



Federal Housing Finance Agency

Duty to Serve

FHFA presents Snapshots from Freddie Mac's & Fannie Mae's Duty to Serve Underserved Markets Plans for Chattel



Effective December 14, 2018

Excerpts from Freddie Mac's and Fannie Mae's Duty to Serve Underserved Markets Plans: Chattel

Compiled by the Federal Housing Finance Agency

FHFA has compiled excerpts from [Fannie Mae's](#) and [Freddie Mac's](#) Duty to Serve Underserved Markets Plans addressing activities that support manufactured homes titled as personal property (or chattel). To access the Duty to Serve Underserved Markets Plans in their entirety, please visit FHFA's Duty to Serve website. Chattel activities may also be eligible for Duty to Serve extra credit.

Table of Contents

- I. Freddie Mac's Duty to Serve Underserved Markets Plan
 - a. "Support for Manufactured Housing Titled as Personal Property (Chattel): Regulatory Activity"
- II. Fannie Mae's Duty to Serve Underserved Markets Plan
 - a. "Regulatory Activity: Chattel. Loans on manufactured homes titled as personal property"



Disclaimer

Implementation of the activities and objectives in Fannie Mae's and Freddie Mac's Duty to Serve Underserved Markets Plans may be subject to change based on factors including FHFA review for compliance with the Charter Acts, specific FHFA approval requirements and safety and soundness standards, and market or economic conditions, as applicable.



Freddie Mac

We make home possible®

FHFA's Compilation of Snapshots
from Freddie Mac's Duty to
Serve Plan: Chattel

Activity 2 – Support for Manufactured Housing Titled as Personal Property (Chattel) Regulatory Activity

The manufactured housing industry has seen a continuous and significant increase in chattel financing throughout the last several years. It is unsurprising, then, that we consistently heard a call for GSE support of chattel financing during our outreach to bring affordable lending to the chattel market. Freddie Mac does not currently purchase chattel loans. We do not have the requisite systems in place to purchase chattel loans, nor do we have historical data on chattel loan performance that would allow us to make determinations about whether the purchases of these loans can be made in a safe and sound manner. We appreciate FHFA’s efforts to assist us in our information gathering through the Duty to Serve Chattel Pilot Request for Information (RFI) and we are committed to developing and implementing a chattel pilot program that will meet the needs of the market. We reviewed and considered the thoughtful comments received under that RFI as we develop our internal capability to serve this market.

Freddie Mac has taken into consideration our lack of experience with chattel loans and being mindful of safety and soundness concerns, Freddie Mac intends to conduct a systematic and incremental review to develop a product before entering the chattel market. We are firmly committed to understanding it better and developing a pilot program to test our findings and to apply what we learn.

Historically, Freddie Mac has provided deep liquidity to the conventional mortgage market and we look forward to bringing this level of expertise to the chattel market. During the Plan Term, Freddie Mac intends to engage in the following objectives in support of chattel:

- Engage in research and due diligence into the chattel market.
- Implement a chattel loan pilot and purchase loans, subject to receipt of FHFA approval.
- Develop homebuyer education and continue market outreach related to chattel financing.

OBJECTIVE A: CONDUCT OUTREACH AND RESEARCH ON THE CHATTEL MARKET

Evaluation Area	Year	Incomes Targeted	Extra Credit
Loan Product	1	VLI, LI, MI	Yes

By partnering with well-established industry participants, Freddie Mac plans to conduct extensive research on the chattel loan market to guide the development of our chattel pilot parameters. Our understanding is that information about the chattel market is currently fragmented and not widely available. With an eye toward future secondary market activity, we plan to focus on gathering information related to performance data, current underwriting parameters, risk offset or credit enhancement options, servicing practices, and consumer protections.

In 2017, Freddie Mac issued a Request for Information (RFI) and followed up with a Request for Proposal (RFP) to find a partner, or partners, to provide data and analytical support to assist in the development of our chattel pilot. The RFI helped us identify the organizations in the marketplace that have the interest and capability to contract with Freddie Mac to develop responsible underwriting parameters and other appropriate requirements for a chattel pilot based on loan-level data and subsequent loan performance. This will allow us to develop sufficient safeguards, along with the analytics necessary to track the performance of the chattel loan pilot. We believe this is a crucial first step. Without this foundational work, we cannot serve the market effectively.

Given the work that will be involved in obtaining and synthesizing data, Freddie Mac intends to expend significant resources to gather and analyze the results of our research. We expect that we will have garnered sufficient information by Year 2 to develop guidelines for a chattel pilot. Freddie Mac will complete sufficient research to enter the chattel market in a safe and sound manner.

Baseline

Freddie Mac does not currently provide liquidity to the chattel market and, therefore, does not have experience serving the market; nor do we have the historical data to model the associated credit risks and develop policies to support the loan life cycle.

