Manufactured Housing Institute

October 27, 2017

Federal Housing Finance Agency
Office of Budget and Financial Management
400 7th Street, SW
Washington, DC 20219

Re: FHFA's Draft Strategic Plan: Fiscal Years 2018-2022

To Whom It May Concern:

The Manufactured Housing Institute (MHI) is pleased to submit comments in response to FHFA's Draft Strategic Plan for Fiscal Years 2018-2022.

While we understand that a strategic plan is of necessity quite general in nature, we are disappointed that the reference to the Enterprises' statutory Duty to Serve obligation was quite perfunctory, and further, that it did not even mention manufactured housing.

Performance Goal 2.3 (Expand Access to Housing Finance for Qualified Financial Institutions of All Sizes, in All Geographic Locations, and for Qualified Borrowers) covered 10 different bullet points, in great detail, over four pages. However, as noted, manufactured housing was not even mentioned. MHI believes this oversight is significant, since manufactured housing is a critical component in providing affordable housing opportunities for low- and moderate-income families, particularly in rural areas.

Therefore, MHI strongly urges FHFA to amend the draft Strategic Plan to both specifically mention manufactured housing as an important means in meeting Performance Goal 2.3, which deals with expanding mortgage access to credit; and secondly, to provide some detail about how this can be accomplished in the statutory Duty to Serve.

The following comments, drawn in part from previous MHI comment letters on the subject, highlight what the Enterprises can do to expand its effectiveness in meeting mortgage credit needs for manufactured housing, and how their proposed Duty to Serve Plans could be strengthened.

THE MANUFACTURED HOUSING INSTITUTE (MHI)

MHI is the only national trade organization representing all segments of the factory-built housing industry. MHI members include manufactured home builders, lenders, home retailers, community owners and managers, suppliers and others serving or affiliated with the industry. MHI's membership includes 50 affiliated state organizations. MHI members represent over 85 percent of manufactured homes produced each year.

In 2016, the manufactured housing industry produced over 81,000 homes, approximately nine percent (9%) of new single-family home starts. Eighty percent (80%) of those homes (approximately 64,000 homes) are titled as personal property ("chattel"). The average cost of a manufactured home is $70,600. Manufactured housing can offer this value to consumers because of technological advancements and cost savings associated with the factory-built process. The affordability of manufactured homes enables first-time homebuyers, retirees and families in rural areas to obtain housing that is much cheaper than renting or purchasing a site-built home. The median household income for manufactured homeowners is just under $30,000 per year, which is less than half of the median household income of a single-family home.

MEETING THE UNDERSERVED MARKET NEEDS OF MANUFACTURED HOUSING

Congress enacted the Duty to Serve ("DTS") in 2008 and identified manufactured housing as an underserved market, citing Fannie Mae and Freddie Mac's exit from the chattel loan purchase market and declining purchase volume of real property manufactured home loan purchases.

Earlier this year, both Fannie Mae and Freddie Mac submitted Duty to Serve Underserved Markets Plans (the "Plans"). MHI appreciated the extensive work done by Fannie Mae and Freddie Mac to develop their proposed DTS Plans, including a commendable degree of specificity regarding real property loan purchase volume goals and developing more flexible underwriting guidelines. However, both Plans included a number of "soft" Activities (such as research, conferences, roundtables, and provision of educational materials), and both Plans included Objectives to promote loans to manufactured home communities, which do not increase the availability of manufactured home loans to very low, low- and moderate-income borrowers.

Ultimately, it is imperative that "soft" Activities and purchasing loans for manufactured home communities should not be a substitute for Activities that have a tangible impact, using objective metrics like chattel and real property loan volume.

Further, MHI is concerned that the Plans do not appear to include efforts to purchase manufactured home loans on a flow basis (i.e., through the establishment of underwriting guidelines that allow seller-servicers to sell all loans that meet such guidelines). MHI is also concerned that the Plans do not adequately address collaboration with private mortgage insurers to develop chattel loan private mortgage insurance or exploration of risk sharing structures (including lender recourse), which could mitigate Enterprise chattel loan risk and thereby allow for a more robust expansion of chattel loan purchases.

Following are MHI's recommendations for essential components in the Enterprises' DTS plans:

CHATTEL LOANS. In its DTS rule, FHFA acknowledged that homes titled as personal property constitute more than 80 percent (80%) of new manufactured home purchases in recent years. Moreover, while more can be done to purchase real property manufactured home loans, the greatest underserved market need is chattel loans. As FHFA and the respective DTS Plans document, interest rates are substantially higher for such loans, lenders are less plentiful, and except for a very small amount of Ginnie Mae and FHA Title I loan purchases, there is no secondary market for chattel loans.

