STATEMENT OF MARK WEISS
DECEMBER 2, 2019 DUTY TO SERVE LISTENING SESSION

My name is Mark Weiss and I am President and CEO of the Manufactured Housing Association for Regulatory Reform (MHARR).

MHARR, which is based here in Washington, D.C., represents independent producers of manufactured housing regulated under federal law by the U.S. Department of Housing and Urban Development.

MHARR's member companies are located in and produce homes that are sold in all regions of the United States.

Manufactured homes are specifically recognized in federal law as a source of inherently affordable homeownership and are regulated under a system that is expressly designed to maintain their affordability in a manner that is consistent with both quality and consumer safety.

And, in fact, this overriding objective, which motivated Congress when it enacted the original Manufactured Housing Construction and Safety Standards Act in 1974 and modernized that law through the Manufactured Housing Improvement Act of 2000, has been achieved in today's manufactured homes, which provide both safety and market-driven amenities in homes that are affordable for Americans at every rung of the economic ladder.

This fact is confirmed by federal government research, which establishes that mainstream, HUD Code manufactured housing <u>is</u> the nation's <u>most</u> affordable source of housing and homeownership, providing affordability that readily surpasses both site-built housing and various types of rental housing.

The availability of affordable manufactured housing, however, remains – shamefully – an unfulfilled promise for millions of otherwise financially-qualified Americans who seek a home of their own.

In large measure, this unfulfilled promise continues today because of the equally unfulfilled promise of the Duty to Serve Underserved Markets (DTS) as it pertains to mainstream, federally-regulated manufactured homes.

In 1998, nearly 375,000 HUD Code manufactured homes were produced and sold in the United States. By 2009, that number had fallen to less than 50,000 homes, a decline of nearly 87%.

From 2009 through 2018, industry production rebounded modestly, to over 96,000 homes, but for more than a decade has lingered well below its historical benchmark of over 100,000 homes per year.

And, in 2019, after nine years of slow production and sales growth, the industry is once again facing a production decline to an estimated annual production level of approximately 94,000 homes.

To be sure, there are multiple obstacles to the greater utilization and availability of affordable, quality, mainstream manufactured housing. Some of these, such as excessive regulation and discriminatory or exclusionary zoning at the local level are beyond the scope and purview of the Duty to Serve.

But, the unavailability (or extremely limited availability) of consumer financing for many would-be manufactured home purchasers, or the unavailability of competitively-priced consumer financing for many – if not most – would-be manufactured home purchasers, has significantly suppressed the HUD Code market both long and short term. This, in turn, <u>needlessly</u> excludes millions of otherwise qualified moderate and lower-income Americans from the dream and benefits of homeownership.

And, even for those who are not excluded from the HUD Code market altogether by this lack of consumer financing, the absence of full-scale competition within the manufactured housing consumer finance market, driven by the lack of securitization and secondary-market support for that sector, in a manner and degree even approaching that provided by Fannie Mae and Freddie Mac for the site-built housing market, means limited financing options, higher-cost interest rates and needless expense for those who are able to find lenders and qualify for purchase loans.

This is because the lack of securitization and secondary market support from the Government Sponsored Enterprises (GSEs) keeps additional lenders out of the mainstream, HUD Code manufactured housing financing market. This leaves the market largely dominated by captive portfolio lenders affiliated with the industry's largest manufacturers. Those lenders, in turn, charge higher-cost interest rates than would otherwise characterize a fully-competitive market with GSE secondary market support.

And you do not have to take my word for it.

Just recently, Cavco Enterprises, Inc., one of the largest manufactured housing producers, with its own captive manufactured housing consumer financing company, stated in its 2019 Third Quarter 10-Q filing with the U.S. Securities and Exchange Commission (SEC): "The lack of an efficient secondary market for manufactured home loans and the limited number of institutions lending to manufactured home buyers result in higher interest rates for loans secured by manufactured homes compared to those for site-built homes. <u>This continues to constrain industry growth</u>. *** Expansion of the secondary market for lending through the GSEs could support further demand for [manufactured] housing, as lending options would likely become more affordable to home buyers. Although some progress has been made in this area, <u>meaningful positive impact in the form of increased home orders has yet to be realized</u>." (Emphasis added).

