses, the same things that cause most credit defaults.

K. Cost Of Initiating And Maintaining A Chattel Loan Program over the Planning Period

Freddie Mac does not publish separate administrative cost statistics for its specialized programs, like the Home Possible Mortgage program. Therefore, we can only use the 2021 overall administrative expenses ($2,651,000,000) divided by the total outstanding principal balances (2.74 trillion) which equals .0.01%, or 1 basis point. Applying this percentage to the first year of manufactured home chattel loans (see Table Seven above) would result in an estimated administrative cost of $12,500, which is far lower than can be expected. The program cost is likely to be in the range of $500,000-$750,000, or around 40-60 basis points in Year One.

L. Guaranty Pricing

In addition to the administrative costs, Freddie Mac has to price its guarantee fee so that the program is self-sufficient rather than requiring subsidies from other borrowers or the taxpayers. Manufactured housing is the largest source of unsubsidized single family housing in the US and the program can be structured to operate at no net cost to the Enterprises. Financial modeling for various scenarios will be covered more extensively in the Economic Feasibility Chapter.

M. Mitigating Lending Challenges And Risks

1. FHFA Program Approval And Safety And Soundness

There are significant safety and soundness concerns about any type of home lending, including manufactured home personal property loans ("chattel loans"). However, if the Enterprises are to reach their statutory goals, they must find a way to foster a liquid chattel home market. Any such chattel loan business would require FHFA approval for the plan of initiation and the initial purchase plan. Program loan volume, location and the length of the purchase plan are areas likely to be scrutinized.

2. General Single Family Lending Industry Risks

The last 18-24 months have been very profitable for lenders with near record loan volume and an unprecedented increase in housing prices which reduced the number of defaults and the severity of the loss, if any, from foreclosure and resale of the collateral. As of November of 2022, this fortuitous situation is now shifting as we start to see bankruptcy filings for lenders in the non-qualified mortgage line of business as interest rates rise and loan applications drop. Credit conditions are likely to worsen in the coming months and lenders are likely to become more conservative in their lending practices.

N. New Opportunities Such As Special Purpose Credit Programs

Last February, FHFA along with all of the major government financial organizations agreed to an Interagency Statement to promote special purpose credit programs (SPCP) as a way to expand access to lending. SPCPs allow targeted loan programs for certain groups provided that the special purpose programs follow Equal Credit Opportunity Act (ECOA) and Regulation B guidance (see 12 CFR 1000.8). ECOA is a federal civil rights statute that prohibits discrimination during any aspect of a credit transaction based on nine characteristics: race, color, religion, national origin, sex, which also includes sexual orientation and gender identity, marital status, age, receiving money from public assistance and exercising your rights under the consumer protection act.

SPCPs can target their lending efforts toward economically disadvantaged groups and offer these groups more favorable lending terms. Freddie Mac could explore how achieving the purpose of the special credit risk programs can be harmonized with chattel home lending in under-privileged areas and populations. SPCPs can be offered by non for profit or for profit organizations although the requirements differ (see Section 1002.8 of regulation B). Credit Unions, CDFIs or other nonprofits can initiate programs tailored for their members or an economically disadvantaged class of persons.

Recent research of the Home Mortgage Disclosure Act data by the Urban Institute shows that people of color are more likely to have chattel loans than manufactured home mortgages (see https://www.urban.org/urban-wire/manufactured-housing-could-ease-supply-shortage-stakeholders-need-be-cognizant-existing). Also, chattel loan denial rates for Black and Hispanic borrowers were higher than the average for all chattel borrowers which are itself extraordinarily high (nearly 64%). SPCP programs, especially for low-moderate income Americans could help expand access to financing.

O. Industry Participation And Taking An Initial Conservative Approach

There appears to be some hesitancy on the part of the manufactured housing lenders to disclose their particular underwriting and eligibility policies and financial results, servicing methods and percentage of loss from repossessions of personal property. To allow this marketplace to develop, these lenders need to have technical discussions with Enterprise officials and FHFA. FHFA regulations allow for protection of proprietary information ("Trade secrets and commercial or financial information obtained from a person and privileged or confidential are exempt from public disclosure (12 CFR 1202.4 (4)). Without industry cooperation, the Enterprises will have to take a very conservative approach in determining eligibility, underwriting, loan servicing, consumer protection and guarantee pricing.

Industry-government collaboration was instrumental in the development of new manufactured home energy standards by the Department of Energy. The Department of Energy assembled a "MH working group" consisting of interested stakeholders along with a range of external experts on technical issues. The working group developed a term sheet which was mostly adopted in the final energy standards; a similar approach would assist in the growth of the chattel secondary market.

O. Asset Backed Security Market Conditions

Asset backed security markets remain relatively healthy. During 2022, asset backed securities issuances have been in the range of 20-40 billion per month with dropping security volume over the third quarter of 2022. Credit conditions in financial markets are changing and there is no certainty that security volume levels will be maintained.

IV. Economic Feasibility of This Line of Business

A. Impact Of Securitization Of Manufactured Home Loans On Freddie Mac

Operating the guaranty program in a sustainable manner means achieving a balance between income received, expenses incurred and in severe circumstances, managing cash flow to make payments to investors. With a properly structured program, the Enterprises should not have to subsidize manufactured home chattel loans with earnings from other business Ines. This chapter will review the experience of government and private sector loan programs and include some initial credit modeling.

Concerns have been expressed in the Duty to Serve Listening Sessions about the impact of manufactured home lending on the solvency of the Enterprises. It is important to put the potential scale of a chattel manufactured home loan program in perspective. Freddie Mac is an enormous financial entity with total single family guarantees outstanding of 2.74 trillion dollars at the end of 2021, an increase of 470 billion dollars from 2020 to 2021. Freddie Mac's net income was 12.1 billion dollars in 2021 so a relatively small chattel mortgage program does not threaten the viability (economic feasibility) of this Enterprise.

On the other hand, there are a number of safety and soundness concerns to consider should the Enterprises begin larger manufactured home asset purchases. These concerns relate to the history of manufactured home securitization programs and the lack of standardization in origination and servicing.

B. Past Performance Of The FHA Title I Chattel Loans

The longest financing program for personal property manufactured home loans is FHA's Title I loan program which began in 1970, four years before the passage of the Manufactured Housing Construction and Safety Standards Act of 1974 which established the HUD-code and the term "manufactured homes". Historically, the Title I program has gone through periods of rapid loan growth, the emergence and later closure of a secondary mortgage market provided by Ginnie Mae due to seller servicers defaults and then a statutory Title I reform law passed by Congress in 2008.

The Title I loan premium was 54 basis points annually which proved to be inadequate during the secondary market crash of 1986-1988. In 2001, the insurance premium increased to 100 basis points and in 2008, an up-front MIP of 225 basis points and a 100 basis points annual premium replaced the prior premium regime (see loan production in Table Nine). This higher premium structure was implemented to take into account differences in manufactured home and site built lending risks, including less equity building, appraisal issues, the location of the home on private or leased land, repossession costs and recoveries. The historical performance of Title I loans has varied with three distinct periods as shown in default statistics (see Table Eight below).

Table Eight: Median Default Rate for Title I Manufactured Home Loans

Time Period	1990-1994	1996-2000	2001-2005
Median Default Rate	14.3%	30.6%	6.5%

After the Title I loan reforms were passed, there was an uptick in loan issued but after 2010, loan volume remained below 1,000 loans per year (see Table Ten).

Table Nine: Title I Manufactured Home Loan Production For 2009-2021

Federal Fiscal Year	Number of Loans
2009	2,368
2010	1,776
2011	986
2012	655
2013	612
2014	464
2015	690
2016	861
2017	814
2018	554
2019	214
2020	52
2021	5

2. Nature Of Title I Manufactured Home Loans

For home only loans, the maximum loan amount is $69,687 with a maximum term of 20 years. The underwriting criteria are more liberal that typical loan programs with a minimum allowable credit score of 580.

C. Default Rates And Loss Severity On Title I Loans

Under the Credit Reform Act, the Federal Government has to compute the federal credit subsidy for its loan program operations and report them in the Credit Reform Supplement. With the new up-front fee plus an annual insurance charge of 1%, the Title I manufactured home program began to show a negative credit subsidy (profit) (see Table Ten). Default rates were also considerably lower with an estimated cumulative default rate for the pool of loans at 7-9%. This lower default rate and higher loan insurance rates restored the financial stability of the program.

Table Ten: Credit Subsidy (Negative Subsidy) Title I Manufactured Home Loans By Year

	Composition of Subsidy			Loan Characteristics		
Year	Subsidy	Default Net of	Fees	Loan	Lifetime Defaults as a	Recoveries as a
2010	-0.51	6.90	-7.41	18	9.96	21.41
2011	-0.99	6.57	-7.55	18	9.99	20.14
2012	-2.14	6.21	-8.35	18	8.99	19.60
2013	-2.58	6.56	-9.13	18	9.72.	22.04
2015	-2.13	6.32	-8.453	18	9.29	20.21
2016	-4.20	5.92	-9.13	20	8.69	19.09
2017	-3.78	6.18	-9.97	20	9.56	18.31
2018	-4.36	5.79	-10.15	20	8.89	18.47
2019	-3.87	6.09	-9.96	20	9.09	19
2020	-4.79	4.81	-9.6	20	7.84	20.09
2021	-6.20	4.649	11.2	20	6.75	19.81

2. Credit Losses And Recovery Rate From Repossessions

The lower default rate was very important for program safety and soundness since the recovery rate based on the outstanding balance of the loan was very low at around 20% (see Table Ten). This is due to a number of factors including the amount of delinquent interest and fees, the expense of repossession and removal of the home, the expenses of refurbishing, low resale prices due to distressed market conditions and other factors. While this loss severity seems very high, it is consistent with rating agency recovery percentages during the first 12 years of loan performance.

One of the differences between personal property consumer lending and mortgage lending is the criteria used by analysts and rating agencies to determine the probability of default. For mortgage lending, the most emphasis is put on the current loan to value ratio since the default risk is likely to decrease as the level of leverage against the property is reduced. There are other factors which are used to predict the likelihood of mortgage default which are shown in Table Eleven below:

Table Eleven: Criteria Used to Estimate Default Risk for Mortgages

Economic Risks	Underwriting Risk	Loan Types
Income levels	Level of Downpayment (Loan to Value Ratio)	Loan Purpose
Unemployment levels	Credit score	Loan Documentation
Housing demand	Debt to income ratio	Term of loan
Interest rates	Stability of employment	Type of Mortgage(Fixed, ARM)

For manufactured home lending, the stability of employment, downpayments and debt to income ratios are emphasized with more latitude for credit scores. Loans tend to be a fixed interest rate, with a 15 or 20 year term and are used to purchase a primary residence. Economic factors will have an impact but as stated above in Chapter III, Section J, manufactured home buyers tend to be less reliant on home value appreciation.

D. Past Secondary Market Financial Losses

The second major factor is the costs of assuming responsibility for servicing loans originated by seller/servicers who default on their obligations. Exceptional default scenarios happened in the 1980s. In testifying before the United States Senate Committee on Banking, Housing and Urban Affairs, Subcommittee on Housing and Transportation) on April 4, 2006, Michael Frenz, Executive Vice President and CEO of Ginnie Mae cited the following loss data:

- 30-40 manufactured home security issuers participated in the Ginnie Mae program
- From 1986-1988, 12 security issuers defaulted on their servicing obligations on portfolios totaling 1.8 billion dollars
- As of 2006, the total Ginnie Mae losses on all manufactured home security issuer defaults net of guarantee fees, FHA insurance coverage and recoveries were 514 million dollars, or about 28% of the loan pools. Without FHA insurance, the Ginnie Mae losses would have been substantially higher.

Appendix F shows the estimated financial impact of such a situation where the estimated losses after all revenues, including asset recoveries, are compared with the credit losses and administrative

expenses. The assumed default rate of 5% for years 1-5, 2.5% for years 6-10 and 1.50% for years 11-15 is a worst case scenario with a cumulative default rate of nearly 40%. Lender poor underwriting and post disbursement loan servicing, inadequate controls and monitoring over third parties, all combined with poor macroeconomic conditions to make a perfect storm. Situations like this cannot be repeated.

However, it is important to also recognize that in the period of the late 1980s Ginnie Mae also experienced a large number of security issuer defaults in its single family and multifamily mortgage pools. The GAO's audit of Ginnie Mae's 1989 financial statements showed that Ginnie Mae had $10.3 billion in single family mortgage backed securities in default and over 3 billion dollars in default by lenders of multifamily mortgages. Also, the actions by insurers including the VA's no-bid policy to cut its losses also exacerbated Ginnie Mae's losses.

Also, in the years since the 1980s, there has been a shift away from a preponderance of homes being placed on rental lots to a greater percentage of multi-section homes with many of them being placed on private land. Lower loss severity where a home does not have to be moved before resale has improved the financial results.

E. Default Characteristics Of Various Income Groups

Freddie Mac has compiled serious early delinquency and default statistics for low-moderate income and above median income borrowers (see Table Twelve). Note that serious delinquency rates and default rates are twice as high in most years for low-moderate income borrowers. Since most manufactured home chattel loans would predominantly be in the low-moderate income category, we might expect a similar dichotomy from the financial results of higher income borrowers. Guarantee pricing and fees should reflect the expected difference in delinquency and default rates.

Table Twelve: Loans for Above Median Income Borrower and Low-Moderate Income Borrowers

Families and Loans Serving Families with Income above the Median Level, by Year				
	Above Median Income		Low-Moderate Income	
Acquisition Year	Serious Early Delinquency Percentage	Default Percentage	Serious Early Delinquency Percentage	Default Percentage
2009	0.11%	0.83%	0.23%	2.21%
2010	0.04%	0.46%	0.11%	1.49%
2011	0.03%	0.29%	0.10%	1.02%
2012	0.03%	0.17%	0.07%	0.56%
2013	0.03%	0.20%	0.08%	0.59%
2014	0.06%	0.32%	0.13%	0.74%
2015	0.05%	0.24%	0.11%	0.53%
2016	0.08%	0.20%	0.14%	0.46%
2017	0.36%	0.17%	0.38%	0.40%
2018	0.14%	0.10%	0.26%	0.26%
2019	1.89%	0.02%	2.06%	0.07%
2020	0.97%	0.00%	1.29%	0.01%

F. Credit Risk Transferring Mechanisms Used By The Enterprises

1. Private Mortgage Insurance

Unlike the manufactured home industry, private mortgage insurance (PMI) has been a fixture of higher loan to value conventional single family loans. Prices and protections vary based on the type of PMI selected, the loan amount, term, type of loan etc. Typical rates for smaller loans with 10% downpayments and mid-level credits scores of 660 would range between 75-125 basis points until the outstanding principal balance is below 78%. Therefore, the true cost of securing the low downpayment loan is the PMI payment plus the guarantee fee or closer to the FHA Title I loan program costs.

2. Freddie Mac Risk Transfer Programs

Other than the structuring of security investments (see Section 5 below), manufactured housing chattel lending does not have risk transfer programs like the STARC Notes to offload a portion of the default credit risk to other investors. Credit risk transfers cover about 53% of Freddie Mac's outstanding single family loan portfolio as of 2021. Therefore, Enterprise capital must still be retained for seller servicer default risk.

3. Lender Repurchases

Freddie Mac has a detailed repurchase procedure for identifying origination and selling defects noted in post-funding reviews, with remedies ranging from indemnification, loss reimbursement, additional collateral or repayment of the loan proceeds. While other government insurance programs have repurchase programs for unenforceable loan obligations, fraud or misrepresentation in loan origination or for violating the insurance claim procedures, they do not have this extensive a range of financial penalties. Government program lenders can be charged interest and penalties along with potential referral of the lender to the lender authorities or to the Treasury department.

4. Dealer Recourse Agreements

There is another risk transferring mechanism involving the manufactured housing dealer (dealer recourse) which allows lender recovery in the event of violations of loan insurance regulations or policies. The lender should exercise its rights when it discovers irregularities or violations of the rules established by the Enterprises.