Challenges, Actions and Market Impacts

Market Challenge	Freddie Mac Action
<p>Lack of transparency and available data on loan terms and performance</p> <ul style="list-style-type: none"> ▪ The market lacks transparency and standardization in multiple areas of the chattel loan life cycle, including the loan origination process, loan servicing and loan performance, which inhibits growth in the secondary market. 	<p>Year 1 – 2018</p> <p>To help inform pilot design, Freddie Mac will conduct research on chattel performance and chattel loan life cycle and complete the initial analysis by year end.</p> <ol style="list-style-type: none"> 1) Research activities: <ol style="list-style-type: none"> a. Evaluate chattel loan performance, including finding viable sources for data on loan performance and valuation across agency and proprietary products. b. Establish partnerships with subject matter experts on data analysis. c. Review current underwriting models or underwriting criteria supporting chattel financing. d. Explore credit enhancements and risk sharing solutions. e. Review loan servicing practices, including servicing compensation. f. Review disposition activities. g. Review current pricing and explore securitization models. 2) Research activities described above will involve coordination and collaboration to establish additional partnerships and advisors, information collection and sharing: <ol style="list-style-type: none"> a. Convene the Manufactured Housing Initiative Task Force, Affordable Housing Advisory Council and Next Step SmartMH Task Force at least bi-annually; working

	<p>subgroups will meet at least quarterly.</p> <p>b. Engage at least six lenders to assist with opportunities and solutions.</p> <p>c. Participate in at least one manufactured housing trade show and four key industry conferences to gather information.</p> <p>3) Use research findings to inform pilot development. See also Objective B for measurable actions on this pilot.</p>
--	---

Market Impact

As FHFA noted in the Duty to Serve rule, there is a significant lack of information on chattel loans, especially relating to loan performance. The results of our research will inform our next steps, including the structure of a pilot. Notwithstanding the difficulty involved in starting from a baseline of zero on loan purchases, we believe that one year is a reasonable timeframe to conduct research and leverage findings to define pilot requirements.

The secondary market for manufactured housing chattel loans is currently very limited. Our success in meeting this objective will have a significant impact on the market. First, we understand that a lack of widely available information is a key challenge. We intend to address this by publishing notable findings from our research as indicated in Objective C. Second, our ability to provide liquidity to this market in a safe and sound manner hinges on gaining a greater understanding of it.

Gaining deep insights into the chattel market will require Freddie Mac to seek additional resources and subject matter experts to assist us with the analysis. We mentioned previously that we have undertaken a RFI and a RFP to find a partner, or partners, to provide data and analytical support. Understanding the loan origination, loan packaging, servicing and disposition processes will also require resources from multiple areas internally to complete varied analyses, including Single-Family teams responsible for affordable lending, credit risk, securities, modeling and analytics, servicing and REO.

OBJECTIVE B: DEVELOP INITIATIVE GUIDELINES FOR CHATTEL PILOT AND INITIATE CHATTEL PURCHASES

Evaluation Area	Year	Incomes Targeted	Extra Credit
Loan Product	1	VLI, LI, MI	Yes
Purchase	2 and 3	VLI, LI, MI	Yes

Based on the results of our research and outreach, Freddie Mac will develop a chattel loan pilot. We intend to purchase chattel loans in years two and three of the Plan, subject to FHFA approval. We recognize that the launch date, in Year 2, may be dependent on the FHFA approval process.

The parameters for the chattel pilot will depend upon our research and outreach described in Objective A. Freddie Mac does not have a product to support financing of chattel nor have we purchased chattel loans in the last three years; thus, we have no recent historical data on which we can base assumptions on loan profiles and

performance. The scope of the pilot will include these activities:

- Creation of the standards for credit, servicing, pricing and risk structures necessary to support a pilot.
- Loan purchases that we will make using varied purchase execution options (including bulk portfolio transactions) to model risk and assist with product design to support future loan purchase capabilities on a flow basis. A comprehensive effort of marketing quality energy efficient manufactured homes will complement our activities to increase liquidity and promote manufactured housing as a viable investment to attract private capital.

Baseline

Freddie Mac does not have a chattel product. We have not purchased chattel loans in the past three years. Our baseline is zero.

