



Fannie Mae Manufactured Housing Loan Product

ACTIVITY:

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

OBJECTIVE:

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

SUMMARY OF RESULTS:

In January 2018, Fannie Mae submitted a Notice of New Activity Form (the Form) to FHFA. This submission and FHFA's subsequent nonobjection to the activity it described met one of the stated activities under this Objective. Further, as the Form contained Fannie Mae's preliminary positions on credit standards and income limits, siting standards, authorized lenders, lien position, occupancy, loan type, required insurance, LTV, credit enhancement, and other potential parameters, as well as the types of monitoring that would be required of a pilot, the Form established an initial set of standards for a pilot.

Subsequently, in June 2018, Fannie Mae refined the pilot design that began with the Form by developing a "Chattel Pilot Preliminary Standards and Policies" document, for internal use. It consists of five sections: Consumer Protection Policies and Standards, Credit Policies and Standards, Collateral Policies and Standards, Servicing Policies and Standards, and Metrics for Monitoring Activity. These described an updated set of standards informed by interactions with industry participants and the data that those industry participants voluntarily shared with Fannie Mae.

As discussions with potential counterparties progressed, the concepts captured by these two documents were further refined and reformatted into a "Draft Form of Agreement, reflecting Fannie Mae's initial perspective on a loan purchase agreement, subject to negotiation with one or more potential sellers. The first Draft Form of Agreement was circulated internally to Fannie Mae stakeholders in September 2018.

To manage the internal governance and operations processes related to this pilot, Fannie Mae convened a series of meetings with a Chattel Pilot Working Group, which met five times and collected insight from critical internal stakeholders such as legal, credit policy, collateral policy, loan delivery operations, and servicing. Fannie Mae also convened a full-day working session of key internal stakeholders, which was moderated and summarized by Fannie Mae's Enterprise Risk Management group, intended to identify risks associated with a chattel pilot and gather feedback on ways to mitigate those risks.

On the basis of these activities, the Duty to Serve team presented for informational purposes a proposal, including possible exceptions to credit standards, to the November meeting of Fannie Mae's Single-Family Risk Committee. That meeting resulted in a great deal of feedback and requests for additional information. The team addressed those comments and questions in the next meeting of that committee in December, which provided its approval to proceed with the pilot in 2019, subject to limited conditions.

Following are the 2018 Actions under this Objective as published in the December 14, 2018 Duty to Serve Plan:

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:

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.

SELF-ASSESSMENT RATING OF PROGRESS:

- Objective met
- Objective exceeded
- Objective partially completed: 75-99% (substantial amount)
- Objective partially completed: 50-74% (limited amount)
- Objective partially completed: 25-49% (minimal amount)
- Objective partially completed: 0-24% (less than a minimal amount)

PARTIAL CREDIT JUSTIFICATION:

Fannie Mae met all of the activities planned for 2018, with the exception of pursuing FHFA approval for the purchase of chattel loans. As a practical matter, Fannie Mae could not pursue such approval until it had fully negotiated terms with the loan seller(s), which was not completed by the end of 2018. However, we believe that we will accomplish the pursuit of FHFA approval in early 2019 and began planning towards doing so in late 2018. Because of the substantial work executed in support of this challenging and time-consuming Objective, we believe Fannie Mae should qualify for 90 percent partial credit.

IMPACT:

- 50-Substantial Impact
- 40
- 30-Meaningful Impact
- 20
- 10-Minimal Impact
- 0-No Impact

IMPACT EXPLANATION:

1. How and to what extent were actions under this objective impactful in addressing underserved market needs or laying the foundation for future impact in addressing underserved market needs?

Fannie Mae's Actions under this Objective reflected a significant effort above what was initially anticipated. For example, a number of unexpected factors required significant levels of attention and resources to overcome, including challenges in attaining historical chattel loan data and unanticipated market developments (as described in Impact Explanation #3.) That said, Fannie Mae worked to thoughtfully design a chattel pilot proposal and that work illustrated a successful accomplishment to make significant gains over a short period of time and take measures designed to assure continued growth in the future.

As noted in the Plan, Manufactured Housing (MH) titled as personal property represents the largest U.S. housing market opportunity for which Fannie Mae does not currently provide liquidity.