5. Securitization Measures

In addition to these measures, manufactured home backed securities issued by seller servicers can include other credit risk transferring mechanisms like subordination of tranches, excess spread to cover costs and defaults, overcollateralization and financial guarantees from counterparties or insurance companies. However, even these protections can be insufficient in severe downturns or when lenders do not engage in prudent lending practices.

G. Financial Results of Other Government Loan Programs (The USDA chattel loan program)

The Rural Housing Service of the Department of Agriculture offers manufactured home chattel loans with 100% financing. Rural development loans are available in approximately 97% of the land area

in the US. There are maximum income limits (115% of median income in the area) and minimum credit scores (650). The guarantee fee is 2% of the loan amount with an annual fee of ½% of the loan amount.

Separate manufactured home lending data for the Rural Housing Service Section 502 program is not available in the credit reform filings filed with Congress. However, this program has an overall positive subsidy rate and much higher default rates than the Title I manufactured home loan program (see Table Thirteen).

Table Thirteen: Credit Reform Data: Rural Housing Service Section 502 Rural Housing Loans

Year	Subsidy rate (%)	Default Net of Recoveries (%)	Loan maturity (years)	Lifetime Defaults as a Percentage of Disbursements	Recoveries as a Percentage of Lifetime Defaults
2017	6.77	4.71	34	22.21	41.46
2018	3.85	5.13	34	22.39	42.15
2019	6.77	4.60	34	20.83	42.82
2020	9.00	4.89	34	23.96	42.17
2021	1.86	4.68	34	20.12	54.98

H. Data On Performance Of Conventional Chattel Loans Over the Last Four Decades

There is no consistent and long term source of data for conventional chattel manufactured home loan performance. Therefore, assembling data on asset performance requires piecing together independent research by rating agencies, securities filings and governmental budget and financial statements.

1. Due Diligence In The Review Of Securities Transactions

Due to these information gaps, part of the initialization process for issuing securities should be a sampling of the loans to verify adherence to loan underwriting criteria. Also, the due diligence should include a review of the characteristics of the loans such as geographic distribution, loan size and terms, along with the lender's monitoring systems and their experience in handling this type of transactions.

2. Determination Of Losses

Loss frequency and loss severity are two main focus points for lender management along with careful review of the other factors that can increase the amount of each loan loss. In addition to geographic concentration, certain loan types, and various underwriting characteristics, the following factors can impact the number and severity of losses:

- The level of employment, and income in the area
- Economic and demographic trends where the property is located.

3. Factors In Loss Severity

The age of the unit at the time of repossession can also be a factor in the recovery rate which can vary depending upon the location of the home. Lenders with effective dealer networks for resale of units can have a major impact on the amount of recoveries. Recourse agreements, guarantee

agreements or other credit loss methods can also reduce the severity of the loss, especially for defaults that occur in the early years of the loan contract.

5. More Current Financial Data From Manufactured Home Lenders

There is some publicly available lender data (see Table Fourteen below) concerning conventional manufactured home loan loss reserves and charge-offs for loan defaults. For financial statement purposes, allowances for credit losses from manufactured housing loans include estimates of losses on loans currently in foreclosure and losses on loans not currently in foreclosure. Given the length of time covered by the financial data, it is certainly possible to do modeling of loan performance and expected loan losses net of repossession recoveries.

Table Fourteen: Manufactured Home Loan Loss and Loan Charge-offs for the Last 20 Years

Year	Percentage of Loss Reserve to Outstanding Portfolio	Percentage of Loan Charge-offs to Outstanding Portfolio Size
2021	3.46%	0.16%
2020	4.16%	0.69%
2019	0.79%	0.85%
2018	0.96%	0.98%
2017	1.17%	1.18%
2016	1.08%	1.08%
2015	1.13%	1.35%
2014	1.34%	1.66%
2013	1.99%	2.13%
2012	2.47%	2.68%
2011	2.61%	2.49%
2010	2.54%	2.59%
2009	3.09%	2.72%
2008	2.42%	1.71%
2007	1.59%	1.77%
2006	2.12%	2.45%
2005	2.44%	1.16%
2004	1.55%	1.32%
2002	2.20%	
2001	1.80%	
2000	1.40%	
1999	1.40%	
1998	0.80%	
Median	**1.99%**	**1.66%**

Note that the loan reserve and actual loan charge-offs were very similar. Also, the data shows many of the same peaks and valleys in loan charge-offs that were experienced in other single family housing loan markets. Loan charge-offs accelerated to 2.72% of outstanding loans in 2009 and remained elevated until 2014 when they began the downtrend trend that continues today.

The loan loss reserve increased substantially in 2020 due to a change in accounting rules, specifically Accounting Standards Codification ("ASC") 326. ASC 326 requires that expected credit losses from loans include situations where the risk of loss is probable or remote, rather than just probable as in

prior guidance. Much of the increase in loss reserve was due to a charge against retained earnings for past loans.

3. Comparison Of Loan Charge-Off Data To Delinquency Data

There are two factors in estimating charge-offs: the percentage of delinquent loans that go to repossession and the loss recovery percentage. The percentage of loan defaults that result in an ultimate repossession is estimated at 50% and the loss percentage has been set at 50% based on data contained in Freddie Mac's The Loan Shopping Experiences of Manufactured Home Homeowners. The results for a large group of conventional manufactured home loans are shown in Table Fifteen below: While the default and recovery percentages may vary, a ballpark charge-off range of about .075%-1.5% is consistent with the loan experience for the past five years.

Table Fifteen: Loss Rate Projections Based on Lender Delinquency Data

Year	Current Loan Percentage	Estimated Charge-offs After Recoveries	Comparison with Actual Lender Data
2021	97.00%	0.40%	0.16%
2020	97.00%	0.75%	0.69%
2019	96.00%	1.00%	0.85%
2018	95.00%	1.25%	0.98%
2017	95.00%	1.25%	1.18%
2016	94.00%	1.50%	1.08%
2015	95.00%	1.25%	1.35%

I. Guaranty Pricing And Other Special Adjustments For Chattel Loans

1. Freddie Mac And Manufactured Home Lender Loss Reserves

According to Freddie Mac's 2021 financial statements, the credit loss on its single family line of business was 919 million based on an outstanding portfolio of 2.792 trillion or .03% of the outstanding loans. This is a small fraction of the manufactured home loss reserve shown in Table Sixteen below.

Both the single family and manufactured housing provision for losses are far lower than historically seen. Much of that difference is current appreciation rates in single family property values, huge refinancing volume and declining forbearance loans.

Table Sixteen: Losses Reserves for Freddie Mac and A Manufactured Home Lender

Year	Freddie Mac	Manufactured Home Lender
	Single Family: Loss reserves as a percentage of guaranty book of business:	Provision for Loan Losses as Percentage of Portfolio
2021	0.03%	3.47%
2020	0.06%	4.16%
2019	0.06%	0.79%
2018	0.04%	0.96%
2017	0.04%	1.17%
2016	0.03%	1.08%
2015	0.02%	1.13%
Median	0.04%	1.13%

2. Adjustment Factors For Manufactured Home Loans

Manufactured home personal property loans typically have a loan to value ratio exceeding 80% and in conventional single family transactions with this degree of leverage, there is private mortgage insurance paid by the borrower. Up-front fees or loan pricing adjustment mechanisms similar to those used by Fannie Mae (see LLPA Table: One: https://singlefamily.fanniemae.com/media/9391/display) might be necessary.

3. Setting The Initial Guaranty Fee

So, what is the bottom line on guarantee pricing? First, without more actual lender data, the loan guarantee rate should be conservatively set at an up-front fee of at about 2.25% plus an annual guarantee rate of 1.0%. This pricing will be for standard risk borrowers. For those borrowers who do not quality for standard risk due to a lower downpayment, lesser credit score or high debt to income ratios, the up-front fee could be increased to 2.5% or more with the same annual guarantee fee of 1.0%.

J. Modeling A Successful Chattel Mortgage Loan Program

As the program progresses, the Enterprises will gather more comprehensive information about loan performance, stability (prepayments) and defaults/repossessions which should influence long term guarantee pricing. In addition, the Enterprises must include an estimate of losses from lender defaults when the Enterprise must service the loan pools.

1. Prepayments And Refinancing

Given the high interest rates charged on chattel loans, consumers would normally have a great incentive to refinance as market conditions become favorable. However, the dearth of lenders for used chattel loans and uncertainties as to the value of the collateral make it difficult to obtain loans. Historical prepayment models start with an annual rate of 4.5% in the first year and then increase to 6% in years 3-15, or an average of about 5.5% over the 15 year period. The same relative prepayment frequency is shown in more recent models, such as the Cascade MH Asset Trust 2021-MH1 securitization with 5% prepayment in the first two years and higher prepayments starting in year 3.

In addition, borrowers with lower credit scores and conditions (credit impairment) are less likely to be able to refinance. Refinancing a 15 year $75,000 10% loan to save 1.5% would result in monthly savings of about $65-$75. Yes, the savings are real but probably insufficient to spur a great number of refinancings. In the August, 2007 report on the Title I loan program; the Government Accountability Office (GAO) used an annual prepayment rate of 4% in their credit modeling. Other security filings indicate a high rate of 6% after the initial years of the loan. This would seem to be a reasonable assumption.

2. The Number Of Defaults And Repossessions

Historical performance of manufactured home loan pools has been very uneven with ultimate repossession rates of around 15% - 20% for loans originated between 1997 and 2001. Severe situations like the Ginnie Mae security issuer defaults resulted in repossession rates of 35% or higher. In the early 2000s, Conseco Inc. representatives stated that repossession rates would range from 20% for new home loans to as high as 50% for loans made on repossessed loans. This level of repossessions when coupled with loss severities (see Item 3 below) can necessitate tight origination controls and high guarantee fees, which themselves can become barriers to helping serve this underserved market.

3. Loss Severity At The Loan Level

There are a number of factors that impact loss severity since homes frequently must be repossessed from the site of placement and resold. Costs of moving homes, the condition of the homes after transport, the availability of dealers to market and resell the homes and other factors can result in relatively low capital recoveries. Average ultimate recoveries of 25% have been used (see the discussion of loss severity in Section J below since most defaults occur in the first ten years).

4. Loss Severity At The Security Issuer And Investor Level

(a) Ginnie Mae Servicer Defaults

Security issuer defaults and adverse outcomes for investors in manufactured housing asset backed securities have occurred several times in the history of manufactured housing finance. During the 1980s, a large number of manufactured home lenders became security issuers for Ginnie Mae and engaged in imprudent loan origination and servicing (see Section C above).

b). Green Tree/Conseco Securities

A second example occurred 13 years later with Green Tree Acceptance, later Conseco Inc. who was the major manufactured home chattel lender. Fannie Mae had guaranteed 8 billion in manufactured home securities and 70% of the loans were serviced by Green Tree/Conseco. Moody's downgraded 215 of the Green Tree securities due to deteriorating collateral performance. After a review of the internal cash flows and modeling, Fannie Mae wrote down the value of the manufactured home securities by a total of 206 million dollars as of Fannie Mae's 2009 10-K. While losses were not as severe as the Ginnie Mae experience, they were still very significant.

(c). Federal Home Bank Of New York

In 2003, the Federal Home Bank of New York reported a loss of $183 million from manufactured home securities holdings of 1.03 billion dollars. The bonds were purchased to help FHBNY's mission for improving housing finance and community development. After bank staff reviewed the collateral for the bonds, they determined that the creditworthiness of the bonds had deteriorated and therefore sold the bonds for the reported loss of 18% of the outstanding principal balances.

Therefore, the impact of a security issuer default or bond losses could be extremely high. Investors who purchase securities such as life insurance companies and pension funds rely on stable cash flows and would be very dissatisfied with these types of situations.

5. Recommendations To FHFA For The Manufactured Home Pilot Size

According to the 2021 Consumer Finance Protection Bureau study (The Manufactured Housing Finance: New Insights from the Home Mortgage Disclosure Act Data), the median manufactured home chattel loan amount is $56,672. The median chattel loan for landowners is $70,731. Home prices have escalated over the last two years and therefore, the estimated loan sizes for new and used homes are set higher (see Chapter III, Section F above) Both types of loans (ownership and leased land) should be selected to see if there is a significant difference in defaults, loan servicing and repossession rates.

In designing a model of the performance of future chattel loans, key assumptions have to be made in the areas of prepayment rates (loan survivability), the number of defaults and repossessions and the administrative costs in offering this product. Administrative costs will include the costs of retrofitting systems along with the 10 basis point charge for pool creation and administration. A portfolio of 1,000 loans with an unpaid principal balance of $60 million dollars was chosen for the simulations.

6. ` Scenario No. 1 A Guaranty Program Similar To The Single Family Loan Purchase Programs

Appendix C shows the financial results from operating a guarantee programs with a guaranty fee nearly identical to the 2021 average single family guarantee fee (56 basis points). Prepayment rates are based on industry financial reports and the default rates are modest at 1% for the first five years, with declining rates of foreclosure as the loans season.

Recovery rates (1- the loss severity percentage) are set very conservatively at 25% of outstanding principal balance. One Rating Agency's loss severity assumptions for chattel loans starts at about 60% loss severity in Year One increasing gradually to 80% in Year 12, so the 25% average recovery rate is very consistent with rating agency loss severity assumptions. Home and lot combinations loss severity would start at a 40% in Year One and increase to 75% by Year 12.

Administrative costs are estimated to be much higher than those shown on Freddie Mac's financial statements. Administrative costs are likely to be higher in the earlier years due to start-up expenses, initial marketing and outreach and program material preparation.

The modeling shows that using the normal single family guaranty fee would be financially disadvantageous with a loss of 2.2 million dollars during years 1-15 or $2,200 per loan. The main reason is that even with a relatively reasonable amount of losses, the credit losses are greater than guarantees even ignoring administrative expenses. If the default rates were even higher than a cumulative default rate of 7.3%, the entire business line is severely unbalanced.

7. Scenario no. 2 A Guaranty Fee Program Similar To The FHA Title I Program

The situation changes materially when a 2.25% up-front fee is charged to the borrower along with a 100 basis points annual guarantee charge (see Appendix D). In this case, the total revenue would be double the credit losses and even with administrative expenses, there is nearly a 1 million dollar profit, or $984 per loan. This is similar to the situation with single family mortgages.

8. Scenario No. 3: Much Higher Default Rates And The Financial Impact

Appendix E shows that a much higher default rate (2.5 times the default rates in Appendices C and D) would be more than enough to make the loan line unprofitable. With these high credit losses, even these higher guarantee fees are insufficient to cover costs, resulting in a loss nearly as large as Scenario No. 1. Once again, the extremely high percentage loss on each foreclosure means that defaults must be carefully controlled by prudent and to some, strict underwriting of borrowers.

9. Modeling A Security Issuer Default With Extremely High Losses Due To Repossessions

The worst situation is when the security issuer defaults due to high repossessions resulting in a cash flow insufficiency. Thus the Enterprise is saddled with the higher costs of servicing loans and making pass through payments to the investors (see Appendix F). The worst case scenario would be an annual 7% foreclosure rate which tapers off in the later years. The total losses were about 50% of the funds originated or 30 million dollars with a total foreclosure rate of more than 40%. Even limited insurance or risk management techniques are insufficient for losses of this magnitude.

K. Geographic Concertation Of Loans

Another important risk factor is the geographic distribution of the loans since there are likely to be differences in the default percentage by localities. Manufactured Homes tend to be sited primarily in southern and temperate climate states especially in the east and gulf coast states and in the Appalachian mountain states. The states with more than 2% of total home shipments and state default statistics for single family homes are shown in Table Seventeen below:

Table Seventeen: 2021 Top 14 Volume States for Manufactured Homes and Serious Delinquency Rates

State	Single MHs	Double MHs	Total MH Homes	Percentage of 2021 Total US Manufactured Homes	Percentage of Single Family 90+ Delinquent Loans (9/2021)
Alabama	2,367	2,838	5,205	4.71%	0.50%
Arizona	695	1,934	2,629	2.38%	0.30%
California	617	2,849	3,466	3.13%	0.30%
Florida	2,149	7,698	9,847	8.91%	0.50%
Georgia	1,521	2,760	4,281	3.87%	0.50%
Kentucky	1,304	2,648	3,952	3.57%	0.60%
Louisiana	3,322	2,331	5,653	5.11%	0.80%
Michigan	2,161	1,944	4,105	3.71%	0.40%
Mississippi	2,157	2,282	4,439	4.01%	0.90%
North Carolina	2,608	3,585	6,193	5.60%	0.50%
Oklahoma	1,490	1,207	2,697	2.44%	0.70%
South Carolina	1,906	3,394	5,300	4.79%	0.60%
Tennessee	1,147	2,503	3,650	3.30%	0.40%
Texas	8,535	9,969	18,504	16.74%	0.50%
Total Top 14 States				72.28%	
Total US	46,099	64,469	110,568	100%	0.50%

L. Feasibility Of The Program

So, manufactured home chattel lending is economically feasible under certain conditions. The large variation in financial results underlines the importance of controlling defaults and repossession losses through proper loan origination and servicing of loans. The Title I loan program is an example of a program which has operated with a negative credit subsidy for many years.

