Manufactured Housing Association for Regulatory Reform

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VIA FEDERAL EXPRESS

Mr. Hugh R. Frater
Chief Executive Officer
Fannie Mae
Midtown Center
1100 15th Street, N.W.
Washington, D.C. 20005

Re: Duty to Serve Underserved Markets – Manufactured Housing

Dear Mr. Frater:

I am writing on behalf of the members of the Manufactured Housing Association for Regulatory Reform (MHARR). MHARR is a Washington, D.C.-based national association of producers of manufactured housing regulated by the U.S. Department of Housing and Urban Development (HUD) pursuant to the National Manufactured Housing Construction and Safety Standards Act of 1974, as amended by the Manufactured Housing Improvement Act of 2000. MHARR's members are primarily smaller and medium-sized independent businesses located in all regions of the United States.

Congress, as part of the Housing and Economic Recovery Act of 2008 (HERA), enacted the Duty to Serve Underserved Markets (DTS), a remedial mandate which directs Fannie Mae and Freddie Mac to "develop loan products and flexible underwriting guidelines to facilitate a secondary market for mortgages on manufactured homes for very low, low and moderate-income families." (See, 12 U.S.C. 4565(a)). In addition, to ensure that the term "mortgages" is not misconstrued to limit the scope of DTS to manufactured home real estate "mortgage" loans, the same section of HERA expressly provides that "in determining whether an Enterprise has complied" with DTS, the Federal Housing Finance Agency (FHFA) "may consider loans secured by both real and personal property." (I.e., home-only "chattel loans"). (See, 12 U.S.C. 4565(d)(3)).

Congress' express inclusion of manufactured home personal property loans in DTS is hardly accidental, as such loans comprise nearly 80% of the entire manufactured home consumer lending market, according to data compiled by the U.S. Census Bureau. Indeed, as MHARR has repeatedly emphasized in DTS implementation comments to FHFA, the Administration, Fannie Mae and Freddie Mac, as well as in congressional testimony, DTS, without market-significant levels of securitization and secondary market support for manufactured home chattel loans, cannot and will not achieve its remedial objectives within the manufactured housing market as mandated by law.

The absence of such market-significant securitization and secondary market support for manufactured home personal property loans, continues to unduly restrict and constrain the market for inherently affordable, non-subsidized manufactured homes (which again, in 2018, failed to reach its historical production benchmark of 100,000 homes per year), while forcing consumers to pay higher-cost interest rates for manufactured home chattel loans due to extremely limited competition and the parallel domination of the manufactured home consumer lending market by a small number of existing lenders -- primarily subsidiaries of the largest industry conglomerates, such as Berkshire-Hathaway-owned Clayton Homes, Inc. (Clayton). Fannie Mae obsequiously describes this de facto stranglehold on the manufactured housing consumer lending market as lending that is "somewhat consolidated amongst a small group of prominent chattel lenders."

Fannie Mae's failure to implement DTS in a market-significant manner, with respect to the vast bulk of manufactured home consumer loans, more than ten (10) years after the enactment of that mandate, has caused and continues to cause significant harm to both American consumers of affordable housing and the manufactured housing industry. In particular, this failure has disproportionately impacted – and continues to have its greatest negative impact – on smaller, independent manufactured housing businesses, which, unlike the industry's largest conglomerates, do not have the luxury or advantage of controlling captive consumer financing subsidiaries or affiliates.

After 40-years of toying with the manufactured housing industry and consumers, and more than ten years after an express and unmistakable congressional directive and mandate set-out in law, Fannie Mae still has no market-significant manufactured housing chattel loan program and, at present, no participation whatsoever in that market. Instead, as shown by Fannie Mae's attached December 20, 2018 report, "Chattel Lending – Learning and Analysis from 2018 Outreach Activities" (copy attached), it has created an "illusion of motion," with meaningless meetings and conferences focused almost exclusively on the industry's largest corporate conglomerates, supposed "outreach" to the same industry conglomerates that benefit from maintenance of the status quo, a Manufactured Housing Advisory Council (MHAC) that lacks independent representatives of smaller industry businesses that wish to see DTS implemented with respect to the vast bulk of the manufactured housing market in a market-significant and timely way, and endless supposed "analysis" after ten-plus years of fundamental inaction.

