Comments Concerning The RFI Questions Fannie Mae and Freddie Mac Proposed 2022-2024 Duty To Serve Plans

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I. **Input Question No. 1. Do the proposed 2022-2024 plan activities and objectives address the most relevant obstacles to liquidity in the applicable underserved market? Input Question No. 2 Are the proposed Plan objectives likely to increase liquidity in the applicable underserved market segment?**

A. Looking at the Core of Duty to Serve

The Duty to Serve (DTS) activities and disclosures are now in their third cycle covering the period from 2022-2024 and some progress has been made in the areas of manufactured housing, preservation of affordable housing and rural housing. Also, some innovation in the practices of the housing finance industry have been introduced including consumer protections for manufactured home residents in leased communities, new programs for shared equity communities and energy and water efficiency.

However, the mandate given in Section 1129 of the Housing Energy and Reform Act was much more comprehensive. That is, the Enterprises were to:

- Increase the liquidity of mortgage investments and improve the distribution of investment capital available for mortgage financing for certain categories of borrowers in those markets
- Provide leadership in developing loan products and flexible underwriting guidelines to facilitate a secondary market for mortgages on housing for very low-, low-, and moderate-income families for manufactured housing, affordable housing preservation, and rural markets.

Much more needs to be done in the area of manufactured housing to improve the availability of financing for low-moderate income manufactured home purchasers and to introduce into the existing financial marketplace new products and loan qualification standards suitable for these Americans.

In addition to increasing liquidity and secondary market program development, Duty to Serve plans were to assist in development of residential diversity, such as affordable housing in high opportunity areas. Also, plans were to encourage mixed use housing in neighborhoods. Much of that purpose has yet to be fulfilled.

A. A Manufactured Home Chattel Pilot Program by Fannie Mae

In the Duty to Serve final rule published in 2016, FHFA noted that a chattel manufactured housing pilot was the most frequently cited activity for having an impact on the manufactured home underserved market. Chattel manufactured home financing has been included as an eligible Regulatory Activity and FHFA has also determined that the pursuing pilot initiatives, in a safe and sound manner, should be eligible for Duty to Serve credit.

Yet, there has been little concrete progress toward a manufactured housing chattel pilot program beyond some industry contacts and public input sessions organized by FHFA. Several of the major manufactured home personal property lenders already participate in secondary mortgage markets so lenders are currently complying with Enterprise lender standards. The appraisal methods used for chattel home valuations have been in use for many years and the differences between repossession and disposition of collateral are being partially addressed through some of the Enterprise consumer protection initiatives. Enterprise financial issues can be addressed through proper Loan Level Price Adjustments and guaranty fees so many of the claimed barriers to instituting chattel loans can be addressed through lender guidance. The failure to move forward with a chattel manufactured home loan program is the most relevant obstacle to achieving the Duty to Serve mandates from Congress.

B. Flexible Loan and Underwriting Standards

Also, there has been no innovation in loan products or flexible underwriting standards for chattel manufactured housing transactions. Underwriting of chattel loans involves verification of employment, credit scores, debt to income ratios, loan to value relationships (downpayments)and document verifications. The differences between mortgage and consumer lending are far outweighed by the similarities. It is unclear how Fannie Mae will meet its goal to "Expand access to sustainable and affordable homeownership and rental opportunities in manufactured housing" (Page 6 of its 2022-2024 DTS Underserved Markets Plan) without entering the chattel marketplace.

In addition, Fannie Mae has stated that it would be pursuing a business case for expanding conventional eligibility for single-width manufactured home real property loans (MHRP) loans. While Fannie Mae announced the removal of the age requirement for single section homes in late 2022 (SL 2022-10), the business case for expanding conventional eligibility could not be located.

Fannie Mae claims that homeownership opportunities will be increased "by educating market participants and guiding industry standards" (see Fannie Mae 2022-24 DTS plan: Manufactured Housing Market: Strategic Priorities Statement) to address the affordable housing supply shortage. Fannie Mae states that the acceptance of manufactured housing in neighborhoods has lagged due to "traditionally poor consumer perception and lack of awareness from real estate developers, apart from MHCs" (Page 22 of its 2022-2024 DTS Underserved Markets Plan).