V. Program Feasibility

A. Incorporating Safety And Soundness Principles In Lending Operations

1. Safety And Soundness Principles

FHFA established two principles for the operation of the Enterprises under conservatorship (see https://www.federalregister.gov/documents/2008/09/09/E8-20839/establishment-of-a-new-independent-agency). The first principle is that Enterprises operate prudently in a safe and sound manner (protection of the taxpayer). The second principle is operations consistent with the public interest by "foster[ing] liquid, efficient, competitive, and resilient national housing finance markets".

In fostering this public purpose, the Enterprises could accept a lesser economic return for activities dedicated to low- and moderate-income families. Implicit in this principle is that public purpose operations directed to low-moderate income Americans should not be money losing operations but a break-even economic return is permissible. In addition to meeting the operational goals, the Enterprises must maintain adequate capital, internal controls and follow FHFA rules.

Also, the credit and collateral characteristics of these chattel loan pools will be very different from the Enterprise's typical single family loan pools which have on average loan to value ratio of around 70%, credit scores of 750 and a relatively small number of borrowers with debt to income ratios over 45%. Adjustments to risk strategies will be necessary for these differences.

B. Key Areas In Developing Safe And Sound Personal Property (Chattel) Lending

Loan origination and servicing practices and controls for a manufactured home personal property secondary market must address the following areas:

1. Deployment of effective loan underwriting, lender management and loan servicing policies
2. Default risk
3. Percentage of loss due to recovery and sale of collateral
4. Consumer Protections

Incorporating program controls that address these areas will allow for the initiation of a sound program.

C. Deployment Of Prudent Loan Origination And Servicing Procedures

The Enterprises have developed detailed seller servicer approval procedures and manuals to prescribe the life cycle of loans. There are some differences involved in manufactured home personal property loans. For example, the involvement of manufactured home retailers in the loan transaction, differing methods for appraising the collateral and the complexities involved in repossessions where the borrower does not own the land. There is also the question of enhancing consumer tenant protections and the lender's ability to resell the home without removal under certain conditions.

Still, manufactured home lenders verify the existence and duration of employment, verify the amount and source of the downpayment, conduct a credit examination and ensure that the loan

documentation is full and complete. Most of the Enterprise origination practices can be applied to chattel home lenders. Also, lender capital standards, rules for repurchasing loans and other lender requirements can be adapted for manufactured home chattel loans. The specific credit underwriting and loan origination standards for chattel loans are covered in Chapter VII.

D. Default Risk

1. Key Influencers Of Loan Default

Because a small number of non-bank lenders make manufactured home chattel loans and detailed loan experience information is not compiled and published, determining default risk is made more difficult. However, manufactured home loan defaults are likely to result from the same combination of inability to pay adverse events such as job loss or credit problems, relationship problems (divorce or death), serious illnesses, and in some cases, manufactured home park closures (see Federal Reserve Bank of Minneapolis research paper article: https://www.minneapolisfed.org/article/2017/who-defaults-on-their-mortgage-and-why-policy-implications-for-reducing-mortgage-default). Therefore, the frequency of occurrence and what happens when default occurs are the key areas to evaluate.

2. Dataset Of Loan Default Characteristics

There are certain factors in loan origination which can have a material impact on the default risk. In May of 2021, the FHFA published A Quarter Century of Mortgage Risk: Working Paper 19-02, a long term study of its experience in defaults both for Enterprise portfolios, government insured or guaranteed loan portfolios (FHA and VA) and for private label security portfolios. The data covered the default risk for loans originated in 2006-2007; this was a period when underwriting standards, loan to value ratios and credit scores requirements were relaxed, thus materially increasing the default risk. This would represent an adverse case scenario as default rates were substantially elevated.

A loan is considered to be in default if it was ever 180 days or more delinquent or was terminated for less than the full outstanding balance of the loan. In some cases, the authors made estimates for missing data concerning debt to income (DTI) ratios, credit scores, combined loan to value (CLTV) ratios, loan documentation status, amortization status, occupancy status, and type of refinance loan (rate-and-term) versus cash-out refinances.

3. Examining Default Risk For Enterprise And Non-Enterprise Loans: Lower Credit Score Borrowers

There is a substantial variation in the default risk between the Enterprises, FHA, VA and private label security loans. For example, in Table Eighteen for a standard amortization, full documentation loans with medium loan to value and debt to income ratios and lower credit scores, the default risk varies from 21.3% for VA loans to 41.8% for FHA loans. Enterprise loans performed nearly as well as the VA loans with private label securities loans closer to the FHA loan default percentage. The relationship between Enterprise and non-Enterprise loan default risk remains the same at higher credit scores (see Table Twenty):

Table Eighteen: <u>Baseline Fixed Rate, Standard Amortization, Full Documentation Loans Originated 2006-2007: Lower Credit Score</u>

Category	Credit Score	Loan to Value Ratio	Debt to Income Ratio	Default Risk
FHA	620-639	81-85	34-38	41.8%
Enterprise	620-639	81-85	34-38	25.2%
VA	620-639	81-85	34-38	21.3%
Private Label Securities (PLS)	**620-639**	**81-85**	**34-38**	**35.3%**

Table Nineteen: <u>Baseline Fixed Rate, Standard Amortization, Full Documentation Loans Originated 2006-2007; Higher Credit Score</u>

Category	Credit Score	Loan to Value Ratio	Debt to Income Ratio	Default Risk
FHA	690-719	81-85	34-38	29.2%
Enterprise	690-719	81-85	34-38	10.8%
VA	690-719	81-85	34-38	10.1%
Private Label Securities (PLS)	690-719	81-85	34-38	20.2%

Private label loan portfolios statistics have been chosen for the baseline since manufactured home chattel loans are non-conforming loans and therefore, the Enterprise default experience on single family detached homes might understate the risk of default. The private label securities loan default risk percentages are based on CoreLogic's dataset which covers 90 % of this private label market.

4. <u>Key Default Loan Origination Parameters</u>

The FHFA database covers five key parameters: loan to value ratio, credit score, debt to income ratio, loan type (fixed or variable) and loan purpose (primary residence, refinancing). In addition to verification of employment and assets through proper documentation and credit validation, these factors would appear to have the greatest impact on loan default risk.

The Consumer Finance Protection Agency published the <u>Manufactured Housing Finance: New Insights from the Home Mortgage Disclosure Act Data</u> report in May of 2021. The Home Mortgage Disclosure Act (HMDA) data indicates a medium credit score of 676 for chattel manufactured home loans. Therefore, the credit score range of 660-689 has been used to compare the relative impact of the five default parameters on default risk.

(a). <u>Loan To Value (LTV) Ratio</u>

Default statistics have been selected for typical manufactured home loan downpayments (86-90% loan to value), very high LTV (91-95%) and low LTV (81-85%). Table Twenty shows that the default rate increases materially when the LTV moves above 90% but there is little change in default risk between high and the highest LTVs. Still, given the high default rates, a minimum downpayment of at least 10% would appear to better controls risk.

Table Twenty: Baseline Fixed Rate, Standard Amortization, Full Documentation Private Label Security Loan to Value Ratios Loans Originated 2006-2007

Category	Credit Score	Loan to Value Ratio	Debt to Income Ratio	Default Risk
Lowest LTV	**660-689**	**81-85**	**34-38**	**25.8%**
Medium LTV	660-689	86-90	34-38	28.5%
High LTV	660-689	91-95	34-38	36.5%
Highest LTV	660-689	96+	34-38	38.2%

(b) Debt To Income (DTI) Ratios

Based on the HMDA data (median chattel borrower DTI ratio of 35.5%), the base DTI range was set at 34-38% with the highest ratio (44-50%). The default risk does not change substantially regardless of debt to income ratios (see Table Twenty One). Therefore, some latitude could be allowed for consumers, especially younger first time home buyers with high debt to income ratios at present but who will likely see income increases later in life.

Table Twenty One: Baseline Fixed Rate, Standard Amortization, Full Documentation Private Label Security Debt to Income Ratios Loans Originated 2006-2007

Category	Credit Score	Loan to Value Ratio	Debt to Income Ratio	Default Risk
Lowest DTI	660-689	81-85	1-33	23.5%
Medium DTI	**660-689**	**81-85**	**34-38**	**25.8%**
High DTI	660-689	81-85	39-43	27.0%
Highest DTI	660-689	81-85	44-50	28.5%

(c) Credit Scores

The credit score default data is far different than the previous debt to income ratios. Moving from a credit score of 620 to a minimum of credit score of 660 cuts the default risk by a third (see Table Twenty Two). The change is similar to what occurs in downpayments.

Table Twenty Two: Baseline Fixed Rate, Standard Amortization, Full Documentation Private Label Security High and Low Credit Scores Loans Originated 2006-2007

Category	Credit Score	Loan to Value Ratio	Debt to Income Ratio	Default Risk
Lowest Credit Score	**620-639**	**81-85**	**34-38**	**35.3%**
Low Credit Score	*640-659*	*81-85*	*34-38*	*31.2%*
Medium Credit Score	*660-689*	*81-85*	*34-38*	*25.8%*
Highest Credit Score	*690-719*	*81-85*	*34-38*	*20.2%*

(d) Loan Type (Fixed or Variable)

This parameter has not been fully profiled since the vast majority of manufactured home chattel loans are fixed rate loans. However, if adjustable rate mortgages become an option, caution should be exercised. The default rate for private label adjustable rate loans with a credit score of 660-689 and the LTV and DTI ratios shown in Table Twenty Two would be 30.3%, nearly 5 percentage points higher than standard amortization loans.

(e) Loan Purpose (Primary Residence, Refinancing)

Manufactured home buyers intend to occupy their home as their primary residence. Also, the CPFB report referenced above shows that the percentage of refinanced chattel manufactured home loans were 3.4% of the total chattel loans. Refinancing of loans is less common for a number of reasons, including the absence of lenders willing to make these loans on acceptable terms. Still, it worth noting that rate and term refinancing loans with the same parameters noted above had a default risk of 43.9% vs 25.8% for a home purchase loan.

(f) No Or Low Documentation Loans

While there is data concerning the default performance of these types of loans, the default risks are so high (53% for refinanced, standard amortization loans with the same parameters) that these loans cannot in any way be considered as safe and sound. Any secondary market for chattel loans must operate conservatively with full lender and Enterprise controls and diligence in credit documentation.

E. Planning For Safe And Sound Loan Origination

The mortgage study data shows that default risks are more heavily influenced by the Loan to Value ratio (amount of downpayment) and the credit score. A minimum credit score of 660 with a maximum loan to value of 85% resulted in a default risk of 25.8%, a third less than the overall default risk for private label security loans at 35%. This is also very close to the Enterprise default risk for medium credit scores shown in Table Twenty Two.

F. Recovery and Resale of Repossessed Homes

1. Financial Data From Manufactured Home Lenders

There is publicly available lender data (see Table Fourteen above in Chapter IV, Section H) concerning loss reserves and charge-offs for loan defaults. For financial statement purposes, allowances for credit losses from manufactured housing loans include estimates of losses on loans currently in foreclosure and losses on loans not currently in foreclosure.

2. Comparison Of Loan Charge-off Data To Delinquency Data

There are two critical factors in determining charge-offs, the percentage of delinquent loans that go to repossession and the loss recovery percentage. The percentage of loan delinquencies that result in a repossession is estimated at 25-30% (see Table Twenty Three). According to a Consumer Finance Protection Board 2014 report, a strong recovery percentage of 50% is possible (see Freddie Mac's The Loan Shopping Experiences of Manufactured Home Homeowners) but other estimates are much lower at 20-25%.

Table Twenty Three: Loss Rate Projections Based on Lender Delinquency Data

Year	Current Loan Percentage	Estimated Charge-offs After Recoveries	Comparison with Actual Lender Data
2020	97.00%	0.75%	0.69%
2019	96.00%	1.00%	0.85%
2018	95.00%	1.25%	0.98%
2017	95.00%	1.25%	1.18%
2016	94.00%	1.50%	1.08%
2015	95.00%	1.25%	1.35%

G. Guaranty Pricing And Other Special Adjustments For Chattel Loans

1. Credit Fees or Adjustment Factors For Manufactured Home Loans

In the latest revisions to Exhibit 19 Credit Fees with Loans with Special Attributes, Freddie Mac has announced credit cap fees for manufactured home loans of 50 basis points. The credit fees for Duty to Serve Loans are set at 0% and there is an Indicator Score Loan to Value Credit Fee of 2.25% for 85% loan to value loans with a credit score in the range of 660-680 (see https://guide.freddiemac.com//euf/assets/pdfs/Exhibit_19.pdf). Fannie Mae has similar loan level price adjustment factors for loans like potential chattel manufactured home loans without private mortgage insurance. These requirements would further limit Enterprise risk.

H. Additional Lender and Market Concerns For Safety and Soundness

A. Fostering Liquid And Competitive Markets

Market liquidity could be enhanced through the standardization of the various loan products, origination, underwriting and servicing standards for lenders. There are a number of lenders who are making loans for manufactured homes treated as chattel (see Table Twenty Four below).

Table Twenty Four: Top Manufactured Home Chattel Lenders

Consumer Finance Protection Bureau Manufactured Housing Finance: New Insights from the Home Mortgage Disclosure Act Data		
2019 HMDA Data Highest Volume Manufactured Home Chattel Lenders		
Name of Lender	Number of Loans	Market Share
21st Mortgage	17,900	46.13%
Vanderbilt Mortgage	9,000	23.20%
Triad Mortgage Services	6,100	15.72%
Credit Human FCU	2,700	6.96%
Cascade Finance Services	1,300	3.35%
First Bank	800	2.06%
Country Place Mortgage Ltd.	400	1.03%
First Advantage Bank	600	1.55%
Total Chattel Loans	38,800	

I. Quality Control Practices For Manufactured Home Security Issuers

In order to limit the number of defaults, Freddie Mac reviews lender and third party program participation, loan underwriting and especially quality control audits of delinquent loans and lenders with larger than median default experience. Freddie Mac may choose to adapt Quality Control Advisor or develop other tools that perform the same function for manufactured home security issuers. That would include on new manufactured home loans verification that the manufacturer's invoice on which the loan is based is true and accurate.

Manufactured home lenders should also have an internal quality control program which monitors loan underwriting and origination practices. Also, prevention of repossessions through loss mitigation and loan servicing procedures should be carefully monitored and steps taken when violations are noted in the lending process.

Financing for used home purchases are one of the most underserved markets since the normal lending patterns through dealers of new homes are generally not employed. In conventional markets for site built homes, low loan to value refinancing of primary residences and second mortgage loans have been allowed without appraisals in some circumstances. However, this practice should not be allowed for manufactured home loans given the importance of home condition, components and siting in the marketability and value of manufactured homes.