Thus, despite literally decades of "happy talk" and unfulfilled promises from Fannie Mae with respect to the manufactured housing finance market generally, and personal property manufactured home financing in particular, the destructive status quo has not changed, despite Congress' direct intervention and remedial mandate.

This stasis *must change* and both Fannie Mae and Freddie Mac *must* fully implement DTS in a market-significant manner before the manufactured housing market becomes even more "consolidated," to the detriment of consumers. Hopefully, with you assuming the leadership of

Fannie Mae, you will take the initiative to address this matter head-on, and take Fannie Mae in a different, more productive direction, to fully implement DTS without additional, needless delay.

Based on all the above, we seek to meet with you to address all aspects of DTS in relation to federally-regulated manufactured housing, and will contact your office to schedule such a meeting soon.

Sincerely,

Mark Weiss
President and CEO

cc: Hon. Mick Mulvaney
Hon. Steven Mnuchin
Hon. Ben Carson
Hon. Mike Crapo
Hon. Maxine Waters
Hon. Mark Calabria
Manufactured Housing Industry Businesses
Manufactured Housing Industry Consumers

Fannie Mae | Duty to Serve

Chattel Lending - Learning and Analysis from 2018 Outreach Activities

As part of our commitment to promote transparency in the industry and to encourage collaborative engagement, Fannie Mae is sharing this document that summarizes chattel-related outreach, analyses, and learning in 2018. In subsequent years, as our efforts in this space mature, we will update and expand on this document, as described in Fannie Mae's *Duty to Serve Underserved Markets Plan for the Manufactured Housing Market* (the Plan).

MH Advisory Council and Roundtable Meetings

Over the course of 2018, we engaged in several formal meetings with stakeholders in the chattel market, including loan originators, loan servicers, and MH community operators, among others. These included two gatherings of Fannie Mae's MH Advisory Council (MHAC), a manufactured housing roundtable comprised of a diverse group of participants, and an informal gathering of members of the MHAC, scheduled to coincide with a key industry event.

Other Events and Outreach Activities

In addition to these Fannie Mae-led interactions, over the course of 2018, staff attended several conferences, meetings, and other events that informed our analysis of the chattel loan market. These included:

- Manufactured Housing Institute Winter Meeting in New Orleans, Louisiana
- Manufactured Housing Institute Conference in Las Vegas, Nevada
- Multi-State Convention [for members of Alabama, Louisiana, Mississippi, and Tennessee Manufactured Housing State Associations] in Perdido Beach, Alabama
- The Mortgage Collaborative Summer Conference in Chicago, Illinois
- International Networking Roundtable in Indianapolis, Indiana
- Manufactured Housing Institute Annual Meeting in Huntington Beach, California
- Community Development Bankers Association Mississippi Delta Roundtable Discussion in Indianola, Mississippi
- Prosperity Now's I'm Home Conference in Nashville, Tennessee

At each of these events, Fannie Mae shared information on the proposed chattel pilot described in the Plan and engaged in discussions with industry stakeholders to help inform these efforts. For example, at one of these events, a cross-functional team from Fannie Mae had five formal meetings with chattel noteholders to gather feedback and assess interest in participation in the pilot. In part, informed by connections made at these events, we developed relationships with industry participants, which extended to follow-up meetings conducted both remotely and on-site.

Information Gathered through Outreach

As noted in our Duty to Serve Plan, "there is no loan level market data source that is comprehensive enough to allow for a breakout of manufactured housing loans by chattel and non-chattel loans." However, partially as a result of the aforementioned outreach activities, Fannie Mae gathered loan-level data from several sources. This information will be critical in informing quantitative models of this market, a prerequisite for any potential loan purchase. In each case, the loan level data contains valuable origination information as well as loan performance data, in some cases. Additionally, some noteholders unwilling or unable to share loan-level data shared aggregate-level information on chattel loans that they originate, service, or own.