Challenges, Actions and Market Impacts

Market Challenge	Freddie Mac Action
<p>No standardized products</p> <ul style="list-style-type: none"> ▪ Products in support of this market vary from lender to lender because most originations are held in retained portfolio due to the proprietary products used to originate loans. ▪ There is a lack of standard underwriting practices and automated underwriting model will continue to limit growth and private capital in this market. <p>No standard collateral valuation approach</p> <ul style="list-style-type: none"> ▪ There is no consistent approach to assessing property values and current valuation methods, including the use of NADA guides, which are inconsistent with how real property is valued. <p>Historical perception of manufactured housing as a mobile home or “trailer”</p> <ul style="list-style-type: none"> ▪ Manufactured Housing is plagued by the stereotype of the “trailer,” even though the new class of homes have standard features and finishes similar to site-built homes and are seldom moved after installation. 	<p>Year 1 – 2018</p> <p>Freddie Mac will develop pilot parameters and determine counterparties for the pilot to support loan purchases.</p> <ol style="list-style-type: none"> 1) Complete policy parameters to support chattel pilot program: <ol style="list-style-type: none"> a. Underwriting criteria b. Credit enhancement and risk sharing structures c. Requirements that address consumer protections d. Pricing e. Delivery criteria f. Quality control g. Servicing and disposition requirements, including servicing compensation h. Exploration of potential securitization structures 2) Determine counterparties to be included in pilot activities. 3) Purchase a set minimum number of loans from at least one regional or national lender to obtain data, such as loan characteristics and performance, to facilitate pilot design, subject to FHFA approval. 4) Develop and implement a marketing campaign to further promote quality energy efficient manufactured housing as a viable source of

sustainable and affordable homeownership to increase market opportunities.

Year 2 – 2019

Freddie Mac will request FHFA approval, and begin purchasing loans under the pilot if approval is obtained.

- 1) Request FHFA approval to implement a chattel pilot. In order to initiate purchases under the pilot program we will need an approval no later than the second quarter.
- 2) Implement a chattel pilot with select national or regional lenders.
- 3) Purchase 200 - 500 loans to help inform future product design to build out capabilities for flow path.

Year 3 – 2020

- 1) Freddie Mac will continue purchasing loans under the pilot. We will purchase 600 – 1,500 loans to help inform future product design to build out capabilities for flow path.

Market Impact

Freddie Mac frequently uses pilots to test potential offerings and markets prior to a broad rollout. In our experience, pilots are an efficient and effective tool that permits us to adjust features quickly on a small scale in response to feedback. There is currently a limited secondary market for manufactured housing chattel loans. The results of a pilot program will have a significant impact on manufactured housing titled as personal property because the pilot can assist in the development of a more robust secondary market and will provide Freddie Mac with additional information on how to build a sustainable product to support this market.

The success of the pilot will include providing the market with the framework for consistent standards for credit risk and servicing, including a reliable underwriting and valuation model, a framework for risk sharing and securitization, and consistent requirements for servicing and disposition activities. We anticipate that pilot activities will not only provide the market with immediate liquidity of up to \$87 million over the Plan cycle, but also grow the market opportunity.

Assuming timely FHFA approval, we believe the timeframe is reasonable, given the current outreach efforts and Freddie Mac's high level of commitment. We anticipate that pilot activities will not only provide the market with immediate liquidity, but also grow the market and opportunity to attract private capital.

Freddie Mac will have limited experience in analyzing chattel loans prior to our purchase activities; therefore, we will be relying on additional resources and partners, selected via a proposal process, to assist with data and analytical support. Additionally, resources from multiple areas internally at Freddie Mac will be relied upon to complete varied analysis, including Single-Family teams responsible for affordable lending, Seller/Service relationships, credit decisions, modeling, pricing, securitizations and product development to understand the economics, credit risk and operational impacts, including impacts to our supporting applications.

OBJECTIVE C: CONDUCT MARKET OUTREACH TO SUPPORT CHATTEL PILOT AND INCREASED ACCESS TO HOMEBUYER EDUCATION

Evaluation Area	Year	Incomes Targeted	Extra Credit
Outreach	2 and 3	VLI, LI, MI	Yes

Freddie Mac intends to publish findings resulting from our research referenced in Objective A to offer transparency and engagement in the market related to the loan life cycle and performance. This will provide the market with the opportunity to review a broad spectrum of data and analytics to inform lending and appraisal decisions. Further, we will actively and continuously engage the market for feedback pre- and post-chattel pilot implementation to determine best practices and ensure we are aligning with market needs.

We also plan to develop a homebuyer education curriculum that emphasizes the benefits of manufactured housing, including a discussion on chattel financing that is focused on the underwriting parameters of Freddie Mac’s chattel pilot. This objective will target the manufactured housing market titled as personal property. The goal of this objective is to expand on our existing homebuyer education curriculum to focus on pre-purchase education that delves into the unique characteristics of manufactured housing chattel-loans along with the benefits of purchasing energy efficient manufactured homes.

Freddie Mac intends to expand on our current Next Step® and eHome America pilot efforts by including a discussion in the curriculum on chattel financing that is aligned with our chattel pilot activity. Freddie Mac recently partnered with Next Step® and eHome America to develop an online homebuyer education curriculum that is inclusive of manufactured housing tailored to prospective buyers of manufactured homes in Kentucky. The pilot is Next Step’s “SmartMH” program, which aims to expand the opportunity for sustainable homeownership by educating consumers about the benefits of energy efficient manufactured homes, as more fully discussed in Objective C of Activity 1. We will implement the updated curricula in the first quarter of the third year of the plan in the states where the homebuyer education will be available.