And these statements, of course, are made subject to federal penalties for false or materially untruthful statements.

The lack of a GSE-supported secondary market for HUD Code manufactured homes has thus negatively impacted both the industry – in all its various segments -- as well as the moderate and lower income American consumers who rely the most on manufactured housing as a source of inherently affordable homeownership.

Effectively, today, some eleven years after the enactment of the Duty to Serve, and two-thirds of the way through the initial three-year DTS implementation plans filed by Fannie Mae and Freddie Mac, and approved by FHFA, the mainstream manufactured housing market – and mainstream manufactured housing consumers – remain, for all intents and purposes unserved by the GSEs, notwithstanding FHFA's claims and certification to Congress to the contrary.

As was confirmed by Fannie Mae and Freddie Mac officials at the November 19, 2019 "Listening Session" in St. Louis, neither entity has provided any support in either 2018 or 2019 for the personal property (or chattel) loans which comprise nearly 80% of the manufactured housing consumer financing market.

These personal property loans are critical for lower and moderate-income manufactured homebuyers – and thus their popularity and prevalence within the manufactured housing financing market – because (despite higher-cost interest rates) they nevertheless offer consumers the least costly path to homeownership, insofar as the loan amount is based on the cost of the home alone, instead of the combined cost of the home and underlying real estate on which the home is situated.

Thus, the vast bulk of manufactured home purchase loans and the vast bulk of manufactured home purchasers – in today's existing mainstream manufactured housing market – remain entirely unserved by Fannie Mae and Freddie Mac.

And while erstwhile chattel loan "pilot programs" have allegedly been submitted by the GSEs to FHFA for approval, there is no publicly-disclosed timeline for either the approval or implementation of those plans. Nor has there been any public disclosure of the scope and parameters of those programs, notwithstanding inquiries by MHARR.

Virtually by definition, then, based on the overwhelming market share of personal property loans within the manufactured housing consumer financing market, the GSEs and FHFA have not met, are not meeting, and do not appear poised to meet -- at any time in the immediate or foreseeable future -- the mandate of DTS with respect to mainstream manufactured housing.

Nor have the GSEs done any better with respect to their effort to shift the focus of DTS from mainstream, inherently affordable manufactured housing to a significantly more costly type of erstwhile manufactured home, titled as real estate, which the GSEs have touted as being more "like" site-built homes and have been variously referred to as a "new class" of manufactured homes, being produced and offered primarily by the industry's largest manufacturers. Indeed, even the name, in and of itself, is a pejorative, as is the entire concept of a distinct "new class" of manufactured housing, which implies ongoing discrimination against existing, mainstream, HUD Code manufactured housing.

Despite all of the hype and promotion given over to the MH Advantage and CHOICEHome programs established by Fannie Mae and Freddie Mac respectively in order to prioritize support for such higher-cost homes that are – with respect to both cost and placement – outside of the mainstream of the manufactured housing market, Freddie Mac originated zero such loans in 2018 and 2019, while Fannie Mae, for its part, originated zero such loans in 2018 and has originated, according to its officials at the St. Louis meeting, approximately ten such loans in 2019.

Based on total industry 2018 and 2019 production then, Fannie Mae and Freddie Mac, through these programs, provided consumer financing support for .006% of the manufactured homes produced and sold in the United States over that period.

Again, by definition, this utterly fails to meet the mandate and directive of DTS as established by Congress.

Even more amazingly, Fannie Mae, in its request to modify its 2020 purchase goal for the MHAdvantage program, seeks to lay blame for the failure of this program to result in any loan deliveries in 2018 and in "very few loan deliveries in 2019," on, among other things, "a lack of meaningful support from industry trade groups."