Some noteholders have also shared policies and procedures related to origination, underwriting, and servicing of chattel loans.

Themes Observed from 2018 Chattel Outreach Activities

Based on our 2018 outreach activities and subsequent information gathered, Fannie Mae has observed several key themes. These themes will influence our analysis of the chattel market and Fannie Mae's potential role in it.

GSE Liquidity is Sought Widely, but not Unanimously

Generally speaking, the potential for Fannie Mae to provide liquidity to the chattel lending market, first through a limited pilot and then through an ongoing program, found support from industry participants. They noted the benefits of an additional source of funds at a time when many expect chattel loan volumes to increase substantially to meet unmet demand. However, this perception, while common, was not universal. Some industry participants warned of the potential for destabilization of the chattel lending market if Fannie Mae entered it without sufficient knowledge of the risks and opportunities.

There are Early Indications of Investor Interest in Chattel Loans

As noted in an October 2018 proposed Duty to Serve Plan Modification, "multiple lenders expressed unwillingness to sell loans because they perceived that chattel assets perform well and provide strong returns when kept on portfolio. Another potential seller indicated that it has sufficient outlets for chattel assets, including large institutional investors. Finally, in two unrelated cases, holders of chattel assets stated that they intend to issue a private label security in 2019."

While not ideal for the purposes of identifying potential partners for a pilot, these insights are reassuring, as Fannie Mae is accustomed to selling loans or securities to investors, and this constitutes initial evidence that an investor base may already exist.

Loan Originators' Business Models Differ

While the chattel industry is somewhat consolidated amongst a small group of prominent chattel lenders, business models can vary substantially. For example, several originators we spoke with described an "originate to sell" model, with loans being sold to various buyers such as banks, MH communities, and institutional investors. On the other hand, several originators described their preference to hold chattel loans on portfolio due to their strong returns and reliable performance. Other originators blend these two strategies. Clearly, different business models influence the types of deals Fannie Mae could entertain with potential noteholders.

Servicing is Key

Chattel loan servicers, including those that also service MH real property mortgages, frequently noted that servicing practices fundamentally differ for chattel borrowers. For example, high-touch models are common and delinquent borrowers are said to be responsive to frequent communication and proactive support.

Data is not Standardized

Loan-level data obtained by Fannie Mae to date reveals substantial variation in what information lenders collect at origination and during servicing. In some cases, that data can be lacking in detail. For example, while data from one lender can tell us whether a loan is currently delinquent and how many times it has been delinquent over the life of the loan, the available data cannot tell us when those delinquencies occurred and how severe each event was. As hypothesized in the Plan, there is an opportunity for Fannie Mae to establish chattel loan data standards to increase homogeneity across industry participants.

Collateral Valuation Practices Vary

We observed that there is no single broadly accepted industry-wide standard for collateral valuation. USPAP standards, for example, may apply to chattel loan valuations but are not required. A pilot would represent an opportunity for testing various options to gain knowledge and develop best practices for personal property valuation. Options include cost-based valuations, comparable-based valuations, or a combination of the two. Fannie Mae has interacted with providers of both cost-based and comparable-based valuation services in preparation for a potential pilot.

Loan Performance Appears to Have Improved in Recent Years

As expected, industrywide estimates of chattel loan performance are unavailable. Credit risk, according to data voluntarily shared with Fannie Mae, generally appears to have declined since a period of elevated risk in the mid-to-late 2000s. Ultimately, credit risk for chattel loans appears to be higher than MH real property mortgage loans with similar borrower profiles but substantially lower than at the time of Fannie Mae's most recent chattel loan purchase in 2006.

Each of these learnings have and will continue to influence Fannie Mae's strategy for its potential chattel loan pilot and any other subsequent activity in this space. The purpose of summarizing this information is provide transparency about progress made in 2018, especially given the fact that there are no loan purchase goals for this year, according to the Plan. In the same spirit of transparency, earlier this year, we shared another chattel-related document publicly, an analysis titled Key Legal Distinctions between Manufactured Home Chattel Lending and Real Property Lending.