J. Manufactured Home Chattel Loans On Leased Land

On July 6, 2022, Freddie Mac issued Bulletin 2022-15 which permitted the purchase of mortgages securing multi-section manufactured homes on leased land under certain underwriting conditions. There are specialized rules for condominium and planned unit development communities with leases; loans must be to purchase a home rather than to refinance a loan. Similar rules could be used for chattel manufactured home loans and initially, prior approval might be required before selling these loans to Freddie Mac. Also, leases could be required to meet the following or similar conditions:

- The lease must permit assignments, transfers, or subletting of the leasehold provided that the sub lessee meets the lease requirements
- The lease must provide that for a notice of lessee's default (monetary or non-monetary) to be valid, the lessor must send written notice of the lessee's default to the lender not more than 30 days after such default
- The lease must provide for the right of the manufactured home lender, in its sole discretion, to cure a default for the lessee's (or sub lessee, if applicable) account within the time permitted to lessee or take over the rights under the lease (sublease)
- The lease cannot contain default provisions allowing forfeiture or termination of the lease for non-monetary default
- The lease must provide for protection of the lender's interests including an insurable interest in the subject property unless otherwise required by law, and interest in the lease, ground lease community and leasehold estate
- The lease may, but is not required to, include an option for the borrower to purchase the fee interest; provided, however, there can be no time limit on when the option must be exercised,
- The lease is binding and enforceable against the lessor, any assigns or successors to the lessor
- All applicable Servicing requirements under the Seller Servicing Guide must be met

K. Recent Actions By Other Government Entities Which Impact Manufactured Homes

1. Department of Energy Final Energy Regulations

On May 31, 2022, the Department of Energy issued new regulations to make manufactured homes more energy efficient and thereby reduce energy consumption and energy costs. The regulations go into effect in May of 2023 and especially double wide manufactured homes will be substantially more energy efficient thus reducing total homeownership costs.

2. Tax Credits For Energy Efficient Manufactured Homes

The inflation Reduction Act of 2022 includes new Energy Star Home tax credits for manufactured and other single family homes. Tax credits of $2,500 are available for manufactured homes purchased before 01/01/2025 provided that the homes meet the current Energy Star program standards (3.1). Those purchased from 01/01/2025- 01/01/2033 must meet the future 3.2 Energy Star Standards. Those manufactured homes certified by the Department of Energy as being net zero homes (no net energy consumption over a 12 month period) will receive a $5,000 tax credit. Both of these tax credits will help those manufactured home buyers who chose to purchase Energy Star homes.

L Other Things to Consider in Initiating A Loan Program

1. Technology Interfaces

The Enterprises may have to consider changes to current Enterprise computer systems, integration with the seller servicer's automated systems and what will be the technology platform for obtaining information on a periodic basis. The suitability of Enterprise current mortgage origination and

servicing systems for transition to manufactured home chattel lending will have to be assessed along with whether potential new seller servicers can use the existing APIs in Freddie Mac's developer portal.

2. Lender Orientation And Training

During the active history of the FHA Title I manufactured home program, FHA sponsored periodic lender orientation and training sessions at regional HUD offices. As part of program marketing, the Enterprises may want to consider developing the following training modules, webinars or other methods of conveying expectations and opportunities to encourage lender participation:

(a) Basic Lender Orientation

- Introductory webinars that cover the process from lender approval, loan origination and servicing, quality assurance and lender monitoring
- Credit underwriting and other loan program requirements such as the loan calculation, eligible homes, and types of loans
- The appraisal of new and used manufactured homes including authorized information sources, appraisal methods, property requirements and impartiality of the appraiser
- Loan servicing, loss mitigation. repossession and disposition of collateral securing the loan

(b). Seller Servicer Continuing Responsibilities

- Lender quality assurance systems and their integration into business operations
- Enterprise loan and lender reviews and outcomes
- Enterprise sanctions for violations of the seller-servicer agreement and the outcome of cases brought against lenders

(c). Special Situations

- Changes in seller servicer ownership and notifications to the Enterprises due to a change in business structure, corporate leadership or adverse actions undertaken by other government entities
- Voluntary changes in the seller servicer contract due to mergers or acquisitions, impact on existing securities
- Special loan programs such as Special Purpose Credit Programs or State programs

3. Program Evaluation At The End Of Each 12 months Of Operations

There is no way to know with certainty that the manufactured home chattel program will meet Enterprise financial or programmatic expectations. Benchmarking the program against other Enterprise manufactured home loan programs and other special programs will be an important way to detect areas for improvement. Also, it will give the seller servicers an opportunity to determine if chattel manufactured home lending through the Enterprises can be successfully added to their product lines.

4. External Parties Such As Rating Agencies, Investment Banks And Private Investors

Investor appetite for newly originated chattel loan backed securities in today's real estate environment is uncertain. Meeting with and sharing anonymized loan performance information, geographical distribution of loans etc. with rating agencies or those performing due diligence functions will be important in building confidence in the performance of these assets. Rating agencies will also want to see projected cash flows, loss frequency and loss severity and what level of credit enhancements will be provided for different tranches or security classes. However, there are likely to be some institutional investors that want to assist with making affordable housing more available.

Other major factors are the differentiation of chattel home loans placed on private land vs. in a rental land arrangement along with single vs. multi-section homes. Data to show both the frequency and severity of repossession losses within these categories will be important to maintain safety and soundness and acceptable levels of credit risk. Also, investors will want to see that Enterprise controls and internal quality control systems are functioning as intended to ensure underwriting and servicing remains at acceptable levels.

5. Lenders and Differentiating the Impact of Various Risk Factors

Rating agencies look at a seller servicer's past record to determine loss risk. Over time as the loans become more seasoned, data analysis will indicate if there are differences in default rates due to the size of downpayments, underwriting standards (length of employment and stabilized earnings, debt to income ratios and credit scores) and the type of loans. Also, economic forecasting of local economies especially major shifts in industries employing manufactured home residents may be scrutinized. Finally, the manufactured home lending industry is relatively small and the Enterprises should develop a list of potential successor seller servicers and the estimated terms in the event of a security issuer default.

N The Impact of A Secondary Market For Manufactured Homes

The impact of securitization can be seen by examining manufactured homes shipments when asset backed securities were more common vs. when the security markets are limited or closed (see Table Twenty Five below):

Table Twenty Five: <u>Impact of Secondary Market on Manufactured Home Shipments</u>

Year	MH Shipments (000)	Period	Single Family Starts (000)
2017	92.9	GSE/Secondary Market Reduced Activity	848.9
2016	81.1	GSE/Secondary Market Reduced Activity	781.5
2015	70.5	GSE/Secondary Market Reduced Activity	714.6
2014	64.3	GSE/Secondary Market Reduced Activity	647.8
2013	60.2	GSE/Secondary Market Reduced Activity	617.7
2012	51.6	Housing Crash and Recovery	535.3
2011	51.6	Housing Crash and Recovery	430.5
2010	50	Housing Crash and Recovery	471.1
2009	49.8	Housing Crash and Recovery	445
2008	81.9	Housing Crash and Recovery	622
2007	95.7	GSE/Secondary Market Reduced Activity	1,046.1
2006	117.3	GSE/Secondary Market Reduced Activity	1,465.3
2005	146.8	GSE/Secondary Market Reduced Activity	1,715.8
2004	130.7	GSE/Secondary Market Reduced Activity	1,610.5
2003	130.8	GSE/Secondary Market Reduced Activity	1,499.1
2002	168.5	**GSE/Secondary Market Active**	1,358.5
2001	193.1	**GSE/Secondary Market Active**	1,273.2
2000	**250.4**	**GSE/Secondary Market Active**	1,230.9
1999	**348.1**	**GSE/Secondary Market Active**	1,302.5
1998	**373.1**	**GSE/Secondary Market Active**	1,271.4
1997	**353.7**	**GSE/Secondary Market Active**	1,133.6
1996	**363.3**	**GSE/Secondary Market Active**	1,161.
1995	**339.9**	**GSE/Secondary Market Active**	1,076.3
1994	**303.9**	**GSE/Secondary Market Active**	1,198.4
1993	254.3	**GSE/Secondary Market Active**	1,125.6
1992	210.5	GSE/Secondary Market Reduced Activity	1,030.1
1991	170.9	GSE/Secondary Market Reduced Activity	840.4
1990	188.3	GSE/Secondary Market Reduced Activity	894.9
1989	198.1	**Ginnie Mae Moratorium Issued**	1,003.4
1988	218.3	**Ginnie Mae Security Issuer Defaults**	1,081.4
1987	232.8	**Ginnie Mae Security Issuer Defaults**	1,146.3
1986	**244.3**	**Ginnie Mae Security Issuer Defaults**	1,179.5
1985	**283.5**	**Ginnie Mae Secondary Market Active**	1,072.3
1984	**295.4**	**Ginnie Mae Secondary Market Active**	1,084.1
1983	**295.8**	**Ginnie Mae Secondary Market Active**	1,067.5
1982	239.5	**Ginnie Mae Secondary Market Active**	662.6
1981	240.9	**Ginnie Mae Secondary Market Active**	705.3
1980	221.6		852.1

Sources: Census Bureau (Shipment of New Manufactured Homes: https://www.census.gov/data/tables/time-series/econ/mhs/shipments.html);
Federal Reserve Bank of St. Louis Privately Owned Housing Starts: 1-Unit Structures,
https://fred.stlouisfed.org/series/HOUST1FNSA

The closure of the secondary market by Ginnie Mae in 1989 and new Fannie Mae guidelines in 2003 resulted in a drop in manufactured home shipments and while there was a recovery

O. Secondary Market Considerations

Initiation of a new chattel home program also represents an opportunity to standardize current manufactured home loan production and security administration. The Enterprises have been leaders in digitalization of key loan processes, more automation of interfaces with security issuers and encouraging lender participation through devices like portals. Improvements in manufactured home lender communications can assist with sharing knowledge and best practices. Digitization along with standardization will eliminate many of the non-standard practices which may have discouraged investor participation.

1. Enhancements To Securities Offerings

Manufactured home securities in the past have been enhanced by using various techniques to encourage investor interest. The possible methods are subordination, reserve accounts, excess interest rate spread after expenses, overcollateralization and financial guarantees from “AAA” rated monoline insurance companies or highly rated sponsors.

Depending upon the method of credit support selected, planning for cash flow adequacy can be accomplished based on the degree of overcollateralization and excess interest rate spread. Another factor is the timing of the defaults as this can impact cash flow especially if the overwhelmingly majority of the defaults occur in the first five years.

2. Impact Of Purchase Agreement With Treasury

The 2009 agreement between Freddie Mac and the Treasury imposes some loan purchase limitations on the Enterprise concerning riskier assets Volume controls were placed on loans with high LTVs, debt-to-income ratio greater than 45% or credit scores up to 679. It is uncertain if these limitations will impact manufactured home chattel loan purchases.

VI. Eligibility Of Lenders And Third Parties

A. Loan And Program Standards Have To Be Reasonable For Lenders

Loan insurance or guarantee programs have to balance the protection of the insurer or guarantor with practicality so the lender voluntarily wants to make these loans. Make the controls too stringent or burdensome and effectively the lenders will just conclude that this line of business is just not worth the trouble or expense. Should this be the outcome, then the Duty to Serve program fails to meet the intentions of Congress.

Second, there have to be sufficient controls in place and sanctions to detect malfeasance on the part of lenders, third parties and borrowers. To deny the risk of this occurring especially if the program starts to generate significant loan volume is to deny history and the personal experience of the secondary market entities. Program participants will have to accept that the program will only work if they commit to the minimization of malfeasance. Repeating the past mistakes will only lead to the same outcome and ultimately hurt low to moderate income Americas that the program is intended to serve. Macro-economic events such as a severe recession with widespread unemployment, changes in the manufacturing and service industries that employ many borrowers or other events can make even a well-structured loan program buckle at the knees.

Finally, government controls at the Federal, state and local level impact the manufactured housing industry. Understanding the oversight being done by other public sector entities can reduce duplication of effort and allow reliance on the oversight of others. Federal installation standards, the federal dispute resolution program and the monitoring of third parties by other agencies are just some examples of program controls that did not exist in the past and do not need to be duplicated.

B. An Enterprise-Lender Partnership

The manufactured housing industry and particularly, the financing companies need to embrace a partnership mentality with the Enterprises to develop a sustainable business approach for chattel lending. This shared value type of thinking exists where governments and private business develop programs that allow for lender financial success while at the same time achieving societal benefits like a safe and sound guarantee operation which reaches more low-moderate income Americans and is practical to manage. Other benefits would be fewer defaults and losses and improving risk pools that can ultimately decrease guarantee fees. In short, it is a win-win partnership where both parties prosper.

C. Parties involved In A Transaction

There are multiple parties involved in a manufactured home loan transaction (see below):

- Borrower
- Dealer or retailer
- Underwriter
- Appraiser

As the chattel program is new, program controls over these program participants should be diligently enforced by the lenders and Enterprises.

D. Capacity Building In Manufactured Home Lending

At present, there are relatively few market participants in the manufactured housing lending industry with a small group of lenders, a shortage of appraisers in some areas and uncertainty about market acceptance of mortgage backed securities backed by these non-conforming loans. These asset backed securities can be sensitive to economic conditions, especially recessions where a flight toward quality could lessen investor appetite for non-conventional assets. Enterprise participation in this market will help maintain confidence.

E. Lender Approval

1. Lender Requirements

Manufactured home seller servicers should have an operating history in this type of lending and loan servicing which includes a quality control program to monitor the activities of lender personnel and third parties participating in the lending process. Professional and educational background of key employees of the firm should be evaluated. In addition to experience in this type of lending, the lender must possess sufficient net worth to perform the required functions of being a security issuer. This would include having sufficient funds to pay the missed borrower payments from their own funds for up to 120 days and to pay unpaid property taxes and homeowner's insurance premiums.

2. Non-federally Regulated Depository Seller/Servicers

The mortgage industry has changed substantially with the dominance of non-depository lending institutions. 71% of Freddie Mac's 2021 loan purchases were from non-depository institutions, up from 66% in 2020. Non-depository institutions are servicing 54% of Freddie Mac's outstanding loan portfolio. Non-depository lenders are also likely to be the majority of manufactured home security issuers and the Enterprises should consider that situation in developing program controls.

3. Net Worth Requirements For Seller Servicers

Chattel manufactured home lenders should meet the existing Freddie Mac net worth requirements which vary depending on whether they are depository or non-depository institutions. The former organizations have a fixed net worth amount of $2,500,000 plus a percentage of the outstanding balance of the loans being serviced (see Table Twenty Six below).

Non-depository institutions requirements are not based on a fixed amount but on a fixed percentage of the lender's tangible net worth plus a percentage of the loans outstanding. Tangible Net worth is defined by Freddie Mac as "Total equity less receivables due from related entities, less goodwill and other intangible assets, less carrying value of pledged assets net of associated liabilities liquidity".

