Manufactured Housing Institute

November 15, 2019

Federal Housing Finance Agency
Division of Housing Mission and Goals
400 Seventh Street, S.W., Seventh Floor
Washington, D.C. 20219

Re: Request for Input (RFI) – Federal Housing Finance Agency (FHFA): Fannie Mae and Freddie Mac Proposed Modifications to Their 2018-2020 Duty to Serve Plans

Dear Sir/Madam,

The Manufactured Housing Institute (MHI) is pleased to submit comments in response to the Federal Housing Finance Agency's (FHFA) Request for Input on modifications to the Government Sponsored Enterprises' (GSEs) 2018-2020 Duty to Serve Plans.

MHI is the only national trade association that represents every segment of the factory-built housing industry. Our Members include home builders, suppliers, retail sellers, lenders, installers, community owners, community operators, and others who serve the industry, as well as 49 affiliated state organizations. This letter focuses on the two changes being proposed by Fannie Mae to its manufactured housing Duty to Serve Plan. These two changes are:

1. Reducing its 2020 loan purchase target from 450 to 100, corresponding to real property loans made as a result of variances and policy changes issued in 2018 and 2019, and

2. Switching 2019 evaluation of its MH Advantage objective from a Loan Purchase to a Loan Product evaluation area.

<u>Benefits of Manufactured Housing to Consumers and the Economy</u>

Manufactured homes are a critical source of affordable housing for millions of Americans. It is the largest form of unsubsidized affordable housing in the U.S. and the only type of housing built to a federal construction and safety standard. Manufactured housing is also the only type of housing that Congress recognizes as playing a vital role in meeting America's housing needs as a significant source for affordable homeownership accessible to all Americans. Today, 22 million people live in manufactured housing and the industry employs tens of thousands of Americans nationwide.

In 2018, our industry produced nearly 100,000 homes, accounting for approximately 10 percent of new single-family home starts. These homes are produced by 34 U.S. corporations in 130 plants located across the country. MHI's members are responsible for close to 85 percent of the manufactured homes produced each year.

Manufactured housing is one solution for addressing the shortage of affordable housing in this country and ensuring that the dream of homeownership remains an affordable and attainable reality for millions. The affordability of manufactured homes enables individuals to obtain housing that is often much less expensive than renting or financing the purchase of a site-built home, with the average cost of a new manufactured home without land being $71,900. Indeed, HUD's recent Housing Finance Reform Plan states that "manufactured housing plays a vital role in meeting the nation's affordable housing needs."

1. Concerns with Fannie Mae's Proposal to Reduce its Loan Purchase Target

Fannie Mae states that it has made several policy changes and variances to its MH products in response to industry feedback. These include expanded offerings related to construction-to-permanent financing structures, renovation loans, energy-efficiency loans, and loans on homes in condominium projects. Fannie Mae justifies the numerical reduction in its 2020 loan purchase target from 450 to 100 by arguing that, to date, industry adoption of these variances and products has been lower than originally anticipated.

MHI Comments

MHI and our members appreciate Fannie Mae's outreach and discussions to develop policy changes and variances. However, the essence of Duty to Serve is not process or effort, but results. Put simply, Duty to Serve must ultimately result in an increase in actual loan purchases in these focus areas.

The proposed numerical reduction is statistically significant. Fannie Mae could argue that these levels for this category are relatively small compared to the other 10,000 real property loans that it purchases each year. However, this would miss the point and purpose of Duty to Serve – which is to effect change and a substantive increase in the identified areas. In this case, the numerical reduction is far too drastic. MHI would be sympathetic to some modest reduction in the numerical target to reflect what Fannie Mae characterizes as slow industry receptivity to the variances and policy changes being put into effect. However, a 78 percent reduction in this category is far too large.

First, it fails to make significant enough progress in this category to adequately serve the needs of the manufactured housing market. Second, a reflexive relaxation of numerical goals of actual loan purchases in this category significantly reduces incentives for Fannie Mae to diligently pursue variances and policy changes that actually increase the production of such loan purchases.

MHI appreciates that the failure to modify this bright line purchase target could result in Fannie Mae receiving a poor grade for this performance metric. However, that is the point of the Duty to Serve plan and evaluation process. Without holding the GSEs accountable for substantively meeting their Duty to Serve Plan goals, the requirements and process would lose their significance.

For these reasons, MHI urges FHFA to either reject this proposed reduction in its numerical purchase target or at least limit the reduction to a small amount.

2. <u>Change MH Advantage from a Loan Purchase to Loan Product Evaluation Area</u>

MH Advantage® is an important new financing product for manufactured home buyers, as well as the entities that build and sell these homes. It is part of a long historical transformation of the manufactured housing industry to create a new product category that has the potential to address the shortage of affordable housing while simultaneously providing the same amenities and features that consumers demand in higher-priced site-built homes.

Fannie Mae justifies this change by stating that extensive work was needed to market MH Advantage® to retailers, to attract homebuyers who are priced out of the site-built market, and other factors that are resulting in minimal purchase levels in 2019.

<u>MHI Comments</u>

MHI opposes this modification, for similar reasons to those identified in the previous section. This new class or category of manufactured homes, known as CrossMod™ homes, are a point of entry for home buyers who would not have previously considered purchasing a manufactured home. These homes have the potential to reach areas of the country where manufactured housing has, in the past, been zoned out by discriminatory land use regulations at the state and local level. CrossMod™ homes are placed on a permanent foundation, qualify for conventional financing, and are virtually indistinguishable from higher-priced, site-built housing options.

Making this home category a Loan Product undermines what is needed at this time to help MH Advantage® realize its true potential, which is broader consumer and industry acceptance of the product – something that can only be measured by the objective performance metric of actual loan purchases. Feedback from our members indicates there is a real and significant demand for this housing product, and Fannie Mae has had several years to work on it. At this point, the only reasonable performance evaluation metric for the next calendar year is actual performance – in the form of loan purchases.

For these reasons, MHI urges FHFA to reject a modification of the evaluation area for MH Advantage® from Loan Purchase to Loan Product.

<u>Additional Comments in Response to FHFA Input Questions</u>

FHFA's Request for Input also poses several questions regarding the feedback it is requesting on changes to the Duty to Serve plans.

Regarding Question #3, the impact on safety and soundness, MHI would note that there appears to be no real safety and soundness considerations related to the two proposed changes under consideration. These products are of a similar risk to the other real property manufactured home loan purchases that Fannie Mae regularly makes. Further, the volumes involved are relatively insignificant in relation to the overall level of Fannie Mae manufactured home loan real property purchases. They are even more insignificant relative to their overall loan volume and risk.

Regarding Question #2, dealing with market conditions, MHI would note that market demand for manufactured homes remains strong, and the market demand for affordable Fannie Mae loans is equally strong. As noted, MHI appreciates Fannie Mae's observations that it takes time to develop and gain market acceptance for new and innovative products. However, MHI does not believe this justifies putting the brakes on progress in these important categories.

Conclusion

More support from Fannie Mae in the manufactured housing market will not only strengthen homeownership opportunities for millions of Americans but also provide more options to consumers hurt by unaffordable rents and the shortage of adequate housing options. As stated above, and in previous comment letters, manufactured housing is critically important to increasing the availability of affordable housing in America, and MHI looks forward to its continued engagement with FHFA, Fannie Mae, and Freddie Mac on this issue.

Sincerely,

Lesli Gooch, Ph.D.
Executive Vice President