Demand for affordable single family housing is being driven by the cost of the home, the availability and cost of financing and the level of initial investment required to get the loan. Manufactured home placement is not being back held by lack of interest (poor consumer perception) but by the absence of the favorable interest rate and downpayment options given to site built home buyers .

C. Looking At Manufactured Housing And Rural Housing As Separate Categories

1. Manufactured Housing's Presence in Rural and Underserved Areas

Manufactured housing is a significant part of the rural housing stock as it offers lower cost and availability for siting in rural areas, Appalachia, the Mississippi Delta and colonias for families, including agricultural families and Indian Country families. In some areas of the South (e.g., Mississippi), manufactured housing is as much as half of the new home production and according to Fannie Mae, 14% of the rural housing stock is manufactured housing.

Also, manufactured housing residents have a medium income of $35,000, half of the median income for site built homeowners and roughly 50% of the national median family income which is the dividing line between very low and low income families. Therefore, increasing the availability of manufactured housing also helps alleviate the shortage of affordable housing in rural areas and for lower income Americans.

2. <u>Comparing Fannie Mae Efforts In Increasing Manufactured Housing vs. Rural Housing</u>

Like manufactured home loans, loans originated in rural regions tend to be held in lender portfolios and may not meet Enterprise loan standards. Also, rural loans tend to have lower credit scores, and have higher application denial rates.

To increase the supply of rural housing, Fannie Mae has undertaken "loan purchases, equity investments, product development activities, and outreach to participants and stakeholders in rural housing markets" (see Fannie Mae 2022-24 Duty to Serve Rural Housing Market: Strategic Priorities Statement). However, in the area of chattel manufactured housing, there have been no loan purchases as a way to increase liquidity, product development activities or special programs like a downpayment assistance initiative. Manufactured home loans serve many of the high needs populations in high need rural areas which are identified as appropriate regulatory activities under the Duty to Serve program.

II. **<u>Input Question 3. Are there specific actions the Enterprises should consider adding to their Plans to address challenges related to the COVID-19 pandemic</u>**?

A. <u>Expanded Actions Related to the Pandemic</u>

Enterprises along with other government agencies reacted to the COVID-19 pandemic with expanded forbearance, loan mitigation policies and eviction restrictions. These actions had their desired impact of helping to prevent widespread losses of homes and disruption to communities. Also, natural disasters, man-made environmental disasters can result in similar challenges for lenders as the local economy can be crushed for a period of time. While pandemics can impact future Enterprise financial results, the American economy has largely recovered. Given the current financial condition of the housing market, consumers and the Enterprises, no additional specific actions are necessary at this time.

It is also worth noting the importance of Enterprise and government actions during the Great Recession. Despite the risks, the Federal government developed a number of programs to help Americans who were at risk of default to stay in their homes through the Recession and its aftermath (see Table A). Many of these approaches were untested and yet, they saved millions of people from losing their homes. There was a cost to helping people avoid foreclosure and the Enterprises and other government agencies indirectly helped millions more by setting new standards throughout the mortgage servicing industry. A willingness to experiment with new approaches while being mindful of the taxpayer's interest in the Enterprises is also needed in manufactured home lending.

Table A: <u>Housing Programs During The Great Recession</u>

Program	Description
Features MHA Home Affordable Modification Program (HAMP) First Lien Modification Program	Provides for upfront, monthly and annual incentives to servicers, borrowers and investors who participate, whereby the investor and Government share the costs of modifying qualified first liens,
Principal Reduction Alternative Program	Pays financial incentives to investors for principal reduction in conjunction with a first lien HAMP modification.
Home Price Depreciation Program (HPDP)	Provides financial incentives to investors to partially offset losses from home price declines.
Home Affordable Foreclosure Alternatives (HAFA)	Designed to assist eligible borrowers unable to retain their homes through a HAMP modification, by simplifying and streamlining the short sale and deed in-lieu of foreclosure processes and providing financial incentives to servicers and investors as well as relocation assistance to borrowers who pursue short sales and deeds-in-lieu.
Unemployment Forbearance Program (UP)	Offers assistance to unemployed homeowners through temporary forbearance of a portion of their mortgage payments. This program does not require any payments from OFS.
FHA-HAMP	Provides mortgage modifications similar to HAMP, but for FHA-insured or guaranteed loans offered by the FHA, VA or USDA.
Second Lien Program (2MP)	Offers financial incentives to participating servicers who modify second liens in conjunction with a HAMP modification.
Treasury/FHA Second Lien Program (FHA 2LP)	Provides for reduction or elimination of second mortgages on homes whose servicers participate in the FHA Refinance Program.
Rural Development Program (RD-HAMP)	Provides for lower monthly payments on USDA guaranteed loans. Provides targeted aid to families in the states hardest hit by the housing market downturn and unemployment.
FHA-Refinance Program	Joint initiative with HUD to encourage refinancing of existing underwater mortgage loans not currently insured by FHA into FHA insured mortgages.