Table Twenty Six: Net Worth Requirements: Depository and Non-Depository Institutions

Type of Institution	Net Worth	Net Worth Adjustment for Delinquent loans
Depository	$2,500,000 plus 25 basis points of the Seller/Servicer's UPB of all Mortgages secured by 1- to 4-unit residential properties that it services directly	
Non-depository	Tangible Net Worth/total assets ratio greater than or equal to 6%,	Liquidity equal to or exceeding 3.5 basis points times Agency Mortgage Servicing plus 200 basis points times the sum of nonperforming (90 or more days delinquent) Agency Mortgage Servicing that exceed 6% of Agency Mortgage Servicing

In February of 2022, the Federal Housing Finance Agency issued a Servicer Eligibility Requirements document that updated 2015 lender net worth guidance; these net worth standards are effective by December 31, 2022. The net worth requirements set forth in the guidance document (see https://www.fhfa.gov/Media/PublicAffairs/Documents/SE2-Proposal-FAQ.pdf) are as follows:

Tangible Net Worth is defined as total equity minus the following:

- MINUS Goodwill and Other Intangible Assets
- MINUS "Affiliate Receivables" and "Pledged Assets net of Associated Liabilities"
- MINUS Deferred Tax Assets

Tangible net worth must be at least 1) $2.5 million plus

- 0.25 percent of the seller/servicer's Enterprise single family servicing unpaid principal balance (UPB) ; plus
- 0.25 percent of the seller/servicer's non-agency single family servicing UPB; plus
- 0.35 percent of the seller/servicer's Ginnie Mae servicing UPB

4. Capital Ratios And Liquidity Ratios Effective At The End Of 2023

In addition to the enhanced net worth requirements, seller servicers at the end of 2023 must increase their liquidity to protect against financial adversity. Tangible Net worth (as defined by generally accepted accounting principles) must be at least 9% of total assets. The firm's base liquidity must be the sum of the following four amounts:

1. 7% of the outstanding principal balance of loans being serviced if the seller servicer remits principal and interest payments to security investors
2. 0.035% of the outstanding principal balance if the seller servicer only passes through principal and interest actually paid by the borrower
3. 0.035% of the non-agency outstanding principal balance
4. 0.010% of the Ginnie Mae outstanding principal balance being serviced

5. Comparison Of FHFA Net Worth Requirements With Other Secondary Market Companies

(a) Ginnie Mae Excluded Assets

The Ginnie Mae Seller Servicer Guide covering manufactured housing incorporates the HUD Audit Guide for determining required net worth calculations. The FHFA required net worth calculation is still more flexible than Ginnie Mae's which excludes many more types of assets from the net worth calculation (see below):

- Pledged assets (except for supervised institutions)
- Loans to officers or stockholders with certain exceptions
- Related entity investment, joint venture investments greater than equity as adjusted
- Intangible assets
- Servicing contract valuations not determined under (SFAS) No. 65 and FAS No. 125
- A cross-default agreement
- A corporate guaranty agreement
- Assets involving a "Personal interest," as used here, indicates a relationship between the lender and a person or entity that has a financial interest or is employed in a management position by the lender.
- Any asset not readily marketable and for which appraised values are very subjective.
- That portion of any marketable security (listed or unlisted) in excess of the lower of cost or market.
- Any amount in excess of the lower of cost or market value of mortgages in foreclosure, construction loans, or property acquired through foreclosure.
- Any asset that is principally used for the personal enjoyment or benefit of an officer, director, or stockholder and not for normal business purposes.
- "Other assets" unless the financial statements are accompanied by a schedule prepared by the auditor or a schedule prepared by the issuer-lender and signed by an officer of the issuer-lender.
- That portion of contributed property, not otherwise excluded, in excess of the value as of the date of contribution determined by an independent appraisal.

(b) Net Worth Calculation

The Ginnie Mae net worth requirement for manufactured home security issuers is currently $10,000,000 plus the following:

- 10% of all outstanding manufactured home mortgage backed securities
- The outstanding commitment line balance
- The outstanding pool balance on all other Single Family and Multifamily loan pools.

So, a manufactured home security issuer that issues a $100,000,000 security whose payments of principal and interest are guaranteed by Ginnie Mae consisting of 1,500 Title I manufactured home loans would need an adjusted net worth of $20,000,000 without consideration of line commitment or outstanding pool balances.

6. Changes To Net Worth Requirements

The FHFA new minimum capital (net worth standards) are more in line with the Basel III banking standards which require a minimum common equity of 4.5% plus a capital conservation buffer of 2.5%. To that 7% is added a countercyclical buffer of 0-2.5% when there is a systemic risk build-up. The liquidity demands on a seller servicer at a time of financial stress and high numbers of defaults would be similar to counterparty stresses at a time of systemic risk.

7. Liquidity Standards

Having an adequate net worth is only part of what should be considered for security issuers. To be able to withstand adverse financial conditions with high numbers of delinquencies and defaults, the manufactured home seller servicer must have high quality, liquid assets which can be converted to cash quickly. The liquidity coverage ratio should be at least one so that total liquid assets are at least as great as the estimated cash flow requirements to pay security holders for 120 days along with loan servicing and repossession related expenses.

F. Post-Approval Lender Monitoring

1. Enterprise Lender And Loan Reviews

Besides continuing to meet the initial eligibility standards, manufactured home chattel lenders must respond to the results from periodic Enterprise quality control sampling reviews. The lender will have to institute corrective actions for violations of Enterprise requirements found in these reviews.

Lenders can be asked to repurchase loans that do not conform to Enterprise requirements or to reimburse the Enterprise for losses incurred. Where warranted, the Enterprise can revoke seller servicer approval. Enterprise repurchases demands do not happen often and were approximately 0.1% of loan origination volume in 2020. Enterprises may pay servicer incentives or demand compensatory fees based on lender servicing performance. However, Enterprises may wish to place a limit on repurchase demands if the borrower paid as agreed for at least 36 months.

2. Lender Delinquency Tracking

Lender performance in terms of delinquency and repossession percentages should be evaluated in light of general macroeconomic conditions and the performance of other seller servicers. The Enterprises should focus on early payment defaults to determine the causes of the default and its impact on the Enterprise's risk position. The review can also result in changes to lender loss mitigation procedures in light of elevated delinquencies or defaults. Also, the Enterprises should examine loan growth to see if this may be temporarily masking a higher rate of delinquency and default.

3. Net Losses From The Sale Of The Collateral

Lenders typically begin the repossession process after the loan has been delinquent and loss mitigation efforts are not successful. Also, there would be no extenuating circumstances such as a borrower appeal of a lender decision regarding loan modification or the initiation of a court action like a bankruptcy filing. Where the lender chooses judicial foreclosure, the time period can lengthen substantially and court availability in some jurisdictions can be months away. In some situations, lenders

may find that it is advantageous to conduct a short sale or to sell the collateral to third parties, such as a community owner as long as the transaction meets local laws.

G. Repossession And Third Party Sale Losses

Net losses are determined from the net unpaid principal balance of the loan after the sale of the collateral and additional costs for repair, sale and where necessary transportation of the home to another location. Manufactured home repossession and third party sale losses are a much larger percentage of the outstanding loan balance than occurs with single family homes (see Table Twenty Seven below). However, the loss ratios shown in Table Twenty Seven may not cover additional costs such as property taxes, homeowner's insurance premiums, maintaining the home and the cost of funding the loans after they are repurchased from the associated security pool.

Table Twenty Seven: Repossession and Short Sale Losses for Single Family Homes

Year	2021	2020	2019
REO Sales	6.8%	20.4%	21.7%
Short Sales and Third Party Sales	19.1%	22.6%	24.5%

H. Retailers And Third Parties

1. Retailer (Dealer) Loans General Standards

In many new manufactured home transactions, the retailer of the home assists the borrower in preparing the credit application or performs other services to assist the borrower in obtaining financing. Lenders must have in place an approval process for dealers who will be assisting borrowers in purchasing homes.

The dealer approval process should evaluate the dealer's manufactured housing sales experience and its experience in the origination of installment sales contracts. Also, the dealers must have a track record that shows they are a financially responsible business and qualified to perform manufactured home related services. A background examination should be conducted to verify that the dealer is in good standing with government regulatory authorities.

2. Minimum Dealer Net Worth

The dealer should have a tangible minimum net worth of $200,000 and for those dealers with more than 50 transactions per year, an additional 2% per transaction over 50 sales per year. Assets which are encumbered by loans and intangible assets such as goodwill should be excluded from the net worth calculation. Also, where the dealer or its officers or owners have a financial interest in related entities shown as assets, the dealer should attach an explanation of the valuation of that related entity interest and how the value was calculated. Assets of the following types should be excluded in calculating dealer net worth:

- That portion of an asset not readily marketable, and for which appraised values are very subjective, or carried at a value in excess of a substantially discounted appraised value;
- Any asset which is principally used for the personal enjoyment of an officer or stockholder and not for normal business purposes
- Non-marketable assets which are illiquid or those with uncertain values (Level 3 assets)

3. Financial Statements Requirements And Credit Report Requirements

The dealer should provide financial statements prepared in accordance with generally accounting principles by a Certified Public Accountant or licensed public accountant. The financial statements must be for the dealer's last fiscal year. If the financial statement period is more than six months before the date of the dealer application, the dealer must provide an interim financial statement showing that it still meets the net worth requirements. The lender must also obtain and evaluate a commercial credit report on the business and the owners of the business.

4. Repurchase And Recourse Agreements

Lenders can require that the dealer repurchase an entire loan or a part of the loan in the event of a borrower default or to compensate the lender for costs incurred in repossession or resale of the collateral. Lenders can establish terms and conditions for dealer recourse including time limits or dollar limits such as a maximum percentage of the outstanding unpaid balance of the loan after resale. The agreement to repurchase or resell should be assignable so that a successor seller-servicer could enforce the agreement for dealer sold homes.

5. Dealer Approval Documentation

An officer or authorized individual of the dealer must sign that he or she approves of the participation of the dealer in the Enterprise seller servicer program and the dealer meets all of the requirements specified for dealer third parties. The lender's dealer approval document must also include a provision that where there are changes in the dealer's business name, ownership of the dealer or the principal officers, the dealer must notify the lender within 15 days of the occurrence of these changes

6. Duration Of Dealer Approval And Dealer Monitoring

The lender can establish a period of time of up to two years for dealer approval re-evaluation. If the lender choses to have an approval period longer than one year, the lender must still obtain a financial statement each year and evaluate whether the dealer is maintaining the necessary tangible net worth and the other requirements to continue to participate in the chattel loan program. The evaluation should also examine delinquency and repossession rates, the severity of loss and the resolution of any complaints filed by purchasers.

7. `Dealer Originated Loan Credit Review

Lenders should periodically review the dealer's loan applications and post-sale documentation like site of placement inspection reports and complaint files to see how the dealer compares with its peers. Lenders should also note dealer special benefits such as volume sale incentives, advertising payments or reimbursements for other dealer services to see if these payments are influencing the origination and performance of the loans.

8. Post-Sale Treatment Of Borrowers

Lenders should review dealer complaint and resolution files, the nature and results of any cases filed with a HUD Dispute Resolution Process to verify that the dealer is engaging in good faith and is cooperative in addressing any borrower complaints which are the responsibility of the dealer. That can include referral of any warranty claims to the manufacturers.

9. Dealer Files Available For Enterprise Quality Control Reviews

Dealers should maintain a system of records to allow lenders to evaluate borrower related records such as origination documentation, siting of the home and borrower complaints. Financial information including default rates and the results of repossessions of homes should also be readily available.

10. Punitive Actions

Dealers who have violated program regulations, not fulfilled their contractual responsibilities to borrowers or been non-cooperative in the lender monitoring process should be advised that a plan of corrective action to correct these violations must be signed by corporate management and sent to the lender within 30 days of the discovery of the violations. Should the dealer's plan of corrective action not be satisfactory or subsequent dealer monitoring discloses significant additional violations, the lender should terminate dealer approval. Dealers may reapply after a 12 month expulsion period by filing a new dealer application and showing that the conditions which led to the prior expulsion from the program have been rectified and the dealer will meet its responsibilities in the future.

I Risks From External Factors

Geographic over concentration of loans in areas suffering from adverse economic conditions or in areas subject to natural disasters or where local climate risks are high might also impact Enterprise financial results. Also, it is very important to establish early warning systems, track and analyze monthly delinquency statistics to detect abnormalities in loan performance and take prompt action where necessary. Whether chattel home seller servicers should pass stress tests and have succession plans to assure continued operation during unfavorable economic conditions is another area needing further consideration.

VII Loan Origination And Borrower Eligibility

A. Credit Underwriting

1. Prudent Underwriting And Flexibility In Underwriting

One challenging aspect of accepting chattel mortgages is to balance the need to address the financing needs of underserved populations as defined in Section IIC with the need for prudent underwriting regulations to keep default risk in acceptable ranges. Also, Congress required that the underwriting standards not merely adopt the rules for site built mortgages but must be "flexible". That is, the underwriting standards must be able to be modified to make these loans available to low-moderate income families seeking to purchase manufactured homes.

2. 5 Cs Of Lending

Manufactured home lending involves the assessment of the five Cs just as lending involving site built homes. The Five Cs of credit underwriting are divided into Topics 5500-5505 in the Freddie Mac seller servicer guide and are summarized in Table Twenty Eight below:

Table Twenty Eight: 5 Cs of lending Applied to Manufactured Housing Lending

	5 Cs	Metrics and Other Factors
Downpayment and other required funds	Capital	Loan to Value Ratios
Credit history	Character	Credit Score and Credit History; presence of a co-signer with a sound credit history if necessary
Employment history	Capacity	Employment period and stability of employment
Income	Capacity	Income Stability
Assets	Collateral	Appraised value of single or multi-section home, site of placement, age of home
Debt	Capacity	Debt to Income Ratios
Other Factors	Conditions	Interest rates, term of loan, refinancing or purchase of home

3. Identity Of The Borrower

Before undertaking a verification of employment, the lender must verify the identity of the loan applicant using government issued photo identification. US Citizenship or lawful residency status (permanent resident alien, non-permanent resident alien) and the ability to work in the US should also be confirmed. Where there are discrepancies in the documentation once the underwriting process begins, the lender should conduct a face to face interview or a telephone interview to clarify and resolve

these differences. Also, the lender should verify the home being financed will be the primary residence for the borrower.

4. Length And Stability Of Employment

For most Americans, their jobs and the ability to earn a living are crucial for the success of the chattel mortgage loan. According to Federal Reserve Bank research, Americans tend to have limited savings or emergency funds so the lender must rely on the continued employment of the borrower. Stability of employment is not necessarily a set length of time (e.g., 24 months) but an assessment of the likelihood of continued employment in the borrower's chosen profession.

Some professions have high turnover and difficulty in re-employment while others are the opposite. Also, long time employment may not be meaningful if the employer is at risk of closure due to macrocosmic conditions. Lenders can use 24 months as a guideline and make judgements based on local conditions. Written verification of earnings or third party verification should cover the last two years of employment. For self-employed workers, written verification of employment would be two years' worth of IRS 1040s that show stable income.

5 Loan To Value Ratio (Downpayments)

Having a minimum downpayment of 10% of the purchase price for a new manufactured home plus necessary expenses of transportation and siting is important for loan stability. The lender can raise that minimum downpayment to 15% for those borrowers with lower credit scores and higher loan to value ratios.

For used manufactured home loans, the minimum downpayment should be 20% and can be increased for older homes or repossessions. Loans should be available only for homes built after the effective date of the Federal Manufactured Home Construction and Safety Standards (4/15/1976).

The source of the funds for the downpayment must be verified through written documentary evidence such as bank statements, escrow agreements, gift letters or other independent sources. For very low and low income borrowers (incomes less than 80% of the State median income), the Enterprises might consider the alternatives shown in Section 5501.3(c) of the Seller Servicer Guide.

6. Collateral Values

Lenders cannot expect the experience of the last three years to continue (see Table Twenty Nine below). Rising home prices may have prevented defaults as borrowers could just sell their homes.

Table Twenty Nine: Census Bureau Data: Average New Manufactured Home Sales Prices

	Total	Single Section	Multi section
2021	$123,200	$80,900	$150,300
2020	$90,200	$62,600	$110,800
2019	$86,400	$54,400	$105,700

7. Housing And total Debt to Income Ratios

Also, the loan and other required expenses of home ownership should not constitute such a high percentage of income that the borrower will be left house poor and hence, more likely to get behind in their loan payments. Lower debt to income ratio borrowers are more likely to have additional funds and leeway in their budgets to stay current on their loan obligation.

Here is where chattel home lenders can exercise some flexibility in terms of the maximum debt to income ratios. The traditional housing and total debt ratios (28% and 36%) used by the Enterprises over the decades have become obsolete given the cost of housing in America. For the Home Possible Program, the maximum debt to income ratio can be as high as 65%. This is excessive for chattel manufactured home loans and the maximum debt-to income ratio should not exceed the top range shown in Chapter Five, Table Twenty Two above.

8. Savings (Emergency Funds)

Most low to moderate income Americans (percentiles 0-40%) find it very difficult to deal with an unforeseen high expense due to car or housing mechanical equipment failure, medical expenses, expenses from accidents or family related expenses. A survey by the Census Bureau in 2020 showed that for low-moderate income Americans, the median value of liquid assets at financial institutions ranged from $1,500-$7,500 (see Table Thirty). Having liquid savings to cover 3-6 months of living expenses is uncommon.

Table Thirty: Amount of Net Worth and Liquid Bank Assets by Income Percentile: Census Bureau

		Assets at Financial Institutions	
Annual Household Income	Net Worth	Checking Accounts	Other Interest-Earning Accounts
Lowest quintile	$6,770	$550	$1,000
Second quintile	$55,780	$1,500	$3,000
Third quintile	$113,000	$2,500	$5,000

9. Character

(a) Creditworthiness

Credit history reviews give lenders an opportunity to assess whether the borrower has been responsible in their use of credit in the past. Unresolved charge-offs or 90 day delinquent accounts would need careful evaluation to see if these charge-offs or serious delinquencies are not the fault of the borrower but due to other circumstances. These circumstances can be things outside of the control of the borrower such as the death of a spouse, natural disasters or becoming permanently disabled.

