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January 31, 2019

Alfred M. Pollard  
General Counsel  
Federal Housing Finance Agency  
400 7<sup>th</sup> St. SW  
Eighth Floor  
Washington, DC 20219

RE: Comments/ RIN 2590-AA82 Federal Home Loan Bank Housing Goals Amendment

Dear Mr. Pollard:

On behalf of Next Step, I am pleased to provide comments on the Federal Housing Finance Agency's (FHFA) request for comments on "Federal Home Loan Bank Housing Goals Amendment". Next Step applauds FHFA for simplifying the housing goals, explicitly including chattel financing, and encouraging small member participation. Combined with further guidance on the manufactured housing market dynamics, these changes have the potential to build capacity for Federal Home Loan Bank (FHLB) members to make manufactured home loans, and strengthen financing options for those individuals and families hoping to purchase a manufactured home.

Next Step<sup>®</sup> Network, Inc. is a national, nonprofit housing intermediary that works to promote expanded use of factory-built housing as a viable solution to address housing affordability. Our organization mobilizes a national network of mission-driven nonprofits, leaders in the manufactured housing industry and lending institutions serving home buyers and homeowners in their communities. Next Step's system—Manufactured Housing Done Right<sup>®</sup>—connects responsible financing, comprehensive homebuyer education and delivery of high-quality, ENERGY STAR<sup>®</sup> manufactured homes at scale, creating a model that brings more value to homeowners and communities.

Next Step works with partners across the country to provide a pathway to sustainable homeownership for low- and moderate-income families through housing counseling services, financial and homebuyer education, and leveraging new ENERGY STAR<sup>®</sup> manufactured homes.

A key component of this work is identifying lenders who can provide readily accessible and competitive financing. Manufactured home finance is characterized by two unique challenges: 1) higher cost financing through either chattel or real estate finance channels, and 2) lack of a competitive lending market in low-income rural communities where manufactured homes are most prevalent. With a relative dearth of financial institutions that currently lend on manufactured homes, amending the housing goals to permit chattel loans and incentivizing the FHLB to purchase more mortgages in their AMA programs from smaller institutions has the potential to bring more liquidity to CDFIs.



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To date, Next Step's programs have delivered 649 ENERGY STAR® factory-built homes to communities across the country, saving homeowners and hardworking families nearly \$5 million in 30-year energy costs. Homes purchased through Next Step are also installed on permanent, FHA Title II foundations, and financed through fair loans that enable families to build wealth and preserve assets.

Manufactured homes are financed in two distinct ways: as personal property (chattel), and as a traditional real estate transaction. In both cases, the market tends to be dominated by a small number of market participants. The proposed housing goal amendments have the potential to broaden this market by attracting new participants, thereby expanding consumer options and meeting the intent of the housing goals.

#### *FHLB Housing Goal Amendment Overview:*

The proposed revisions would revise the housing goals, implemented through FHLB's Acquired Member Asset programs, to streamline and simplify the process by which housing goals are met. FHLBs that purchase more than \$2.5 billion through their respective AMA programs would have to ensure that 20 percent of their loan purchases serve low-income households and census tracts. Of that 20 percent, half of participants should be small member institutions. For those FHLBs that do not meet the \$2.5 billion threshold, the banks may submit an alternative plan to FHFA for approval. The proposed amendments' limit also consolidates the previous four buckets of eligible mortgages into one, while also placing limits on the amount of 100 percent AMI mortgages in distressed census tracts. Key for Next Step and its partners is the proposed revision of the "mortgage" definition to include chattel loans on manufactured housing.

Next Step applauds these changes, but strongly recommends that FHFA work to ensure that FHLBs and its members have an understanding of manufactured housing dynamics:

#### *Chattel Lending: FHFA Should issue Guidance to FHLBs for their Members*

Close to 80 percent of manufactured homes are financed as chattel, either for placement in a manufactured home community, or on land that is owned separately. Lending in this market is concentrated among a small number of niche lenders, some of which are non-bank lenders, while others are credit unions and small community development financial institutions. Interest rates on these loans tend to be higher than conventional home loans due to two primary reasons: 1) the lack of a secondary market for chattel loans, 2) higher servicing costs as these loans tend to go to lower income families who often have impaired credit<sup>1</sup>.

Combined with the Enterprises' Duty to Serve chattel lending efforts, the revision of the "mortgage" definition to include chattel loans represents an important step in attracting additional participants into the marketplace. However, given the nature of the manufactured

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<sup>1</sup> See: [https://files.consumerfinance.gov/f/201409\\_cfpb\\_report\\_manufactured-housing.pdf](https://files.consumerfinance.gov/f/201409_cfpb_report_manufactured-housing.pdf)



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home buying process, Next Step recommends that FHFA provide guidance to the FHLBs on the manufactured home buying process and the importance of counseling.