III. **Input Question No. 4: Are there specific actions the Enterprises should consider adding to their Plans in response to the housing provisions in the American Rescue Plan Act of 2021, such as the Rental Assistance program, the Homeowner Assistance Fund, funding for housing assistance and supportive services programs for Native Americans, or emergency assistance for rural housing**?

Last May spring, Fannie Mae asked for public comment concerning its social bond policies (RFI-Enterprise Single Family Social Bond Policy). I made a number of suggestions for the social bond policies which could be applied to the Enterprise plans including the following:

- helping to serve the underserved,
- promoting wealth building and housing adaptability
- increasing the demand for affordable housing
- environmental social and governance goals
- adding energy efficient homes to the social density index
- community benefits
- The use of pay-ups such as downpayment and closing cost assistance, loan buydown programs and cost subsidies.

These comments also discuss cover the similarities and differences of the social bond policies with the Homeowner Assistance Fund. The Enterprises can consider these recommendations as they develop their future Duty to Serve plans.

IV. **Activity Question No. 5. Are there other activities and objectives the Enterprises should consider adding to their Plans?**

A. Meeting Other Social Objectives

1. Encouraging the Purchase of Energy Efficient Manufactured Homes and Water Conservation

Fannie Mae has stated that it wants to "Increase the purchase of mortgage loans that finance energy and water improvements or refinance existing energy debt." (Fannie Mae Duty to Serve Plan 2022-2024 Section G) Congress has also noted that "Many of these [manufactured homes] homes face serious weatherization and energy efficiency challenges that raise costs—and risk—for their residents". (Page 114 of HR 117-402 Report of the Committee on Appropriations: Department of Transportation, and Housing and Urban Development and Related Agencies Appropriations Bill 2023)

While Fannie Mae has begun supporting the purchase of existing energy debt such as Property-Assessed Clean Energy (PACE) loans, chattel financed manufactured home transactions built to Energy Star or the Northwest Energy Efficient Manufactured Housing Program™ (NEEM) specifications are not eligible for purchase. In fact, the percentage of Energy Star qualifying homes is much higher for manufactured homes than for site built homes. Establishing a new program to promote ultra-energy efficiency manufactured homes could build on the success of the Energy Star program and other energy efficiency programs.

As required by the DTS rule, there are "credible and generally accepted standards that can demonstrate reductions of energy or water consumption by the homeowner, tenant, or the property by at least 15 percent. Also, energy improvements have been shown to produce a new payback (positive Savings-to Investment Ratio (SIR) from energy savings over the estimated life of the manufactured home. High energy efficiency housing also reduces the total cost of homeownership so that this can be factored into total housing expense calculations and allow for some latitude in debt to income ratios.

Another type of opportunity would be to consider homes built to ultra-high energy efficiency standards such as the passive manufactured house (net zero). The methods to achieve passive home energy levels (renewable energy generation, higher insulation levels, air sealing and reduced thermal bridging, high efficiency windows and placement of the home to maximize renewable energy production) have been identified and financing these homes could help encourage more ultra-energy efficient manufactured homes.

2. Capacity Building for the Growth of Resident Owned Communities

The sale of manufactured home communities and the displacement of low to moderate income families due to park re-development or transition to other land uses have been noted in the last few years as investor interest in purchasing these assets have increased. Rent increases in acquired parks which continue to house manufactured homes and changes in permissible uses have a disproportionate impact on lower income Americans.

Encouraging the growth of resident owned communities through capacity building grants can result in a number of benefits for manufactured home owners including the stabilization of rent charges for the land, more democratic control over the management of the community and the opportunity to build wealth through appreciation. This capacity building could take many forms including buydowns of loans, funding of resident training about the process and responsibilities of becoming a resident owned community etc.