Baseline

Freddie Mac has not previously published information on chattel financing including the loan life cycle and performance. We do have experience performing outreach as it relates to manufactured housing and we plan to leverage existing advisory groups to assist with information collection and sharing, and, ultimately, feedback on pilot development and implementation. The advisory councils include the Manufactured Housing Initiative Task Force, Next Step SmartMH Task Force, and Affordable Housing Advisory Council. See also Activity 1, Objective B, for meeting frequency and representation. We do not currently have a homebuyer education curriculum that includes chattel financing.

Challenges, Actions and Market Impacts

Market Challenge	Freddie Mac Action
<p>Lack of information and data to support chattel lending</p> <ul style="list-style-type: none"> Market research and data to support scalable chattel financing is lacking in the market. Transparency of lending activities, performance and product parameters need to be readily 	<p>Year 2 – 2019</p> <p>Freddie Mac will provide transparency to the market with results from our research. We will also continue outreach to obtain feedback on pilot implementation, promote quality manufactured housing and seek additional opportunities to grow</p>

available to the market.

Lack of homebuyer education inclusive of manufactured housing

- Comprehensive homebuyer education that includes manufactured housing as part of the curriculum inclusive of chattel financing options is rarely available. There is a critical need to provide a sustainable education platform that includes these topics:
 - Awareness of the benefits and low costs of manufactured housing
 - Available products and options for securing financing
 - Emphasis on quality home selection, including energy efficient features that can lower the overall cost of homeownership
 - Pre-purchase financial education in addition to housing counseling, if needed, to develop homebuyers who would be eligible for loans
 - Post-purchase education and counseling to increase sustainability of homeownership and the future maintenance of a manufactured home

the market. Freddie Mac will take these actions:

- 1) Publish key research findings in a white paper related to chattel performance and loan practices on our website to inform the market about chattel financing.
- 2) Socialize key findings of research through convenings with the Manufactured Housing Initiative Task Force and the Next Step SmartMH Task Force at least bi-annually and obtain feedback on pilot implementation to further calibrate requirements as necessary.
- 3) Participate in at least one manufactured housing trade show and four key industry conferences to discuss our efforts to support development of a secondary market for chattel, seek additional opportunities to support the market and gain additional industry knowledge.

Year 3 – 2020

Freddie Mac will provide homebuyer education that includes chattel financing and will achieve the following:

- 1) Expand our homebuyer education pilot that showcases the benefits of manufactured housing and energy efficiency to include chattel financing in the states where the online curriculum referenced in Activity 1, Objective C, has been implemented:
 - a. Provide education inclusive of chattel financing in all states where the manufactured housing online curriculum has been implemented.
 - b. Expand the lender network referenced in Activity 1, Objective, C by at least one lender that supports chattel financing.
- 2) Ask for consumer surveys at each homebuyer education or counseling session. Use survey results to inform future changes to the curriculum and counseling efforts.
- 3) Continue outreach with the Manufactured Housing Initiative Task Force and the Next Step SmartMH Task Force at least bi-annually to obtain feedback on the chattel pilot and to further calibrate requirements as necessary.
- 4) Participate in at least one manufactured housing trade show and four key industry conferences to discuss our pilot activities and

seek additional opportunities to support the market and gain additional industry knowledge.

Market Impact

Freddie Mac will publish and actively socialize key findings to the market based on extensive research completed in the first year of the Plan. This activity will provide transparency to the market on the chattel loan process and performance that has not been previously available to the public. Given Freddie Mac's limited knowledge about the chattel market, obtaining feedback from market participants about the chattel financing process and ecosystem, including lenders, retailers, manufactured housing trade organizations, community owners, builders of manufactured housing, as well as affordable housing advocates and non-profit organizations, will be critical to the success of the pilot.

Continued engagement and partnerships with organizations that support manufactured housing will be needed to ensure that we are consistently meeting market need as we undertake loan purchases in a safe and sound manner to build out future capabilities to support the market broadly.

The market is significantly challenged by an inadequate amount of homebuyer education that provides information about manufactured housing and chattel financing. The lack of capacity and degree of education does not meet the demand of the market and has limited growth in the manufactured housing market.

It will take a significant level of effort to expand to additional regions, to update our curriculum to include chattel financing solutions that is consistent with the philosophy and policies for how we are considering a chattel loan structure to support loan purchases, and to find additional non-profit partners to administer the curriculum.

Given that there is not curriculum that focuses on chattel financing options available to the market, we anticipate that our pilot will positively impact homebuyers behavior and outcomes as it relates to home selection, financing and home maintenance.