Shorter term delinquent debts may not disqualify the borrower but borrowers should explain why the debts are unpaid and have sufficient savings to cover any such situations in the future. Sufficient savings would be 2 months' worth of housing costs, including lot rental costs, if any and home and other insurance.

(b) Bankruptcy And Court Judgements

Where borrowers declared Chapter 7 bankruptcy a minimum of three years ago, lenders can evaluate if they are now creditworthy enough to extend a loan. Also, borrowers with a previous repossession of an asset or a home foreclosure must show strong indications that the circumstances which led to the repossession or foreclosure are unlikely to re-occur.

Unresolved judgements are treated the same way as a 90 day unresolved collection accounts. Judgements that are current should be evaluated in the debt to income calculation as part of the borrower's debt profile.

(c) Collection Accounts And Special Credit Situations

Collection accounts that have been paid to the satisfaction of the creditor can be excluded from the Debt to Income ratio and in 2023, medical outstanding accounts of less than $500 will not be reported on credit reports. Accounts under dispute should be included in the credit analysis unless the borrower can show proof that the debt has been satisfied or that the creditor acknowledges that the debt has been satisfied.

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10. Thin File Or No Credit History

Without a credit history either verified through the three credit reporting agencies or through other means, the lender cannot really determine if the borrower is a reasonable credit risk. To be eligible for a loan that could be as much as $150,000, a borrower must be able to point to success in managing debt.

That success in managing debt could come from non-traditional credit information which is verified from sources beyond just the loan application (e.g., public records, cancelled checks or payment records, insurance payments, retail credit arrangements, payments on an automotive lease, utility payments, private loan agreements or other valid payment obligations for goods and services) A rental history and other evidence of debt payment as agreed could also be considered in the credit examination.

11. Loan Conditions

Conditions refer to the specifics of any credit transaction, such as the principal amount or interest rate. Other external features, such as the state of the economy, prevailing employment patterns, industry-specific legislation can also be considered.

B. Underwriting Flexibilities

Manufactured home loan underwriting flexibilities have already been discussed above, including a more relaxed debt to income ratio and credit score balanced by a strong employment history and downpayment. Freddie Mac has recently announced underwriting flexibilities in its Seller Servicer (SS) guide (see Section 4302.5: Special eligibility and underwriting requirements for Refi PossibleSM (04/06/22) mortgage purchase programs and amendments to the Home Possible Program: SS Guide Section 4501 (1)-(14). The later program (Home Possible) contains a number of underwriting revisions and flexibilities which might be considered for the underwriting of manufactured home chattel loans.

1. Flexible Loan Origination Standards

Until there is an established track record of success in manufactured home chattel lending, Enterprise loan origination standards should be conservative. The loan standards already incorporate some flexibility in credit scores and debt to income ratios and should be as follows:

- Borrowers should have a two year employment history with stable earnings during that period
- A minimum downpayment of 10% and 15% for applicants with lower credit scores or higher debt to income ratios should be made from verified funds. Downpayments for the purchase of a used homes should be 20% of the purchase price or 25% in certain circumstances
- The minimum credit score should be 660 for 10% downpayment loans
- The maximum debt to income ratio should not exceed 50%
- Refinancing of loans should be limited to the outstanding principal balance only (no cash out)
- Borrowers with lower credit scores (below 660) should have two months' worth of verified liquid savings outside of the downpayment
- Used manufactured homes must be appraised by a certified appraiser

After the chattel loan program has been successful, Freddie Mac may wish to consider incorporating underwriting flexibilities similar to the latitude given to borrowers under the Refi Possible program. For example, if the borrower does not meet the minimum credit score nor has a higher debt to income ratio, liquid assets equal to at least 4 months of total housing costs might allow approval of these applicants.

C. Loan Purchase Limitations

1. Limitations On Higher Risk Loans

Caution should be exercised in the purchase of loans with the following characteristics:

- Loan to Value Ratio of 85%-90%
- Credit scores of 620-660
- Total debt to total income ratios of 45-50%

In addition to individual loan characteristics, the purchase or refinancing of used homes should be initially limited to 33% of total loans purchased (see Chapter III, Table Seven above) until reaching nearly 50% of total loans in Year Five. This will allow time to iron out any challenges with appraising these used homes consistently.

D. Loan Amounts For Purchase Of A Manufactured Home

1. New Manufactured Homes Purchases

It is common in the manufactured housing industry to base the loan amount on a mark-up of the wholesale price paid by the dealer. The maximum new home loan could be 125% of the wholesale

base price of the home plus itemized home options as shown on the manufacturer's invoice including the freight cost plus the following:

- Anchoring and set up costs including the dealer's actual cost of transportation to the home site, set-up and anchoring, including the rental of wheels and axles (if not included in the freight charges);
- The dealer's actual cost for skirting, garage, carport, patio, or other appurtenance, and for purchase and installation of a central air conditioning system or heat pump (if not installed by the manufacturer)

Furniture, personal property, small appliances and wheels and axles should be excluded from the financing.

2. Used Homes

A used home loan should be calculated based on the appraised value of the home and the required minimum downpayment.

3. Loan Term

Loan terms could vary depending on whether the home being purchased is new or used. Also, the age of the home could be a factor in the loan length as homes over a certain age may face transportation restrictions or lenders may find it very difficult to re-site the home in the event of repossession. The maximum loan terms are shown in Table Thirty One:

Table Thirty One Maximum Loan Terms

Manufactured Home New	20 years
Manufactured home Used (1-15 years old)	15 years
Manufactured Home Used (>15 years old)	10 years

E. Origination Documentation

Manufactured homes need to be properly installed to preserve the useful life of the home and prevent damage from inadequate support. HUD now has an installation program under 24 CFR 3285.2 where the home has to be installed by a certified installer in accordance with the manufacturer's installation instructions. Also, the installation instructions must be approved where there will be appurtenances installed with the home.

The lender should verify that hazard insurance is being maintained for the life of the loan with a minimum insured amount equal to the unpaid loan balance and designate the lender as loss payee. Flood insurance must be maintained for the life of the loan if the property is located in a Special Flood hazard Area (SFHA) Zone A or a Coastal High Hazard Area.

F. Inspection Of The Home

The lender should obtain a copy of the inspection report of the installation of the home by an independent third party (see 24 CFR 3286.503) and ensure that any defects in installation have been corrected.

G. Appraisal Of The Manufactured Homes

1. Appraisal Method

One of the key aspects of a successful loan program will be to establish an appraisal process that both reflects the current value of the collateral and is available to borrowers who may be spread throughout rural areas. An established method of valuing manufactured homes (the NADA method, Marshal and Swift) should be selected so that appraisal methodology is uniform.

2. Appraisal Form

Lenders must obtain a properly completed appraisal using one of the three authorized methods for appraisal of the home. For used home loans, the appraised value will be based on comparable sales of similar homes in the same geographic area and covering the same time as the appraisal period. Where there are not comparable sales in the same geographic area or neighborhood, the appraiser should use comparable sales from a similar geographic area or neighborhood. The appraiser should also inspect the HUD data plate to see if it includes the manufacturer's name, serial and model number of the home and the wind, roof load and thermal zone maps.

3. Exhibits And Attachments To The Appraisal

The appraiser should take photographs showing the exterior of the home, any appurtenances to the home, the interior sections of the home including the living room, bedrooms and kitchens and any areas which impact the overall condition of the home. Where there are defects or other conditions which impact the home or remodeling or restoration of the home, photos or other video evidence should be provided.

4. Appraiser Qualifications

The appraiser must be independent of the retailer selling the home and must have professional qualifications to conduct chattel home appraisals. The appraisal must comply with the USPAP (Uniform Standards of Appraisal Practice), which would include the consideration of the best appraisal approach (sales, cost or income). The chattel appraiser must be knowledgeable in the market where the home is located and not be engaged in the business of manufactured home retail sales. Lenders should provide the appraiser with a copy of the sales contract for the home, any leasehold agreements for the area where the home will be sited and other documents possessed by the lender that are relevant to the appraisal of the home, such as the inspector's report on the siting of the home.

5. Appraiser Certification

The appraiser should certify that the following statements are correct in the appraisal:

The appraisal represents my personal, unbiased impartial and opinion of value. I have no personal interest in the property being appraised or personal interest involving the parties to this transaction:

- I have or have not appraised the property or performed other services concerning this property in the last three years
- I am unbiased concerning the home or the parties to the transaction and the appraisal engagement or the consideration I will receive for the appraisal is not contingent on obtaining a pre-determined value of the home
- I made or did not make a personal inspection of the property and if the inspection was made by another person, the name of the person is included in the certification
- Findings from the inspection has been incorporated into the opinion of value for the home and I certify that the person doing the inspection is competent to perform this service
- The Appraiser must report the HUD label number for all sections, or report that the HUD Certification Label is missing or that the Appraiser was unable to locate it.

F. Loan Servicing And Home Repossessions

Unlike the lengthy process from default to liquidation of the single family home securing a mortgage, the recovery and sale of a manufactured home does not have to be based on judicial or non-judicial foreclosure using a trustee. Since the collateral is typically secured by a Uniform Commercial Code (UCC-1) financing statement, the sale of the home must be conducted under the UCC adopted in every state except Louisiana. Uniform Commercial Code (UCC) Article 9-609 allows creditors to use judicial procedures or self-help repossession provided that there is no breach of the peace.

1. Disposition Of The Repossessed Home In A Commercially Reasonable Manner

The repossession and resale of the home must be done carefully; lenders should check with legal counsel to ensure that all requirements have been followed. One such requirement is that the method used to dispose of the home must be "commercially reasonable". Public and private sales are both used in the resale of manufactured homes and there are particular requirements (e.g., at least ten days' notice of the sale to the debtor).

2. Notice To The Borrower Of The Sale Of The Home

Lenders should also note that borrowers must be given an authenticated notification of disposition of the collateral as required by UCC § 9-611(c). The notice must inform the borrower of the manner, content, and time of the sale and the notice of sale must be sent no less than twenty days before the sale date and no earlier than 30 days before the sale date. The notice of sale must disclose the names of the borrower and creditor, describe the collateral, the method of intended disposition, the

right to an accounting of the unpaid obligation, and the time after which the home will be disposed of in a private sale. A standard notice of sale is included in Section 9-614 of the Uniform Commercial Code and an alternative format for the notice is shown in 9-613 of the UCC.

3. Acceptance Of The Collateral As Full Repayment of the Debt

Lenders can choose this option with the written or other record of the consent of the debtor. Debtors are considered to have consented if the lender sent an offer to accept the collateral in exchange for the outstanding debt and the debtor did not send a written or other record of the debtor's objection. Lenders may also have to notify other secured creditors of the debtor after the debtor consents to the lender's proposal.

4. Disposition Of The Proceeds And Deficiency Judgements

Normally, lenders incur a number of costs and expenses of sale including repossession, sale and marketing expenses, including possible legal expenses which will reduce the proceeds received from the sale and which can be applied to the outstanding debt. Should the net proceeds be insufficient to cover the outstanding indebtedness, Section 9-615(d) of the UCC provides that the debtor may be liable for any deficiency after sale of the collateral.

However, errors in the disposition of the collateral may affect the lender's right to collect the deficiency as there may be a rebuttable presumption that the net sales proceeds are equal to the outstanding debt. Not following these UCC requirements could result in an unenforceable not and thus violate Section 8101.9 of the Freddie Mac Seller Servicer manual and subject the lender to possible repurchase or other penalty.

VIII. Consumer Protections

A. Consumer Protection Laws Affecting Manufactured Home Chattel Loans

There are several federal laws that impact the financing of manufactured homes. Lenders should consult with a licensed attorney concerning the particular laws that will impact the sale of manufactured homes. This discussion is merely a general overview of laws that might affect manufactured homes.

The Federal Consumer Credit Protection Act requires that borrowers be informed in writing about the costs of financing including the amount of finance charge and the interest rate. Manufactured chattel loans have much higher interest rates than conventional single family loans and may be considered to be high cost mortgages under the Truth in Lending Act. The trigger point for high cost mortgages is a markup of 8.5% over the Average Prime Offering Rate (APOR) for loans under $50,000 and 6.5% over APOR for higher cost loans. There is also a point and fees trigger for loans where the points and fees exceed 5%; this applies to loans over $21,032.

The Homeownership and Equity Protection Act (HOEPA) provides consumers with additional protections including disclosures about the cost of a high cost mortgage and a requirement for counseling with a certified HUD-approved counselor. There are also servicing related requirements such as a limit on late charges (4% cap) and modification fees are not allowed. The FHFA has also issued a regulation indicating that HOEPA subject loans would not receive credit under the Duty to Serve program, thus making them unattractive for the Enterprises.

B. Federal Trade Commission Holder in Due Course Rule

Since new homes are being sold as chattel through a dealer transaction in most cases, a lender can be subject to defenses or claims that could be raised against the dealer for violations of the sales contract (see 16 CFR 433). Therefore, the sales contract may not be enforceable against the buyer and thus lenders or a successor in interest may not be able to recover a deficiency owed after the sale of the home.

C. Federal Consumer Protection Programs

1. HUD Dispute Resolution Program

In addition to the requirement for HUD-approved housing counseling in some cases, the Manufactured Home Improvement Act required that HUD establish a dispute resolution program for the timely resolution of disputes between manufacturers, retailers, and installers of manufactured homes regarding responsibility. The program also allows for the issuance of appropriate orders for the correction or repair of defects in manufactured homes that are reported during the 1-year period beginning on the date of installation.

Defects are defined by HUD in 24 CFR 3288. 3 as "any defect in the performance, construction, components, or material of a manufactured home that renders the home or any part of the home not fit for the ordinary use for which it was intended". There are also time limits imposed for the timely resolution of disputes or the correction of defects with an unreasonable risk of injury, death, or significant loss or damage to valuable personal property (120 days and 60 days, respectively).

Lenders should monitor consumer complaints and their resolution either by voluntary settlement between the parties or by HUD order. Should the dealer or manufacturer refuse to cooperate in the HUD dispute resolution program, the lender should investigate whether they should continue to fund loans given that situation.

2. Repossession And Sale Of The Home

The specific procedures for handling of repossession and resale of homes backed by chattel loans are covered in Section VII F above. Lenders should take steps to ensure that all legal procedures are being followed in those states where the homes are being sited.

D. Consumer Protections And Loan Servicing Practices

1. Loss Mitigation And Reducing The Number Of Repossessions

The Dodd-Frank Act was a major milestone in real estate finance by putting a spotlight on preventing defaults and foreclosures. Loss mitigation practices, reduction of interest rates and recasting of loans, financing flexibility by extending loan terms despite the constraints of pool documents were all methods that were widely implemented. While millions still lost their homes in the financial crisis, millions of consumers were helped by the Housing Affordability Refinance Program (HARP) and HAMP (Home Affordable Refinance Program). Lender principal reduction programs and even flexibility concerning subordination of second liens also helped distressed borrowers stay in their homes.

Lenders should consider these types of actions to reduce the number of repossessions and foreclosures. Where loans are salvageable with flexibility in interest rates, loan terms, or outstanding balances, lenders should be required to evaluate the likelihood of success before commencing actions that result in the removal of the home. The best loan servicing practices now refined by years of experience in a down market can be applied to manufactured home loans.

E. Borrower And Tenant Protections In Leased Land Manufactured Home Communities

1. Enterprise Actions To Enhance Consumer Protections In Leased Communities

Freddie Mac and Fannie Mae have already added eight significant consumer protections for leased land home owners given differing state consumer protection laws (see Table Thirty Two). These consumer protections are an important step forward to lessen the gap between the legal protections

afforded to site home buyers (Real Estate Settlement Practices Act, Judicial foreclosure in some states etc.) and manufactured home buyers.