B. <u>Expanding the Product Suite for Manufactured Homes</u>

Secondly, Fannie Mae committed to "reinvent our manufactured housing product suite to include a broader range of consumer options for our lender customers and other market participants. (See Fannie Mae 2022-24 DTS plan: Manufactured Housing Market: Strategic Priorities Statement). Yet, little action has occurred toward re-invention of the business lines to include a broader range of options for consumers.

C. <u>Broadening Guidelines for Financing Single Wide Manufactured Homes</u>

At present, Fannie Mae prohibits single wide homes from being eligible for MH Advantage programs which are designed for manufactured homes with certain construction, architectural design, and energy efficiency standards that are more consistent with site-built homes" (Fannie Mae MH Advantage). Fannie Mae mentions certain physical characters such as the roof design and materials, lower profile foundations, driveways and durable siding. There are now single wide manufactured homes with these features so Fannie Mae could define the specific attributes desired rather than relying on the number of modules in the manufactured home.

D. <u>Encouraging Financing for Low-Moderate Income Home Buyers</u>

The Enterprises have housing goals for purchasing owner occupant low and very low income mortgages and mortgages originated in low income areas or disaster areas along with loans in minority census tracts. Manufactured home chattel loans tend to be much smaller loans than the real property manufactured home purchase loans and therefore, more likely to be selected by low-moderate income Americans located in rural areas rather than major metropolitan areas.

V. **<u>Activity No. 6. Should the Enterprises adjust the methodology used to set loan purchase baselines for 2022-2024 given the historically high volume of single-family mortgage refinances and the very strong performance of the affordable multifamily rental market in 2020</u>**?

The circumstances in 2020 where unusually large numbers of loans were refinanced to take advantage of lower interest rates are unlikely to reoccur for a number of years. Also, the refinancing of existing loans many of whom had loan to value ratios below 80% was a much less risky business, especially when home prices of existing homes was galloping ahead at double digit rates. More conservative assumptions in credit models based on prior periods would be prudent.

Multifamily lending is a completely different product line where risk is assessed by the ability to meet minimum debt-service coverage ratios, overall occupancy rates, interest rates, market conditions, maturity dates of construction or permanent loans and competition/degree of saturation in geographic areas. Current conditions are clearly different than in 2020 so in general, models of credit risk should adapt to these new circumstances.

VI. <u>**Input Question No. 7 Should The Enterprises Include Additional Explanation Of How FHFA Regulations, Policies, And Directives Impact Their Proposed Plan Activities And Objectives**</u>?

A. <u>Additional Explanations Concerning Chattel Loans</u>

Yes, in the case of safety and soundness concerns of FHFA concerning the financing of chattel manufactured home purchase loans by Fannie Mae. In its 2022-2024 Duty to serve plan, Fannie Mae states that is the continuing "to work with our regulator to understand safety and soundness considerations and the viability of a chattel loan pilot program." However, this issue has been around since 2016 and yet, there is no specific disclosure of what these safety and soundness concerns are.

If FHFA have concluded that a chattel manufactured home loan program cannot be operated in a safe and sound manner, then the agency should announce this decision and the reasons for this conclusion. Also, the agency should inform the Enterprises about other ways to increase liquidity and the distribution of investment capital to benefit manufactured home buyers.

B. <u>Future Pilot Programs</u>

Fannie Mae had mentioned in its DTS plan that it had been looking to launch a program by 2022 to report lot rental payments to credit bureaus to help low to moderate residents build credit histories. While such a program could be a very positive step for potential home owners, a further explanation of how this program furthers FHFA's Regulations, policies, and directives would be helpful.

C. <u>Some further explanations about Resident Owned Communities</u>

The Enterprise Duty to Serve plans provide good explanations of their specific accomplishments in meeting all of the benchmarks for each Regulatory activity noted in 12 CFR 1282. While Fannie Mae indicates that Resident Owned Communities (ROC) for manufactured homes are 2% of the total manufactured home communities, the Enterprise does not state the percentage and amount of ROC loans when compared to all Enterprise Manufactured home community loans. Also, the average loan size and other characteristics which distinguish these loans could be part of the narrative.