Freddie Mac will monitor the feedback on the education materials through surveys to understand additional consumer needs that can be addressed through enhanced platforms. These efforts will have a direct impact on the borrowers who are accessing the services and, through expansion, the market will also experience future impact. These efforts should receive cross-market Duty to Serve credit in energy efficiency because the curriculum incorporates the benefits of purchasing energy -efficient manufactured housing as part of the borrower's home-selection decision.



Fannie Mae

FHFA's Compilation of Snapshots
from Fannie Mae's Duty to Serve
Plan: Chattel



B. Regulatory Activity: Chattel. Loans on manufactured homes titled as personal property (12 C.F.R. § 1282.33 (c) (2)).

Note: Fannie Mae seeks extra credit for this Activity.

1. Objective #1: Conduct outreach, perform research, and promote information sharing that supports the development of a chattel loan pilot and market standardization of the product (Analyze, Partner and Innovate).

Meeting the Challenges

Manufactured housing titled as personal property (chattel) makes up the majority of manufactured housing in the U.S. However, financing options are limited, and the market is faced with numerous challenges, including:

- The lack of overall market transparency makes it difficult to understand risks which discourages Enterprise, lender, and investor participation in the market.
- Market data and information on chattel is largely unavailable.
- There is a lack of understanding of how chattel loans perform.

To address these challenges, Fannie Mae will:

- Conduct significant market outreach, research, and data acquisition to better understand requirements and best practices on matters such as loan origination, collateral valuation, servicing standards, applicable legal requirements, and financial risks.
- Seek data standardization to improve data availability.
- Publish to the public Fannie Mae’s learning and experience to promote transparency, encourage collaborative engagement, and inform future research and development.

SMART Factors

Fannie Mae will undertake the following measurable Actions in the years indicated.

Year	Actions
2018	<ul style="list-style-type: none"> • To maintain engagement with the industry, stay current on the dynamics and challenges facing the chattel market, and acquire information to assist in the development of a chattel pilot, Fannie Mae will: <ul style="list-style-type: none"> ○ Host two manufactured housing advisory council meetings with representation from the chattel manufactured housing industry. The advisory council will include at least five lenders (as the industry is dominated by a small number of lenders, Fannie Mae will include both large volume and small volume lenders on the advisory council), one industry trade association, two manufactured housing retailers, one industry data services company, two chattel loan servicers, one consumer advocacy group, and three manufacturers representing small, regional, and large companies. To effectively manage the advisory council, Fannie Mae will develop a stakeholder management plan to assist with identification of all key stakeholders, critical information needs, key risks and mitigants, capture of stakeholder feedback, and items requiring follow-up. ○ Participate in: <ul style="list-style-type: none"> ▪ Two key industry conferences.



Year	Actions
	<ul style="list-style-type: none"> ▪ Two regional conferences serving different geographic areas. ▪ One manufactured home show. • Conduct and publish to the public, one analysis that highlights the legal differences between chattel and real property secured manufactured homes (e.g., disclosures, State titling requirements and investor responsibility, and liability) to inform a chattel pilot. • Acquire industry chattel data and information essential to the development of a chattel pilot such as: <ul style="list-style-type: none"> ○ Chattel loan origination, performance and loss severity data from lenders, servicers, FHA Title I, and other government programs. ○ Consumer disclosure and protection requirements for unit sales, loan origination, and loan servicing. ○ Chattel valuation and appraisal data, including homes in communities and on private land. ○ Chattel lending underwriting guidelines, servicing and disposition best practices and policies, and investor reporting requirements. ○ State and local titling, insurance, disposition, and decommissioning requirements. ○ Credit enhancement structures to reduce economic risk to Fannie Mae. • Publish to the public a comprehensive set of learning and analysis from all outreach activities to promote transparency across the housing industry and encourage collaborative engagement.
2019	<ul style="list-style-type: none"> • To maintain engagement with the industry and stay current on the dynamics and challenges facing the chattel market Fannie Mae will leverage our outreach format established in 2018 (e.g., meetings of advisory council, participation in conferences and manufactured housing shows, etc.) to address the following: <ul style="list-style-type: none"> ○ Communicate pilot development and early findings. ○ Promote credit and servicing standards to establish standardization. • Establish chattel data standards with the industry to promote standardization. • Obtain pilot feedback to inform any changes. • Publicize update to experience gained from chattel loan purchases to promote transparency, awareness, and inform future research.
2020	<ul style="list-style-type: none"> • To maintain engagement with the industry and stay current on the dynamics and challenges facing the chattel market, Fannie Mae will leverage our outreach format established in 2018 (e.g., meetings of advisory council, participation in conferences and manufactured housing shows, etc.) to address the following: <ul style="list-style-type: none"> ○ Communicate pilot progress and industry updates. ○ Identify opportunities for research and collaborative engagements to further the future of a sustainable chattel secondary market. • Publish an update for the public on experience gained from chattel loan purchases to promote transparency, awareness, and inform future research. • Establish outreach and research strategy for the 2021 – 2023 Duty to Serve Plan and potential options for developing future chattel activities.



