RIN 2590–AA27

SUBJECT: FHFA Meeting with Clayton Homes and Affiliates

DATE: August 4, 2009

PARTICIPANTS: Nelson Hernandez (Senior Associate Director, FHFA)
Mike Price (Senior Compliance Specialist, FHFA)
Kevin Clayton (Chief Executive Officer, Clayton Homes, Inc.)
Tim Williams (CEO, 21st Mortgage Corporation)
Ward Whitfield (Vice President, 21st Mortgage Corporation)
Richard B. Ray (Chief Financial Officer, 21st Mortgage Corporation)
Paul Nichols (President, Vanderbilt Mortgage and Finance, Inc.)
Amber Krupacs (Vice President, Vanderbilt Mortgage and Finance, Inc.)

On August 4, 2009, representatives from the Federal Housing Finance Agency ("FHFA") met with representatives from Clayton Homes, Inc. ("Clayton"), 21st Mortgage Corporation ("21st Mortgage") and Vanderbilt Mortgage and Finance, Inc. ("Vanderbilt") in Maryville, TN. Clayton constructs manufactured homes, and Vanderbilt and 21st Mortgage are Clayton subsidiaries that specialize in financing manufactured homes. The companies provided information about their businesses and the manufactured housing industry. The following is a summary of their collective comments related to the duty to serve underserved markets.

The historic lifetime default rates for manufactured housing loans are 40 percent. Chattel lending is available, and homes financed with chattel loans are typically placed on family property. Some borrowers prefer chattel lending because it does not encumber the land.

For a land-home loan, there is a single loan secured by two different instruments, and a subordinate lien may be placed on the land. Land-home closing costs include title insurance and the cost of a survey, and appraisers follow the Home Valuation Code of Conduct. There are two types of land-home loans: (1) land-home title surrendered, and (2) land-home title retained. Vanderbilt prefers if the land and the home are titled separately because it is more advantageous to Vanderbilt if the home is foreclosed upon.

Rural customers have access to fewer lenders. Loans with a ten percent down payment perform much better than loans with a five percent down payment. Prepayment speeds are low because of difficulties refinancing manufactured homes.

The companies made the following recommendations to FHFA regarding implementation of the duty to serve:

- A market should be created for lenders who follow best practices in financing manufactured homes.

- The Enterprises should support a program where lenders have an equity position of at least ten percent.

- Purchases of chattel mortgages should count toward the duty to serve.

- Higher default rates should be allowed for low- and moderate-income borrowers.

- FHFA should take into account that prepayment speeds are slower for manufactured housing than they are for stick-built housing.

- The Enterprises should purchase “land-home title retained” mortgages.

- FHFA should allow for separate recourse of land and the manufactured home.

- The lender should be allowed to appraise the land.

- The Enterprises should purchase manufactured home mortgages as a percentage of all total single-family starts.

- The Enterprises should make purchases on a flow basis.

- Generally, there should not be duty to serve credit for financing manufactured home parks. However, resident co-op parks present a better chance for appreciation, and purchases of loans on those parks should receive duty to serve credit.