VII. **Input <u>Question no. 8: Are there any safety and soundness concerns related to the proposed plan activities and objectives?</u>**

A. <u>A Safe and Sound Chattel Manufactured Home Pilot Program</u>

1. <u>Safety and Soundness of the Enterprises to Undertake Underserved Population Programs</u>

Concerns have been raised in the Duty to Serve sessions that the introduction of new business lines, like chattel loans could impact the overall financial stability of the Enterprises. Therefore, it is important to examine the financial results achieved by the Enterprises and the actual level of risk to the Enterprises of initiating this activity.

The Enterprises modeled a “stress test” consisting of a very severe recession with 10% employment, housing prices dropping by 1/3 and counterparty defaults. Even assuming these very severe and unlikely scenarios, Fannie Mae’s Comprehensive Loss was a negative 1.3 billion while Freddie Mac had a cumulative loss of 1.8 billion including a valuation allowance on tax deferred assets. When combined, the Enterprises would not experience cumulative losses of any significance given their capital structure. The manufactured home chattel program would have a much smaller impact on the Enterprises than the conditions modeled in the stress test.

2. <u>2022 Earnings of the Enterprises</u>

Last year, the Enterprises had combined net income of 20 billion dollars, despite a substantial slowing in the growth of real estate prices, rising interest rates and increases in credit loss reserves for new loan purchases (see Table B). Both Enterprises increased their reserve for credit losses due to lower price appreciation and higher loan to value ratio loans which increases default risk and the amount of the loss on each loan. Also, the increase in interest rates will reduce prepayment and increase the longevity of loans, thus increasing potential losses. Despite lower earnings in 2022 than in 2021, increased loan purchases or a pilot chattel manufactured home loan program would not expose the Enterprises to any material risk.

Table B Fannie Mae and Freddie Mac 2022 Earnings and Certain Expenses

Category	2022 Fannie Mae millions of dollars	2022 Freddie Mac millions of dollars
Net interest income(2)	**24,736**	18,005
Fee and other income	**224**	
Net revenues	**24,960**	21.264
Investment gains (losses), net	**(223)**	
Fair value gains (losses), net	**1,364**	
Administrative expenses	**(2,789)**	
Benefit (provision) for credit losses	**(5,029)**	(1,841)
TCCA fees(2)	**(3,369)**	
Credit enhancement expense	**(1,062)**	(2,118)
Change in expected credit enhancement recoveries(3)	**470**	
Other expenses, net(4)	**(778)**	
Income before federal income taxes	**13,544**	11,604
Provision for federal income taxes	**(2,774)**	(2,227)
Net income	**10,770**	9,327

B. Manufactured Home Loan Chattel Feasibility

In a previous feasibility study submitted last year to FHFA, the feasibility for a pilot program was examined from a number of perspectives, including financial, secondary market and other features. The feasibility report includes data projections for the performance of the chattel FHA Title I program portfolio as well as delinquency rates and foreclosures for the two largest manufactured home personal property lenders which have a combined loan portfolio of 22 billion dollars. HMDA data for 2022 for the largest manufactured home lender shows that 55% of the loan applications were for home only loans.

C. Secondary Markets Counterparties and Credit Insurance

As part of the safety and soundness analysis, the Enterprises should identity potential investors for these targeted home loans, counterparties for risk sharing and any specialized loan origination and servicing criteria. Without significant secondary market activity for chattel manufactured home loans, there is no need for private enterprises to undertake market and modeling studies and to determine if this is an economic activity worth investigating and considering.

Until the chattel manufactured loan purchase program begins and operates through a typical economic cycle, there may be inadequate current performance data upon which the counterparties could decide whether to share the risk. For the first several years, the Enterprises might have to go it alone until the performance of these loans is proven. But the absence of liquidity and loan choice for these Americans is the very reason why Congress passed a law to have the Enterprises address these underserved markets.

VIII. **Input Question 10. What additional information might be helpful in evaluating the proposed Plan activities and objectives? Input Question No. 11. Is there any other feedback on the proposed Plans that FHFA or the Enterprises should consider?**

As mentioned above, the Enterprises should engage in discussions with investors in mortgage backed securities, counterparties and lenders who may be interested in purchasing loan pools to serve these underserved markets.   While there are some references to discussions, the nature and content of the discussions are not revealed.

If there are substantial barriers to the initiative of new programs or flexible underwriting guidelines due to market conditions or investor preferences, it would be very helpful to identify those barriers and what the Enterprises propose to address those concerns.   Otherwise, consumers may be waiting for a future program which will not be forthcoming.