Manufactured housing titled as chattel represents the largest U.S. housing market opportunity for which Fannie Mae currently does not provide liquidity. To participate in this market, Fannie Mae’s strategy is to conduct outreach and maintain an annual commitment to the advisory council, regional and national conferences, and other events to understand all aspects of chattel lending for the life of the loan from origination practices to loan servicing to loss mitigation and property disposition. In addition, Fannie Mae will establish advisors who currently participate in chattel financing and may provide valuable insights into the challenges and successes within this dynamic market. Taking such steps are prerequisites to being able to determine whether Fannie Mae may participate in this market, consistent with notions of safety and soundness. Fannie Mae has significant experience conducting outreach efforts in the marketplace and participating in market activities. Fannie Mae will publish our findings and experience annually for the public to provide transparency and promote collaborative engagement. Based on our experience analyzing markets, developing new products, and creating pilots, Fannie Mae has determined that this Objective is realistic and may be achieved within the time periods described.

The Objective requires substantial use of Fannie Mae resources to maintain market engagement, manage industry relationships, establish standards, and publish findings to promote collaboration and inform future development.

Criteria	2018	2019	2020
Evaluation Factor:	Outreach	Outreach	Outreach
Income Levels:	Very Low-, Low-, and Moderate-Income Levels for all Years		

2. Objective #2: Establish a chattel loan pilot structure and secure approval from FHFA to purchase chattel loans (Do What We Do Best).

Meeting the Challenges
<p>While Fannie Mae has acquired chattel loans in the past and continues to hold some of these loans, Fannie Mae does not currently purchase chattel loans and FHFA has indicated that Fannie Mae must secure its approval to do so. Before approval can be secured, Fannie Mae must establish the parameters by which it will purchase chattel loans.</p> <p>The challenges in the market are:</p> <ul style="list-style-type: none"> • Currently, there are only a handful of lenders originating loans in the primary market and there is no secondary market. • Lenders which make chattel loans hold them in portfolio so there has been no move towards product consistency. • Loans lack uniformity and standardization. <p>Accordingly, facilitation of a secondary market requires significant efforts to address these challenges, including:</p> <ul style="list-style-type: none"> • Establishing consumer protection, credit, collateral, and servicing standards for any purchase of chattel loans. • Gathering information on legal requirements and assessing financial risks. • Pursuing internal and FHFA approval to purchase chattel loans in 2019 and 2020. • Providing transparency and encouraging collaboration by publishing findings and insights annually for the benefit of the public.

SMART Factors



Fannie Mae will undertake the following measurable Actions in the years indicated.

2018	<ul style="list-style-type: none"> • Prepare one set of consumer protection, credit, collateral, and servicing policies and standards to acquire chattel loans in a safe and sound manner and establish metrics for monitoring activity. • Obtain full approval to pursue chattel pilot by completing the following: <ul style="list-style-type: none"> ○ Complete FHFA Notification of New Activity pursuant to 12 CFR Part 1253.4 and submit for approval to purchase chattel loans. ○ Pursue internal approval to purchase chattel loans. ○ Pursue FHFA approval for the purchase of chattel loans. • Assess impact and modifications to operations technology and infrastructure in order to implement changes for chattel pilot purchase.
2019	<p>Subject to internal and FHFA approvals in 2018, Fannie Mae will:</p> <ul style="list-style-type: none"> • Implement chattel pilot monitoring capabilities. • Purchase outright, participate in a debt structure, or guarantee 1,000 chattel loans (UPB of approximately \$60 million). • Baseline: Because Fannie Mae has not purchased any chattel loans since 2006, a Baseline cannot be reasonably established for these purchases. Moreover, the primary purpose for purchasing these loans is analysis and research rather than contributing liquidity to the market, although the purchases will, in fact, contribute liquidity. Accordingly, the number of loans purchased has been established because, based on our experience of acquiring loans and analyzing loan performance, it represents a sufficient sample for initial analytical purposes while not creating safety and soundness concerns.
2020	<ul style="list-style-type: none"> • Facilitate an opportunity to analyze a larger sample of loans by purchasing outright, participating in a debt structure, or guaranteeing an additional 1,000 chattel loans. • Define chattel pilot terms for the 2021 – 2023 Duty to Serve Plan based on learning from purchase activity in 2019 and 2020.

Manufactured housing titled as chattel represents the largest housing market in which Fannie Mae currently does not provide liquidity. In addition to requesting FHFA approval to develop a chattel pilot, Fannie Mae must seek internal approval to purchase chattel loans. The number/UPB of loans approved for purchase must meet safety and soundness standards while also meeting the requirement to be a sufficient number so as to be appropriate for analysis and to gain an understanding of their performance. Fannie Mae’s strategy is to leverage the pilot to develop a sustainable chattel solution.