Most new chattel manufactured homes are sold through a manufacturers' retail network. Retailers will either be exclusive distributors of a manufacturer's line of homes, or may carry lines from multiple manufacturers. Retailers will also provide a list of lenders that may be able to finance the home purchase. These lenders often have affiliate relationships with the manufacturer. Too often, consumers shopping at a retail sales center have only researched the type of home they want, and not on the type of financing they qualify for. As a result, these consumers will choose a lender from the retailers' presented options without a full understanding of what all of their options are. Next Step strongly recommends that new participants in this market develop: 1) strong relationships with housing counselors and intermediaries to identify consumers who are – or will – become purchase ready, and 2) develop relationships with manufactured housing retailers to ensure that they are presented as a financing option.

As an example, Next Step partners with member retailers in their network to identify consumers who may not currently qualify for financing during their first visit to a retailer, and connects them with HUD-approved housing counselors with specialized training in manufactured housing to get the consumer purchase ready.

*FHFA Should issue Guidance on Land Home Manufactured Home Finance:*

Approximately 20 percent of manufactured homes are financed as conventional real estate, which often includes a process by which the title is converted from personal to real property. Like the chattel financing scenario described above, often a consumer's first contact with a lender comes from a retailer provided list of financial institutions. Next Step, through its partners, is working to ensure that consumers understand their financing options, and understand the process by which a home and land purchase are combined. This knowledge base should include:

- Understanding the titling procedure.
- Identifying and having a lot under contract.
- Ensuring that installation plans meet permanent foundation criteria.
- Understanding the process by which title is extinguished and the land and home collateral are combined during closing.

Like the chattel lending market, "land home" financing is dominated by a small number of participants who have expertise in this field.

Additionally, when financed through conventional channels, manufactured homes may be subject to a number of adverse challenges: 1) a guarantee surcharge fee from both Fannie Mae



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and Freddie Mac, 2) surcharges on private mortgage insurance premiums<sup>2</sup>, and 3) challenges obtaining appraisals based on market comparables<sup>3</sup>. Both Enterprises are working on these challenges through programs that would treat manufactured homes with prescribed amenities and features as more comparable to site-built homes.

A core principle of Next Step's work – delivered through our national network of members and partners – is to provide education and counseling services to prospective manufactured home buyers. The goal is that individual home buyers and families make the type of housing choices (i.e. permanent Title II FHA foundations, ENERGY STAR® certification and real estate financing) that allows them to build wealth and equity into their home.

FHFA, through its work with the FHLBs, and their member financial institutions, can provide guidance and resources on how best to address challenges associated with land home financing.

*Next Step Applauds focus on Small FHLB Member Institutions:*

A large percentage of manufactured homes are located in low-income, rural communities where the overall lending landscape has changed dramatically. Over the past decade, smaller banks have pulled away from rural lending, and larger banks and other non-depository institutions have filled the gap. This is partly due to numerous bank closures and consolidations, growth of larger traditional bank lending in rural areas, and the growth of non-bank lenders. According to a 2015 paper published by the Housing Assistance Council (HAC): “the number of small lenders, with assets totaling less than \$100 million, has declined by 85 percent since 1985, while the number of all other larger-asset lenders, particularly those with \$10 billion or more in assets, has grown.” HAC additionally found that: “institutions with rural and small town main offices were responsible for only 30 percent of all rural and small town mortgage originations in 2012, while urban-headquartered lenders reported the most, 42 percent. As with much of the banking industry, rural lending tends to be concentrated among a few large providers. The twenty largest rural and small town loan originators are responsible for 45 percent of all depository institution made loans.<sup>4</sup>” For these reasons, the requirement that FHLBs ensure that 50 percent of AMA participants are small lending institutions is critical to help build manufactured housing lending capacity in rural communities. Next Step partners with 10 CDFIs across the country, leveraging their activity in communities to increase the availability of affordable, manufactured housing options.

Thank you for the opportunity to provide comments on the proposed amendments to the FHLB's housing goals. Next Step believes that these amendments present an important step to increasing liquidity in the manufactured housing market. We look forward to partnering with

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<sup>2</sup> As an example, see: [https://new-content.mortgageinsurance.genworth.com/documents/rate-cards/national/single\\_preium\\_mi\\_bpml/12797800.Single\\_Fixed.BPMI.0618.pdf](https://new-content.mortgageinsurance.genworth.com/documents/rate-cards/national/single_preium_mi_bpml/12797800.Single_Fixed.BPMI.0618.pdf)

<sup>3</sup> Both Fannie Mae and Freddie Mac are working to address issues 1 and 3 in their respective implementation of their duty to serve plans pertaining to higher quality manufactured homes.

<sup>4</sup> <http://www.ruralhome.org/storage/documents/publications/rrrreports/rrr-cra-in-rural-america.pdf>



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FHFA and the FHLBs to provide guidance on the manufactured housing market, helping ensure that the intent of the housing goals are met and that low- and moderate-income borrowers – and families in low-income communities – have increased options for reaching the goal of sustainable homeownership.

Sincerely,

Stacey Epperson, President & Founder  
Next Step Network