For example, by proposing a framework for a potential chattel pilot and securing an FHFA non-objection and a key internal approval from Fannie Mae's Single-Family Risk Committee to proceed with the steps necessary to pursue a chattel loan purchase, Fannie Mae defines a clear path forward on purchasing its first chattel loans since a bulk purchase in 2006, which itself establishes a basis for future pilot or flow activities. Furthermore, by engaging with noteholders on this Objective, Fannie Mae communicated an initial message to those noteholders about its vision for and appetite for purchasing chattel loans in the future (which could certainly change in subsequent pilots or flow businesses). Finally, while socializing the proposed chattel loan pilot with internal stakeholders, the Duty to Serve team had the opportunity to share recent insights on the current chattel market with decision makers who were unfamiliar with the market or who had dated perceptions of the market.



Together, this lays the foundation for future impact in the chattel segment of the MH finance market, which begins with a successful pilot loan purchase in 2019.

2. (Optional): How do actions under this objective support future actions detailed in the Plan for the underserved market? If there have been any changes in the planned next steps or timeline for work under or related to this objective, describe the changes and provide a brief explanation.

There have not been any changes in the planned next steps or timeline for work for this Objective, except the one outstanding item that was not completed in 2018 and must be completed in 2019.

Fannie Mae intends to submit to FHFA a draft form of purchase and servicing agreement in March, 2019, to share its proposed framework on a potential chattel loan purchase agreement. Subsequently, once one or more sellers have been identified and agree to sell loans subject to a negotiated purchase agreement, Fannie Mae intends to submit a final agreement to FHFA for final review. Together, these two activities as well as any communication with FHFA in the interim, to be completed in 2019, represent "pursuit of FHFA approval for the purchase of chattel loans.

Otherwise, all planned future Actions for this Objective remain on track.

3. (Optional): Are there any market factors that adversely impacted the actions under this objective? If so, describe.

The chattel pilot planning was not adversely affected by market factors. While there were unexpected market developments, such as the revelation that multiple chattel market participants were actively preparing for the issuance of private label security backed by chattel assets, Fannie Mae continued to design and seek approval for a whole loan purchase pilot.

Notably, in December, FHFA provided a Non-Objection to a modification that would allow for flexibility in the types of activities that would qualify as a pilot. This allows Fannie Mae to be responsive to the aforementioned unexpected market developments.

4. (Optional): How did the actions under this objective contribute to increased or future loan purchases for the underserved market?

N/A



Fannie Mae Manufactured Housing Second Quarter Report: January 1 - June 30, 2018 Loan Product

ACTIVITY:

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OBJECTIVE:

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

SUMMARY OF RESULTS:

Fannie Mae initiated the chattel pilot request process with FHFA. In addition, Fannie Mae prepared a set of consumer protection, credit, collateral, and servicing policies and standards to acquire chattel loans in a safe and sound manner. However, Fannie Mae has not yet determined whether to proceed with a chattel loan pilot program under the Plan (“Chattel Pilot”), and is engaged only in very preliminary discussions with potential chattel loan sellers.

Accordingly, many aspects of these policies and standards remain a work in progress that is likely to evolve. Nevertheless, as a general principle, wherever possible and appropriate Fannie Mae intends to apply its existing standards and policies relating to conventional loans, to chattel loans in the Chattel Pilot. This recognizes that given the small scale of the proposed Chattel Pilot (2,000 loans total acquired in 2019 and 2020) -- and the “test and learn” nature of any Chattel Pilot – it may not make sense to impose different standards on lenders unless and until Fannie Mae is considering a secondary market program based on, and informed by, the results of the Chattel Pilot. Instead, Fannie Mae will only apply provisions tailored for chattel loans where they are required to address legally-mandated, risk-based or reputation-based bedrock standards essential to Fannie Mae.

Following are the 2018 Actions under this Objective:

- 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 – by Q2 end.
- Obtain full approval to pursue chattel pilot by completing the following:
 - Complete FHFA Notification of New Activity pursuant to 12 CFR Part 1253.4 and submit for approval to purchase chattel loans – by Q1 end.
 - Pursue internal approval to purchase chattel loans – by Q3 end.
 - Pursue FHFA approval for the purchase of chattel loans – by Q4 end.
- Assess impact and modifications to operations technology and infrastructure in order to implement changes for chattel pilot purchase – by Q3 end.

SELF-ASSESSMENT RATING OF PROGRESS:

- On-target to meet or exceed the objective
- Progress delayed and/or partial completion of the objective expected
- Unlikely to achieve any milestones of the objective

ADDITIONAL INFORMATION (IF APPLICABLE):