The Objective establishes the credit criteria and servicing standards for Fannie Mae to participate appropriately and attract private capital to the chattel market and provide direct liquidity of up to approximately \$120 million to the chattel market. The acquisition of chattel loans is essential in determining impact to Fannie Mae’s infrastructure and processes as part of a comprehensive assessment of the chattel pilot. Acquisition of chattel loans will also provide Fannie Mae direct and fully transparent access to chattel loan performance and servicing, which will inform chattel product development efforts and will supplement the information and data to be publicized.

Fannie Mae has determined that this Objective is realistic and may be achieved within the time periods described. The Objective requires substantial use of Fannie Mae resources including capital markets, analytics, risk, and operations as it is a complex challenge that impacts many areas across multiple disciplines.



Criteria	2018	2019	2020
Evaluation Factor:	Loan Product	Loan Purchase	Loan Purchase
Income Levels:	Very Low-, Low-, and Moderate-Income Levels for all Years		

3. Objective #3: Explore securitization structures that attract private capital and provide sustainable liquidity to the chattel market (Do What We Do Best).

Meeting the Challenges

Manufactured housing titled as personal property is currently financed by private lenders that hold the assets in private portfolios. This creates the following market challenges:

- The lack of a secondary market to provide liquidity to chattel lenders and attract other sources of private capital.
- Interest and appetite in the capital markets for a chattel backed security is unknown.
- Different chattel security structures must be researched to determine plausible and optimal structure options.

To address these challenges, Fannie Mae will:

- Conduct significant market outreach and research to better understand the capital market interest in a chattel-backed security.
- Identify potential securitization solutions based on outreach and research.

SMART Factors

Fannie Mae will undertake the following measurable Actions in the years indicated.

Year	Actions
2018	<ul style="list-style-type: none"> • Study the chattel market to understand the opportunity to develop a chattel security. <ul style="list-style-type: none"> ○ Acquire loan balance data for chattel originations over the last five years to determine the overall size of the chattel market and market size trends. ○ Identify the top 10 originators and their market share, and determine if loans are being sold. If chattel loans sales are of a significant volume, gather additional information about the investors. • Explore the requirements for structuring a chattel security, including: <ul style="list-style-type: none"> ○ Determining if mortgage backed securities can be comprised of personal property assets. ○ Determining if LTVs above 80 percent would be allowed in a security, and, if so, determine what credit enhancement options are acceptable or required, noting that mortgage insurance is not available for chattel loans. • Engage rating agencies via teleconference to gather information about opportunities and requirements to rate a chattel security. <ul style="list-style-type: none"> ○ Establish points of contact with Moody's, Standard & Poor, and Fitch Ratings to engage throughout chattel pilot development.



Year	Actions
	<ul style="list-style-type: none"> ○ Gather information on any historical data held by the rating agency and/or the data that would be needed to support a chattel security rating. ○ Discuss security structure options and credit enhancement requirements. ● Research tax and accounting issues associated with a chattel security to gain understanding of items such as implications to GAAP earnings and the effect on Fannie Mae's balance sheet. ● Explore security structure options to address credit risk and pricing issues. Leverage loss projections created by an analysis of data gathered in Objective #1 to assist in exploration of options such as retaining a first loss position and bond guarantees. ● Engage lenders and/or dealers with previous experience with chattel securities to gain insight on data and performance information and an understanding of underwriting criteria and lessons learned from their experience. ● Engage private equity fund managers with knowledge and experience in manufactured housing to discuss market potential, roadblocks, and plausible products and structures. ● Use learning acquired through 2018 actions to inform future actions in 2019 and 2020.