Table Thirty Two: Lot Tenant Consumer Protections

Type of Consumer Protections	Nbr. of States Providing This Protection		
I. Borrower Lease Practices	Yes	No	Uncertain
1. One Year Lease Term	13	37	
1. One-year renewable lease term unless there is good cause for non-renewal	24	26	
2. 30-day written notice of rent increases	32	18	
3. 5-day grace period for rent payments and the right to cure defaults on rent payments	13	37	
4. Right to Cure Default on Rental Payments	41	9	
II. Business Practices			
8. Right to receive at least 60 days' notice of planned sale or closure of the manufactured housing community	5	17	28
III. Sale and Repossession			
4. Right to sell the manufactured home without having to first relocate it out of the community	29	15	6
5. Right to sell the manufactured home in place within a reasonable time period after eviction by the manufactured housing community owner	0	42	8
6. Right to sublease or assign the pad site lease for the unexpired term to the new buyer of the tenant's manufactured home without any unreasonable restraint	13	32	5
7. Right to post "For Sale" signs	17	33	

2. Other Actions To Consider

There are other methods of expanding consumer protections for borrowers who place their home in leased land communities. One is to investigate whether seller servicers have corporate Environmental, Social and Governance (ESG) related goals and whether lenders are able to incorporate the consumer protections mandated by the Enterprises in all of their lending in manufactured home communities.

The Enterprises could also promote the development of and use of voluntary lot tenant documents by manufactured home community owners and support other government programs, like the EPA Energy Star program that improve the comfort and energy performance of homes. Also, consumer brochures and web sites which address leased land issues could help consumers understand their responsibilities and rights by placing a home in a leased home community.

IX. Looking Toward The Future

There will be additional concerns and issues that the Enterprises will discover as they undertake a major change in their business lines by introducing manufactured home chattel lending. Next year, it will be 15 years after Congress passed the Housing and Economic Recovery Act and we are just now beginning to shape a future financing mechanism for these loans. The manufactured housing industry including home producers and lenders and this writer have been advocates for undertaking this action for a number of years.

Safe and sound lending and security issuer programs for manufactured home personal property lending are not mutually exclusive. Also, the need for and insufficiency of affordable housing has intensified over the last five years and too many low-moderate Americans fear that they will never have a home of their own. This American dream of having the stability and pride of homeownership is one of the cornerstones of our country; HUD's Director of the Research Division under the Assistant Secretary for Policy Development and Research expressed this objective in 2018 in the following way:

> "Increasing homeownership rates, and the economic benefits that homeownership confers, continues to be a government and societal goal, and HUD will continue to ensure that the opportunity to seize this part of the American Dream is available to as many Americans as possible."

However, the Enterprises and FHFA should be mindful of what has happened in the past while crafting a better and stronger loan program for the future. Also, the manufactured housing industry and all who are connected with it must be committed to safe and sound operations and participate with the Enterprises in making this happen. This secondary market program must be operated with transparency, responsible lending and servicing along with adherence to the standards expected of all companies given the privilege of being an Enterprise seller servicer. That includes procedures to prevent issuer defaults and the resulting losses to the Enterprises.

It won't be easy but it is far from impossible. Extending a hand-up to help our fellow Americans live better lives, build wealth and improve their financial security is an important national objective. With everyone working together toward building a sound lending and security issuer program, manufactured housing need not be an underserved segment of the single family housing industry.

APPENDICES

APPENDIX A: FY 2022 Median Family Incomes for States, Metropolitan/ Non-Metro. Areas

State	Total	Metro	Non-Metro
Alabama	$73,600	$78,000	$63,200
Alaska	$102,200	$109,600	$92,200
Arizona	$82,800	$84,300	$55,400
Arkansas	$69,400	$74,800	$60,200
California	$101,600	$102,100	$80,300
Colorado	$105,800	$109,800	$82,500
Connecticut	$112,600	$112,600	$112,600
Delaware	$96,900	$96,900	$71,300 (US value)
District of Columbia	$144,800	$144,800	$71,300 (US value)
Florida	$79,300	$79,900	$60,700
Georgia	$83,200	$88,000	$64,100
Hawaii	$107,200	$111,100	$95,200
Idaho	$80,400	$84,400	$71,600
Illinois	$97,600	$101,700	$76,100
Indiana	$82,100	$85,100	$74,500
Iowa	$86,900	$93,600	$78,900
Kansas	$87,800	$95,500	$73,400
Kentucky	$73,600	$82,800	$61,700
Louisiana	$72,400	$75,700	$56,600
Maine	$84,800	$94,700	$72,100
Maryland	$117,500	$118,200	$93,600
Massachusetts	$120,400	$120,500	$119,400
Michigan	$84,200	$87,900	$71,500
Minnesota	$104,000	$112,800	$83,600
Mississippi	$65,000	$72,000	$58,800
Missouri	$81,700	$89,200	$63,500
Montana	$81,200	$80,500	$81,600
Nebraska	$89,000	$93,800	$80,900
Nevada	$84,600	$84,900	$81,800
New Hampshire	$108,000	$117,000	$94,500
New Jersey	$117,500	$117,500	$71,300 (US value)
New Mexico	$68,700	$70,800	$63,800
New York	$99,500	$101,700	$76,700
North Carolina	$80,100	$83,900	$66,900
North Dakota	$96,800	$100,800	$93,100
Ohio	$83,300	$85,800	$74,900
Oklahoma	$76,000	$82,300	$64,700
Oregon	$91,800	$97,000	$71,800
Pennsylvania	$90,100	$92,900	$72,900
Rhode Island	$99,300	$99,300	$71,300 (US value)
South Carolina	$78,400	$81,700	$58,800
South Dakota	$85,400	$91,000	$81,200
Tennessee	$77,800	$82,700	$64,700
Texas	$85,300	$87,800	$68,800
Utah	$95,800	$97,200	$83,200
Vermont	$92,800	$109,000	$85,700
Virginia	$103,900	$111,600	$67,800
Washington	$105,300	$108,700	$79,600
West Virginia	$67,700	$73,300	$59,300
Wisconsin	$91,000	$95,300	$81,500
Wyoming	$88,900	$91,900	$87,600
US	$90,000	$92,900	$71,300

https://www.huduser.gov/portal/datasets/il/il22/Medians-FY22-Notice.pdf

Appendix B Sample of Late Model Used Manufactured Homes Currently (9/13/22) For Sale

Sales Price	Bedrooms	Baths	Square Feet	Price Per Square Foot
$44,500	3 Bedrooms	2.0 Baths	1,216	$36.60
$69,900	3 Bedrooms	2.0 Baths	1,216	$57.48
$54,900			1,232	$44.56
$29,900	2 Bedrooms	1.0 Baths	784	$38.14
$36,900	4 Bedrooms	2.0 Baths	2,128	$17.34
$74,900	3 Bedrooms	2.0 Baths	1,664	$45.01
$89,900	5 Bedrooms	3.0 Baths	2,128	$42.25
$37,500	3 Bedrooms	2.0 Baths	924	$40.58
$53,500	3 Bedrooms	2.0 Baths	1,344	$39.81
$22,900	3 Bedrooms	1.0 Baths	960	$23.85
$62,900	3 Bedrooms	2.0 Baths	1,280	$49.14
$49,900	3 Bedrooms	2.0 Baths	1,216	$41.04
$79,900	4 Bedrooms	2.0 Baths	2,016	$39.63
$79,900	4 Bedrooms	2.0 Baths	1,904	$41.96
$54,900	2 Bedrooms	2.0 Baths	840	$65.36
$74,900	4 Bedrooms	2.0 Baths	1,680	$44.58
$66,900	3 Bedrooms	2.0 Baths	1,216	$55.02
$79,900	3 Bedrooms	2.0 Baths	1,280	$62.42
$54,000	3 Bedrooms	2.0 Baths	1,216	$44.41
$16,500	3 Bedrooms	2.0 Baths	1,152	$14.32
$69,900	4 Bedrooms	2.0 Baths	1,568	$44.58
$77,900	3 Bedrooms	2.0 Baths	1,216	$64.06
$39,900	3 Bedrooms	2.0 Baths	2,048	$19.48
$35,000	3 Bedrooms	2.0 Baths	1,792	$19.53
$59,900	3 Bedrooms	2.0 Baths	1,152	$52.00
$69,900	3 Bedrooms	2.0 Baths	1,216	$57.48
$49,900	2 Bedrooms	2.0 Baths	896	$55.69
$44,900	3 Bedrooms	2.0 Baths	1,664	$26.98
$52,900	3 Bedrooms	2.0 Baths	1,152	$45.92
$49,900	2 Bedrooms	1.0 Baths	784	$63.65
$44,900	4 Bedrooms	2.0 Baths	1,904	$23.58
$76,900	3 Bedrooms	2.0 Baths	1,216	$63.24
$68,900	3 Bedrooms	2.0 Baths	1,216	$56.66
$77,900	3 Bedrooms	2.0 Baths	1,216	$64.06
$139,900	4 Bedrooms	2.0 Baths	2,128	$65.74
$82,500	3 Bedrooms	2.0 Baths	1,456	$56.66
$69,900	3 Bedrooms	2.0 Baths	1,216	$57.48
$99,900	4 Bedrooms	2.0 Baths	2,128	$46.95
$109,900	5 Bedrooms	3.0 Baths	2,128	$51.64
$39,900	3 Bedrooms	2.0 Baths	924	$43.18
$129,900	3 Bedrooms	2.0 Baths	1,960	$66.28
$69,900	3 Bedrooms	2.0 Baths	1,216	$57.48
$54,900	3 Bedrooms	2.0 Baths	1,792	$30.64

Sales Price	Bedrooms	Baths	Square Feet	Price Per Square Foot
$69,900	3 Bedrooms	2.0 Baths	1,680	$41.61
$89,900	4 Bedrooms	2.0 Baths	1,568	$57.33
$84,900	3 Bedrooms	2.0 Baths	1,568	$54.15
$74,900	3 Bedrooms	2.0 Baths	1,152	$65.02
$87,900	4 Bedrooms	2.0 Baths	1,376	$63.88
$24,500	3 Bedrooms	2.0 Baths	1,280	$19.14
$94,900	3 Bedrooms	2.0 Baths	1,344	$70.61
$164,900	3 Bedrooms	2.0 Baths	2,112	$78.08
$49,900	3 Bedrooms	2.0 Baths	1,568	$31.82
$129,900	4 Bedrooms	2.0 Baths	2,128	$61.04
$22,500	3 Bedrooms	2.0 Baths	1,056	$21.31
$26,900	3 Bedrooms	2.0 Baths	1,248	$21.55
$55,900	3 Bedrooms	2.0 Baths	1,216	$45.97
$119,900	4 Bedrooms	2.0 Baths	2,016	$59.47
$174,900	4 Bedrooms	2.0 Baths	2,304	$75.91
$79,900	4 Bedrooms	2.0 Baths	2,240	$35.67
$35,000	3 Bedrooms	2.0 Baths	1,216	$28.78
$67,900	2 Bedrooms	2.0 Baths	1,088	$62.41
$59,900	3 Bedrooms	2.0 Baths	1,216	$49.26
$110,000	3 Bedrooms	2.0 Baths	1,568	$70.15
$76,900	4 Bedrooms	2.0 Baths	1,904	$40.39
$73,900	3 Bedrooms	2.0 Baths	1,056	$69.98
$94,900	4 Bedrooms	2.0 Baths	2,128	$44.60
$64,900	2 Bedrooms	2.0 Baths	1,088	$59.65
$94,900	4 Bedrooms	2.0 Baths	1,904	$49.84
$69,900	3 Bedrooms	2.0 Baths	1,216	$57.48
$99,900	4 Bedrooms	2.0 Baths	2,128	$46.95
$64,900	3 Bedrooms	2.0 Baths	1,216	$53.37
$79,900	4 Bedrooms	2.0 Baths	2,016	$39.63
$69,900	3 Bedrooms	2.0 Baths	1,216	$57.48
$64,900	3 Bedrooms	2.0 Baths	1,216	$53.37
$39,900	3 Bedrooms	2.0 Baths	1,400	$28.50
$64,900	2 Bedrooms	1.0 Baths	896	$72.43
$64,900	3 Bedrooms	2.0 Baths	1,216	$53.37
$69,900	3 Bedrooms	2.0 Baths	1,152	$60.68
$110,000	4 Bedrooms	3.0 Baths	2,128	$51.69
$62,900	3 Bedrooms	2.0 Baths	1,152	$54.60
$74,900	3 Bedrooms	2.0 Baths	1,216	$61.60
$59,900	3 Bedrooms	2.0 Baths	1,368	$43.79
$54,900	3 Bedrooms	2.0 Baths	1,216	$45.15
$95,000	3 Bedrooms	2.0 Baths	1,568	$60.59
$59,900	3 Bedrooms	2.0 Baths	1,368	$43.79
$20,350	3 Bedrooms	2.0 Baths	1,680	$12.11
$54,900	2 Bedrooms	1.0 Baths	784	$70.03

Sales Price	Bedrooms	Baths	Square Feet	Price Per Square Foot
$109,900	5 Bedrooms	2.0 Baths	2,432	$45.19
$13,500	3 Bedrooms	2.0 Baths	1,216	$11.10
$79,900	3 Bedrooms	2.0 Baths	1,216	$65.71
$79,900	3 Bedrooms	2.0 Baths	1,568	$50.96
$99,900	4 Bedrooms	2.0 Baths	2,128	$46.95
$64,900	3 Bedrooms	2.0 Baths	1,216	$53.37
$53,900	3 Bedrooms	2.0 Baths	1,216	$44.33
$59,900	3 Bedrooms	2.0 Baths	1,216	$49.26
$139,900	4 Bedrooms	2.0 Baths	1,960	$71.38
$89,900	3 Bedrooms	2.0 Baths	1,568	$57.33
$59,900	3 Bedrooms	2.0 Baths	1,216	$49.26
$79,900	3 Bedrooms	2.0 Baths	1,344	$59.45
$64,900	2 Bedrooms	2.0 Baths	1,088	$59.65
$51,500	3 Bedrooms	2.0 Baths	1,568	$32.84
$57,900	3 Bedrooms	2.0 Baths	1,064	$54.42
$79,900	3 Bedrooms	2.0 Baths	1,216	$65.71
$119,900	4 Bedrooms	2.0 Baths	2,128	$56.34
$149,900	4 Bedrooms	2.0 Baths	2,128	$70.44
$98,900	4 Bedrooms	2.0 Baths	1,904	$51.94
$157,900	4 Bedrooms	2.0 Baths	2,432	$64.93
$119,900	4 Bedrooms	2.0 Baths	2,128	$56.34
$69,900	3 Bedrooms	2.0 Baths	1,216	$57.48
$69,900	3 Bedrooms	2.0 Baths	1,568	$44.58
$99,900	4 Bedrooms	2.0 Baths	1,904	$52.47
$64,900	3 Bedrooms	2.0 Baths	1,216	$53.37
$65,900	3 Bedrooms	2.0 Baths	1,152	$57.20
$61,900	3 Bedrooms	2.0 Baths	1,152	$53.73
$164,900	4 Bedrooms	2.0 Baths	2,432	$67.80
$99,900	3 Bedrooms	2.0 Baths	1,848	$54.06
$54,900	2 Bedrooms	1.0 Baths	784	$70.03
$69,900	3 Bedrooms	2.0 Baths	1,216	$57.48
$64,900	3 Bedrooms	2.0 Baths	1,216	$53.37
$99,900	3 Bedrooms	2.0 Baths	1,568	$63.71
$59,900	3 Bedrooms	2.0 Baths	1,152	$52.00
$94,900	4 Bedrooms	2.0 Baths	2,016	$47.07
$65,900	3 Bedrooms	2.0 Baths	1,216	$54.19
$119,900	5 Bedrooms	3.0 Baths	1,904	$62.97
$84,900	4 Bedrooms	2.0 Baths	1,568	$54.15
$55,000	3 Bedrooms	2.0 Baths	1,216	$45.23
$65,900	3 Bedrooms	2.0 Baths	924	$71.32
$64,900	3 Bedrooms	2.0 Baths	1,056	$61.46
$79,900	3 Bedrooms	2.0 Baths	1,216	$65.71
$69,900	3 Bedrooms	2.0 Baths	1,216	$57.48
$42,900	3 Bedrooms	2.0 Baths	1,216	$35.28