Therefore, an essential component of an Enterprise Duty to Serve Plan is a commitment to carry out a pilot program for purchase of chattel loans at meaningful levels, plus good faith work toward purchasing chattel loans on a flow basis. MHI recognizes that the Enterprises have been reluctant to purchase chattel loans because of concerns about the level of risk and perceived operational challenges. At the same time, it is now nine (9) years since Congress passed Duty to Serve, and neither of the Enterprises are purchasing such loans.

MHI is confident chattel loans can be purchased safely and profitably, with proper underwriting standards and appropriate compensating fees and risk sharing. As evidence to support this conclusion, MHI points to lenders that continue to be active chattel lenders, and who have been originating such loans safely and profitably for years. MHI and its members have been working with Fannie Mae, Freddie Mac, and FHFA to help the Enterprises address questions regarding chattel loan risks and operational challenges and MHI has offered extensive comments and suggestions in the DTS rulemaking process about how the Enterprises could safely purchase such loans. A mix of appropriate downpayment requirements, compliance with existing Truth in Lending Act ability to repay requirements (including prudent debt-to-income ratio requirements), consumer loan origination and servicing, land tenure and pad lease protections, and partnering with experienced, well-capitalized seller-servicers will yield positive results.

Each Enterprise should carry out, **at a minimum**, the following:

(1) Continue existing efforts to conduct research, convene meetings, and work diligently with qualified entities to address and resolve Enterprise concerns about risks and operational challenges of purchasing chattel loans.

(2) Engage in serious discussions with private mortgage insurers, lenders, and other interested parties in an effort to develop appropriate risk sharing structures.

(3) Create incentives for seller-servicers to make low balance loans.

(4) Price servicing fees to reflect the high-touch attention needed for acceptable loan performance and offer incentives to servicers to reduce delinquency and loss severity below specified benchmarks.

(5) Develop underwriting guidelines and procedures that would enable the Enterprises to purchase chattel loans on a flow basis and work on developing an effective secondary market for such loans that would allow cost-effective securitization.

(6) Begin a Pilot Program to purchase chattel loans within two years with adequate safeguards for the GSEs and risk-sharing for the lender-participant that:

- Ensures long-term sustainability beyond the Pilot Program;
- Considers the existing market processes without reinventing the industry; and
- Has been thoroughly analyzed to address the above enumerated issues.

Each Plan should include specific performance targets for quality of loan performance and service to the consumer and the industry.

(7) With adequate performance in the initial Pilot, a strategy for continuity should be included in the Plan for future purchase and securitization of chattel loans on a flow basis.

REAL PROPERTY LOANS. Each Enterprise should carry out, **at a minimum**, the following:

(1) Increase the volume of purchased loans, compared to 2016 volume levels, as follows:

(a) Year 1 – 5% increase over 2016 (base year) level.
(b) Year 2 – 15% increase over 2016 (base year) level.
(c) Year 3 – 25% increase over 2016 (base year) level.

(2) Develop and offer at least one new loan product that addresses challenges such as underwriting flexibility, borrower qualification, non-traditional credit profiles and property use restrictions.

(3) Study the appropriateness of existing G-fee/LLPA levels for real property manufactured home loans and if appropriate, reduce such fees.

(4) Conduct outreach to new lenders and approve at least 10 new seller-servicers each during the 3-year Plan period.

(5) Develop and offer new loan products that make financing available for the industry's emerging new class of HUD Code manufactured homes, which have aesthetic features and consumer amenities that are comparable to site-built homes but can be offered at much lower prices due to the efficiencies of the factory-built process. Such features could include: updated home styles, pitched roofs, ENERGY STAR® features, garages, porches, premium finishes and upgraded exteriors.

LOANS TO MANUFACTURED HOME COMMUNITIES. As discussed in MHI's comment letter on the proposed Duty to Serve Rule, MHI believes that purchasing commercial loans for manufactured housing communities does not address an "underserved market" need, and therefore the Enterprises should not receive Duty to Serve credit for such loans. However, MHI does believe that the purchase of such loans, particularly for resident-owned and smaller, non-profit communities, is a laudable activity and therefore MHI generally supports the steps outlined in the Plans to pursue these Objectives.

CONCLUSION
As stated above, and in previous letters, manufactured housing is critical to increasing the availability of affordable housing in America. A stronger involvement by the Enterprises in this market will not only strengthen homeownership opportunities but also offer an alternative to consumers who are hurt by unaffordable rents or the shortage of adequate housing. Therefore, MHI strongly urges FHFA to amend the draft Strategic Plan to both specifically mention manufactured housing as an important means in meeting Performance Goal 2.3, which deals with expanding mortgage access to credit - and secondly, to provide some detail about how this can be accomplished in the statutory Duty to Serve.

Sincerely,

Lesli Gooch

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