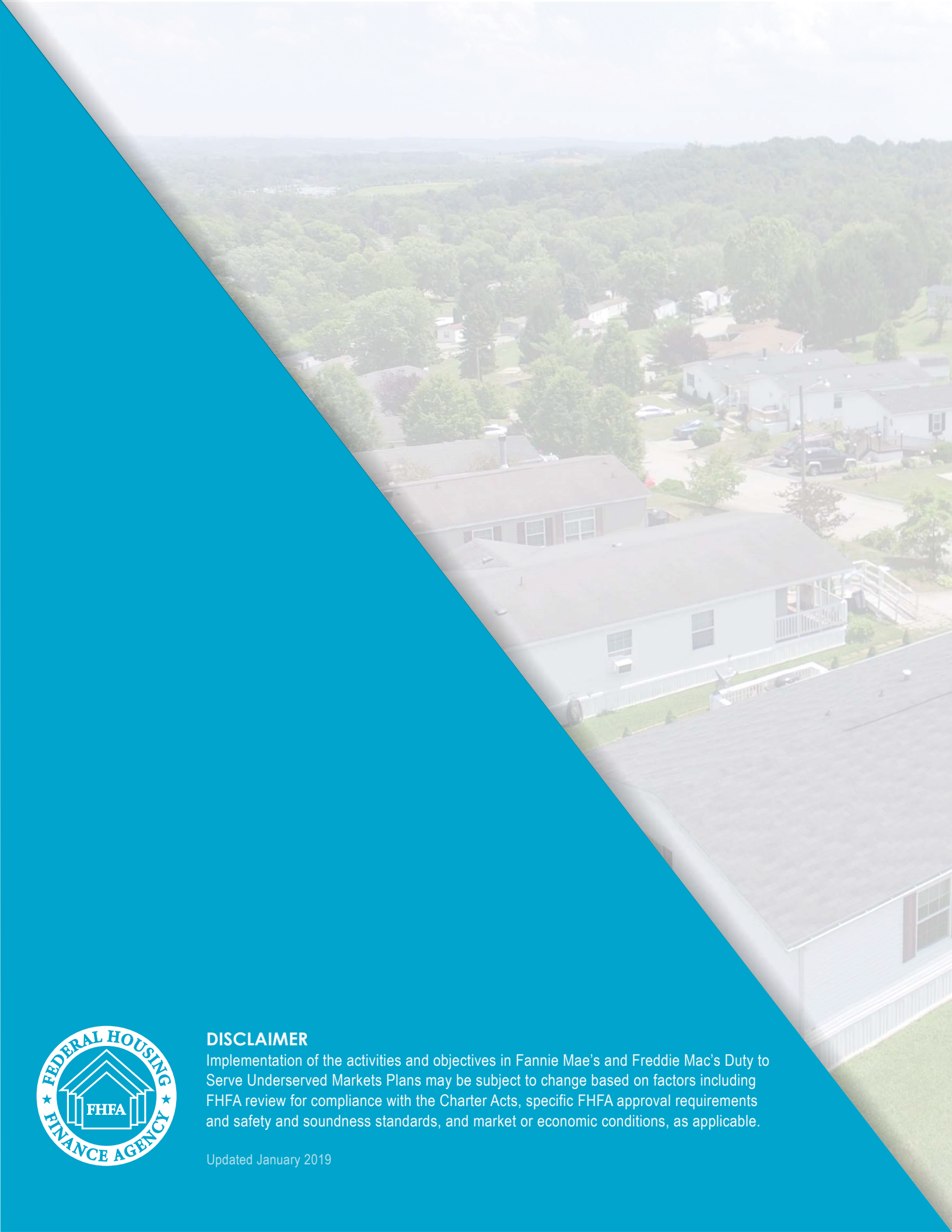
Manufactured housing titled as chattel represents the largest housing market in which Fannie Mae currently does not provide liquidity. The Underserved Market Plan seeks to establish a chattel pilot, subject to approval from FHFA, to purchase the pilot loans. However, holding loans in portfolio is not a sustainable solution for Fannie Mae. Thus, the ability to create chattel securities is essential. Given there have been no new chattel securities introduced to the capital market since the mid-2000s, there is a lack of chattel performance data for investors to understand the prepayment and default risk in chattel loans; therefore, the investor appetite for a chattel security is unknown.

Fannie Mae's strategy is to conduct outreach and research to understand the capital markets opportunity. Furthermore, Fannie Mae will establish advisors who may provide valuable insights into the potential securitization structures for chattel consistent with notions of safety and soundness. Fannie Mae has significant experience securitizing mortgage loans efficiently and in a manner that receives market interest, but has not done so with chattel loans. Fannie Mae will seek market feedback to validate and prioritize the most appropriate security structures to inform strategy for the 2019-2020 Underserved Market Plan. Based on this experience and the available resources, Fannie Mae has determined that this Objective is realistic and may be achieved within the time periods described.

The Objective establishes the foundation for future securitization that is needed to develop a sustainable secondary market for chattel loans and leverages the credit criteria and servicing standards established through the chattel pilot. The future success for chattel securitization is based on the ability to accurately project demand for Fannie Mae liquidity balanced with the demand for the subsequent security.

The Objective requires substantial use of Fannie Mae resources including capital markets, analytics, risk, and operations.

Criteria	2018	2019	2020
Evaluation Factor:	Outreach	n/a	n/a
Income Levels:	Very Low-, Low- and Moderate-Income Levels		



DISCLAIMER

Implementation of the activities and objectives in Fannie Mae's and Freddie Mac's Duty to Serve Underserved Markets Plans may be subject to change based on factors including FHFA review for compliance with the Charter Acts, specific FHFA approval requirements and safety and soundness standards, and market or economic conditions, as applicable.

Updated January 2019