Sales Price	Bedrooms	Baths	Square Feet	Price Per Square Foot
$69,900	3 Bedrooms	2.0 Baths	1,152	$60.68
$59,900	3 Bedrooms	2.0 Baths	924	$64.83
$69,900	3 Bedrooms	2.0 Baths	1,216	$57.48
$119,999	3 Bedrooms	2.0 Baths	1,680	$71.43
$52,900	3 Bedrooms	2.0 Baths	1,088	$48.62
$54,900	3 Bedrooms	2.0 Baths	1,216	$45.15
$59,900	3 Bedrooms	2.0 Baths	1,216	$49.26
$69,900	3 Bedrooms	2.0 Baths	1,216	$57.48
$50,900	3 Bedrooms	2.0 Baths	924	$55.09
$99,900	3 Bedrooms	2.0 Baths	1,680	$59.46
$94,900	3 Bedrooms	2.0 Baths	1,568	$60.52
$72,900	3 Bedrooms	2.0 Baths	1,216	$59.95
$59,900	2 Bedrooms	2.0 Baths	960	$62.40
$99,900	5 Bedrooms	2.0 Baths	2,128	$46.95
$55,000	3 Bedrooms	2.0 Baths	1,368	$40.20
$47,900	3 Bedrooms	2.0 Baths	1,064	$45.02
$19,900	3 Bedrooms	2.0 Baths	1,280	$15.55
$104,900	3 Bedrooms	2.0 Baths	1,568	$66.90
$57,900	3 Bedrooms	2.0 Baths	1,216	$47.62
$89,900	4 Bedrooms	2.0 Baths	1,680	$53.51
$68,900	3 Bedrooms	2.0 Baths	1,216	$56.66
$139,900	4 Bedrooms	2.0 Baths	1,984	$70.51
$116,900	4 Bedrooms	2.0 Baths	2,176	$53.72
$49,900	2 Bedrooms	1.0 Baths	576	$86.63
$79,900	3 Bedrooms	2.0 Baths	1,456	$54.88
$69,900	3 Bedrooms	2.0 Baths	1,568	$44.58
$74,900	2 Bedrooms	2.0 Baths	1,056	$70.93
$49,900	3 Bedrooms	2.0 Baths	1,216	$41.04
$99,900	5 Bedrooms	3.0 Baths	2,128	$46.95
$64,900	4 Bedrooms	2.0 Baths	1,376	$47.17
$49,900	3 Bedrooms	2.0 Baths	924	$54.00
$56,900	3 Bedrooms	2.0 Baths	1,152	$49.39
$64,900	3 Bedrooms	2.0 Baths	1,216	$53.37
$94,900	4 Bedrooms	2.0 Baths	2,176	$43.61
$59,900	3 Bedrooms	2.0 Baths	1,216	$49.26
$45,900	3 Bedrooms	2.0 Baths	1,792	$25.61
$89,900	5 Bedrooms	3.0 Baths	2,128	$42.25
$109,000	3 Bedrooms	2.0 Baths	2,610	$41.76
$91,500	4 Bedrooms	2.0 Baths	2,128	$43.00
$84,900	4 Bedrooms	2.0 Baths	2,016	$42.11
$47,900	3 Bedrooms	2.0 Baths	1,368	$35.01
$57,900	2 Bedrooms	2.0 Baths	1,216	$47.62
$119,900	3 Bedrooms	2.0 Baths	2,128	$56.34
$69,900	3 Bedrooms	2.0 Baths	1,216	$57.48

Sales Price	Bedrooms	Baths	Square Feet	Price Per Square Foot
$69,900	3 Bedrooms	2.0 Baths	1,680	$41.61
$89,999	3 Bedrooms	2.0 Baths	1,344	$66.96
$92,500	4 Bedrooms	2.0 Baths	2,016	$45.88
$69,900	2 Bedrooms	2.0 Baths	1,216	$57.48
$52,000	3 Bedrooms	2.0 Baths	1,216	$42.76
$61,000	3 Bedrooms	2.0 Baths	1,248	$48.88
$69,900	3 Bedrooms	2.0 Baths	1,216	$57.48
$64,900	3 Bedrooms	2.0 Baths	1,152	$56.34
$114,900	4 Bedrooms	2.0 Baths	1,680	$68.39
$47,900	3 Bedrooms	2.0 Baths	924	$51.84
$99,900	3 Bedrooms	2.0 Baths	1,568	$63.71
$39,000	3 Bedrooms	2.0 Baths	1,216	$32.07
Median	$69,900		1,216	$57.48

APPENDIX C: Scenario No. 1: Manufactured Home Guaranty Fee Based on Single Family Guaranty Fees

Loan Pool Initial Size 1,000 loans; Average Loan is $60,000
Manufactured Home Prepayment Curve: Prepayment Rate Years 1 = 1.5%; Year 2 = 1.20% Years 3-15 = 6%
Foreclosure Rate Years 1-5 = 1% Years 6-10 .75% Years 10-15% .3%
Credit Recovery 25% of outstanding principal balance
Annual Insurance Premium .50%
Administrative Costs Years 1-5: .44% per year: Years 6-15: .22% per Year

Year	Ending Balance of Loans Outstanding	Outstanding Principal Balance	Annual Premium	Total Revenue	Credit Losses	Adm. Costs	Net Cost or Benefit
Year 1	975	$56,482,221.03	$282,411.11	$282,411.11	$423,616.66	$249,875.35	-$391,080.91
Year 2	954	$53,091,794.81	$265,458.97	$265,458.97	$398,188.46	$234,876.23	-$367,605.71
Year 3	887	$47,360,228.39	$236,801.14	$236,801.14	$355,201.71	$209,519.98	-$327,920.55
Year 4	825	$41,821,121.44	$209,105.61	$209,105.61	$313,658.41	$185,015.17	-$289,567.97
Year 5	767	$36,676,458.02	$183,382.29	$183,382.29	$275,073.44	$162,255.36	-$253,946.50
Year 6	715	$31,950,521.76	$159,752.61	$159,752.61	$179,721.68	$141,347.98	-$161,317.06
Year 7	667	$27,310,804.18	$136,554.02	$136,554.02	$153,623.27	$120,822.03	-$137,891.29
Year 8	622	$23,335,131.66	$116,675.66	$116,675.66	$131,260.12	$103,233.80	-$117,818.26
Year 9	580	$19,407,470.93	$97,037.35	$97,037.35	$109,167.02	$85,857.97	-$97,987.64
Year 10	541	$15,709,816.77	$78,549.08	$78,549.08	$88,367.72	$69,499.68	-$79,318.31
Year 11	507	$12,285,119.79	$61,425.60	$61,425.60	$27,641.52	$54,348.94	-$20,564.86
Year 12	475	$9,027,911.89	$45,139.56	$45,139.56	$20,312.80	$39,939.16	-$15,112.41
Year 13	445	$5,926,684.51	$29,633.42	$29,633.42	$13,335.04	$26,219.44	-$9,921.06
Year 14	417	$2,970,635.14	$14,853.18	$14,853.18	$6,683.93	$13,141.99	-$4,972.74
Year 15	391	$149,622.52	$748.11	$748.11	$336.65	$661.92	-$250.46
TOTALS			$1,917,527.71	$1,917,527.71	$2,496,188.44	$1,696,614.99	-$2,275,275.71

Appendix D: Scenario No. 2: A Guaranty Fee Program Similar to the FHA Title I Programs

Loan Pool Initial Size 1,000 loans; Average Loan is $60,000
Manufactured Home Prepayment Curve: Prepayment Rate Years 1 = 1.5%; Year 2 = 1.20% Years 3-15 = 6%
Foreclosure Rate Years 1-5 = 1% Years 6-10 = .75% Years 10-15= .3%
Credit Recovery 25% of outstanding principal balance
Up-front Premium 2.25%
Annual Insurance Premium 1.00%
Administrative Costs Years 1-5: .44% per year: Years 6-15: .22% per Year

Year	Ending Balance of Loans Outstanding	Outstanding Principal Balance	Annual Premium	Total Revenue	Credit Losses	Adm. Costs	Net Cost or Benefit
Year 1	975	$56,482,221.03	$564,822.21	$1,914,822.21	$423,616.66	$249,875.35	$1,241,330.20
Year 2	954	$53,091,794.81	$530,917.95	$530,917.95	$398,188.46	$234,876.23	-$102,146.74
Year 3	887	$47,360,228.39	$473,602.28	$473,602.28	$355,201.71	$209,519.98	-$91,119.41
Year 4	825	$41,821,121.44	$418,211.21	$418,211.21	$313,658.41	$185,015.17	-$80,462.36
Year 5	767	$36,676,458.02	$366,764.58	$366,764.58	$275,073.44	$162,255.36	-$70,564.21
Year 6	715	$31,950,521.76	$319,505.22	$319,505.22	$179,721.68	$141,347.98	-$1,564.45
Year 7	667	$27,310,804.18	$273,108.04	$273,108.04	$153,623.27	$120,822.03	-$1,337.27
Year 8	622	$23,335,131.66	$233,351.32	$233,351.32	$131,260.12	$103,233.80	-$1,142.60
Year 9	580	$19,407,470.93	$194,074.71	$194,074.71	$109,167.02	$85,857.97	-$950.28
Year 10	541	$15,709,816.77	$157,098.17	$157,098.17	$88,367.72	$69,499.68	-$769.23
Year 11	507	$12,285,119.79	$122,851.20	$122,851.20	$27,641.52	$54,348.94	$40,860.74
Year 12	475	$9,027,911.89	$90,279.12	$90,279.12	$20,312.80	$39,939.16	$30,027.15
Year 13	445	$5,926,684.51	$59,266.85	$59,266.85	$13,335.04	$26,219.44	$19,712.36
Year 14	417	$2,970,635.14	$29,706.35	$29,706.35	$6,683.93	$13,141.99	$9,880.44
Year 15	391	$149,622.52	$1,496.23	$1,496.23	$336.65	$661.92	$497.65
TOTALS			$3,835,055.43	$5,185,055.43	$2,496,188.44	$1,696,614.99	$992,252.00

APPENDIX E: Scenario No. 3: High Premium and High Default Rate

Loan Pool Initial Size 1,000 loans; Average Loan is $60,000
Manufactured Home Prepayment Curve: Prepayment Rate Years 1 = 1.5%; Year 2= 1.20% Years 3-15 = 6%
Foreclosure Rate Years 1-5 = 2.5% Years 6-10 1.50% Years 10-15% .75%
Credit Recovery 25% of outstanding principal balance
Up-front Premium 2.25%
Annual Insurance Premium 1.00%
Administrative Costs Years 1-5: .44% per year: Years 6-15: .22% per Year

Year	Ending Balance of Loans Outstanding	Outstanding Principal Balance	Annual Premium	Total Revenue	Credit Losses	Adm. Costs	Net Cost or Benefit
Year 1	960	$55,613,263.79	$556,132.64	$1,906,132.64	$1,042,748.70	$246,031.12	$617,352.82
Year 2	924	$51,473,234.19	$514,732.34	$514,732.34	$965,123.14	$227,715.77	-$678,106.57
Year 3	846	$45,175,813.65	$451,758.14	$451,758.14	$847,046.51	$199,856.21	-$595,144.58
Year 4	774	$39,248,766.74	$392,487.67	$392,487.67	$735,914.38	$173,635.16	-$517,061.87
Year 5	708	$33,865,373.82	$338,653.74	$338,653.74	$634,975.76	$149,819.22	-$446,141.24
Year 6	655	$29,264,380.38	$292,643.80	$292,643.80	$329,224.28	$64,732.29	-$101,312.77
Year 7	606	$24,813,541.84	$248,135.42	$248,135.42	$279,152.35	$54,887.12	-$85,904.04
Year 8	561	$21,030,878.71	$210,308.79	$210,308.79	$236,597.39	$46,519.93	-$72,808.53
Year 9	518	$17,350,380.34	$173,503.80	$173,503.80	$195,191.78	$38,378.74	-$60,066.71
Year 10	480	$13,931,698.50	$139,316.99	$139,316.99	$156,731.61	$30,816.67	-$48,231.29
Year 11	447	$10,842,304.31	$108,423.04	$108,423.04	$60,987.96	$23,982.99	$23,452.10
Year 12	417	$7,929,371.37	$79,293.71	$79,293.71	$44,602.71	$17,539.63	$17,151.37
Year 13	389	$5,180,509.87	$51,805.10	$51,805.10	$29,140.37	$11,459.20	$11,205.53
Year 14	363	$2,584,159.17	$25,841.59	$25,841.59	$14,535.90	$5,716.11	$5,589.58
Year 15	338	$129,531.73	$1,295.32	$1,295.32	$728.62	$286.52	$280.18
TOTALS			$3,584,332.08	$4,934,332.08	$5,572,701.43	$1,291,376.67	-$1,929,746.02

APPENDIX F: Scenario No. 4 Simulation of Security Issuer Default, Accelerated Repossessions and Security Issuer Payments

Average Loan is $60,000 Manufactured Home Prepayment Curve: Prepayment Rate Years 1 = 1.5%; Year 2= 1.20% Years 3-15 = 6% Foreclosure Rate Years 1-5 = 7% Years 6-10 3.50% Years 10-15% 1.75% Credit Recovery 25% of outstanding principal balance Security Issuer Payments 5% of outstanding Principal Balance Annual Guaranty Fee .3% Only Collected for Two Years Administrative Costs Years 1-15: 1.0%								
Year	Ending Balance of Loans Outstanding	Outstanding Principal Balance	Annual Premium	Total Revenue	Credit Losses	Adm. Costs	Security Issuer Payments	Net Cost or Benefit
Year 1	915	$53,006,392.05	$159,019.18	$159,019.18	$2,782,835.58	$530,063.92	$2,825,159.80	-$5,979,040.13
Year 2	840	$46,767,883.05	$140,303.65	$140,303.65	$2,455,313.86	$467,678.83	$2,494,356.88	-$5,277,045.92
Year 3	731	$39,027,469.85	$117,082.41	$117,082.41	$2,048,942.17	$390,274.70	$2,144,883.82	-$4,467,018.28
Year 4	636	$32,239,521.49	$96,718.56	$96,718.56	$1,692,574.88	$322,395.21	$1,781,674.78	-$3,699,926.31
Year 5	553	$26,449,447.50	$79,348.34	$79,348.34	$1,388,595.99	$264,494.48	$1,467,224.22	-$3,040,966.35
Year 6	501	$22,361,807.80	$67,085.42	$67,085.42	$586,997.45	$223,618.08	$1,220,281.38	-$1,963,811.49
Year 7	453	$18,550,823.05	$55,652.47	$55,652.47	$486,959.10	$185,508.23	$1,022,815.77	-$1,639,630.64
Year 8	410	$15,382,916.72	$46,148.75	$46,148.75	$403,801.56	$153,829.17	$848,343.49	-$1,359,825.47
Year 9	371	$12,416,440.63	$37,249.32	$37,249.32	$325,931.57	$124,164.41	$694,983.93	-$1,107,830.58
Year 10	336	$9,754,365.63	$29,263.10	$29,263.10	$256,052.10	$97,543.66	$554,270.16	-$878,602.81
Year 11	310	$7,509,898.89	$22,529.70	$22,529.70	$98,567.42	$75,098.99	$431,606.61	-$582,743.33
Year 12	286	$5,433,363.87	$16,300.09	$16,300.09	$71,312.90	$54,333.64	$323,581.57	-$432,928.02
Year 13	264	$3,511,721.54	$10,535.16	$10,535.16	$46,091.35	$35,117.22	$223,627.14	-$294,300.53
Year 14	243	$1,732,943.33	$5,198.83	$5,198.83	$22,744.88	$17,329.43	$131,116.62	-$165,992.11
Year 15	224	$85,932.77	$257.80	$257.80	$1,127.87	$859.33	$45,471.90	-$47,201.30
TOTALS			$882,692.78	$882,692.78	$12,667,848.69	$2,942,309.28	$16,209,398.09	-$30,936,863.27