If this means that MHARR objected to MH Advantage and CHOICEHome as a diversion of much-needed DTS support from the mainstream, affordable HUD Code manufactured housing market and mainstream manufactured housing consumers, to much more costly non-mainstream manufactured homes produced almost exclusively by the industry's largest manufacturers, then that is absolutely correct, insofar as MHARR's primary mission is to ensure the full and proper implementation of both the 2000 reform law and DTS.

Similarly, if it means that MHARR tried to warn Fannie Mae and Freddie Mac that a nearly identical Fannie Mae "MH Select" program prior to DTS failed to produce even a single loan origination and that these current programs – being outside of the mainstream manufactured housing market -- were not likely to fare any better, then, again, that is absolutely correct.

The salient point however, is that these programs do not, cannot and will not fulfill the DTS mandate.

DTS was established by Congress to compel the GSEs to serve defined markets, including the HUD Code manufactured housing finance market, that had not been fully, properly, or effectively served by the GSEs in the past.

DTS, therefore, is a statutory remedy, the objective of which is to compel the GSEs to change their practices and their policies and their perspective with respect to mainstream HUD Code manufactured homes. Instead, the MH Advantage and CHOICEHome programs seek to change the nature of the homes themselves to more closely resemble and mimic the characteristics of the site-built homes that Fannie Mae and Freddie Mac are used to dealing with and, if the truth be told, would continue to prefer to deal with. In doing so, those programs effectively prescribe much higher-cost features and much higher-cost homes that are unaffordable for the moderate and lower-income purchasers who have long constituted the bulk of manufactured homebuyers.

As a result, they circumvent DTS rather than implement it, regardless of the number of loan originations.

Finally, with regard to manufactured housing real estate loans, which constitute, at most 20% of the market, Fannie Mae, according to its St. Louis presentation, purchased 12,600 such loans in 2018, up 26% from its average benchmark of loan purchases between 2014 and 2017 – i.e., a baseline of 10,000 such loans per year. Even assuming that the entirety of this increase – i.e., 2,600 loans over the pre-DTS per annum benchmark – was attributable to purchase loans on new HUD Code manufactured homes and included no refinancing loans (which was not made clear by the St. Louis presentation), an increase of 2,600 loan purchases, based on 2018 total production of 96,555 homes, would constitute an increase of 2.69% attributable, supposedly, to DTS.

Consequently, bringing all of these figures together, it is evident that neither Fannie Mae nor Freddie Mac has embraced DTS with respect to the most affordable mainstream HUD Code manufactured homes, and that neither are fulfilling their DTS duties in a manner that is having – or will have – any appreciable, let alone significant – market impact.

Instead, much of the energy and effort that should have been – and should be now – devoted to DTS has instead been shifted outside of the mainstream manufactured housing finance market through the MH Advantage and CHOICEHome programs, which seek to change the essential nature and affordability of manufactured housing and serve a market segment that is more affluent than the moderate and lower-income Americans who rely on affordable mainstream manufactured housing.

All of this has had two major destructive impacts for both consumers and the mainstream manufactured housing industry. It has: (1) undermined any possibility of full-fledged financing competition for the nearly 80% of the manufactured housing market (and manufactured housing consumers) that relies on personal property loans; and (2) has forced moderate and lower-income manufactured housing consumers into higher-cost loans primarily originated by captive portfolio lenders.

In no way does any of this constitute a valid, legitimate or market-significant implementation of DTS. Instead, it appears, on its face, to constitute an effort on the part of the GSEs – with the explicit blessing of FHFA – to continue with business as usual, in direct defiance of Congress.

This is why MHARR has – and will continue to – call for congressional hearings and congressional oversight into why, after more than a decade, DTS remains an empty promise for mainstream, affordable, HUD Code manufactured housing consumers, and why those consumers have been left to contend with a financing market with needlessly limited options and choices, and needlessly high borrowing rates as a result. Moreover, we urge FHFA to join with those calling to take this matter back to Congress to clarify the need to fully implement DTS for manufactured housing in a market-significant manner, now.