STATEMENT OF MARK WEISS, PRESIDENT AND CEO OF THE MANUFACTURED HOUSING ASSOCIATION FOR REGULATORY REFORM AT THE JULY 14, 2021 FHFA "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 (HUD).

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

The full, market-significant implementation of the Duty to Serve Underserved Markets (DTS) by Fannie Mae and Freddie Mac – within the entire manufactured housing market, including home-only personal property or "chattel" loans -- is absolutely essential to: (1) achieve the Congressionally-mandated remedial purposes of DTS; (2) begin to resolve the nation's affordable housing crisis; and (3) end discrimination and discriminatory impacts within the existing manufactured housing consumer financing system.

DTS was adopted by Congress as a remedy for decades of discrimination by Fannie Mae and Freddie Mac against the manufactured housing consumer financing market and the mostly lower and moderate-income purchasers who rely on inherently affordable manufactured housing. And, as data from the Consumer Financial Protection Bureau (CFPB) now confirms, as a remedy for discrimination against racial and ethnic minority group members within the personal property financing submarket, which largely correlates with the industry's most affordable homes.

As FHFA is aware, DTS was designed to expand the manufactured housing consumer financing market which, for decades, has been artificially and needlessly constrained, limited and restricted.

Such an expansion, with market-significant Fannie Mae and Freddie Mac support, would lead to an increased number of lenders within the manufactured housing market; increased and more competitive consumer lending activity; and, as a consequence of the foregoing, lower interest rates for homebuyers that in turn, would make manufactured housing available for a larger number of Americans, including those who have been subjected to discrimination and discriminatory impacts in the absence of DTS support..

That was the idea, in any event, behind DTS – to get Fannie Mae and Freddie Mac involved, in a market-significant way -- in providing secondary market and securitization support for loans to lower and moderate-income, yet otherwise-qualified Americans, on affordable mainstream manufactured homes (among other specified markets) that had previously been underserved or left completely unserved by the Enterprises.

Sadly, though, at least within the manufactured housing market, it has not worked out that way. And now, with the Enterprises' <u>second</u> set of DTS implementation plans under consideration by FHFA, it is well past the point where it can legitimately be claimed or alleged that the Enterprises have not had sufficient time to "study" the market, or still, somehow, still lack needed information.

By my count, this will be the <u>fifth time</u> that I have addressed an FHFA Duty to Serve "listening session" concerning DTS and the manufactured housing market. MHARR has filed written DTS comments more times than that, and we have met with and spoken to <u>every</u> FHFA Director and Acting Director regarding DTS and its implementation since the Agency was established. Finally, though, in 2020, in a series of meetings with Director Thompson, MHARR and its members, with <u>specific facts and figures</u>, were able to show a senior-level FHFA official that the so-called "implementation" of DTS by Fannie Mae and Freddie Mac to date, is not helping – and will not help – lower and moderate-income Americans access inherently affordable manufactured housing and expand the overall manufactured housing market.

Nevertheless, as we speak today, DTS remains an unfulfilled promise for the vast majority of the manufactured housing market and the vast majority of actual and potential manufactured homebuyers – people who in many, if not most cases, are unable to afford a more costly site-built home, and for whom <u>mainstream, affordable</u> manufactured housing represents the <u>only</u> chance and opportunity to become a homeowner.

We have spoken candidly with Director Thompson and her predecessors regarding Fannie Mae and Freddie Mac's wholly-deficient implementation of DTS within the Manufactured housing market – and will continue to do so now, as the trajectory of that supposed "implementation" <u>must</u> be changed.

In April of this year, the Chief Economist at Freddie Mac produced a study showing that the supply of "entry-level" single-family "starter homes "in the United States stands some <u>four million</u> units below existing demand. The study, moreover, predicts that the shortage will continue, stating: "[W]e expect the housing supply shortage to continue to be one of the largest obstacles to <u>inclusive economic growth</u> in the [United States]. Simply put, <u>we must build more single-family entry-level housing</u> to address this shortage, which has strong implications for the wealth, health and stability of American communities." (Emphasis added).

Put differently, achieving President Biden's vision of equity and economic justice <u>requires</u> affirmative steps to <u>increase</u> the supply and availability of truly affordable housing and homeownership for <u>all</u> Americans.

And <u>that</u> is why the <u>full market-significant</u> implementation of DTS is so important and, conversely, why its lack of implementation thus far, has been so destructive.

Manufactured homes are, <u>by definition</u>, affordable homes. They are expressly recognized as "affordable" homes by federal law, and federal manufactured housing law -- and related standards and regulations -- are <u>specifically</u> structured to promote and maintain that affordability

The success of this regulatory regime is illustrated by the fact that the average structural price of a manufactured home, according to 2019 U.S. Census Bureau statistics, is $56.56 per square foot, as compared with an average structural price of $118.91 per square foot for site-built homes. As a result, the 2019 average structural cost of a mainstream, HUD Code manufactured home (i.e., the home structure itself, without land), was $81,900, while the average structural cost of a site-built home was $299,415 (i.e., an average total price of $383,900, less an average derived price of land, of $84,485).

Moreover, according to a May 2021 report by CFPB, "Manufactured housing is the largest source of unsubsidized affordable housing in the country." (Emphasis added).

Fannie Mae and Freddie Mac, however, have failed to implement DTS with respect to the vast bulk of the mainstream manufactured housing market.

Again, according to U.S. Census Bureau data, home-only or "chattel" loans, in 2019 (the last year for which such data is available), financed 76% of all manufactured home placements, while only 19% of manufactured homes were titled and financed as real property.

Since the inception of DTS, however, Fannie Mae and Freddie Mac have failed to purchase or provide support for any manufactured home personal property loans. Furthermore, in their proposed 2022-2024 DTS implementation plans, the Enterprises have dropped any plans for the support for such loans and the lower and moderate-income homebuyers who rely on them to access the industry's most affordable homes.

Consequently, the Enterprises' initial 2018-2020 DTS plans, their 2021 extensions, and now, their 2022-2024 plans, provide no DTS support whatsoever for the vast bulk of the manufactured housing market.

And even within the extremely small manufactured housing real estate market, the DTS footprint of Fannie Mae and Freddie Mac has been wholly insufficient.

In 2019, for example, manufactured home real estate placements constituted 19% of the total HUD Code market according to U.S. Census Bureau data, or 17,977 homes (i.e., .19 x 94,615 total homes produced). Of this amount, FHFA data shows that just 34% of all manufactured housing real estate DTS loans were for first-time HUD Code home purchasers. Consequently, of the 94,615 manufactured homes produced in 2019, only 6,112, or 6.4% were supported by the Enterprises under DTS for first-time buyers. Conversely, some 93.6% of the new HUD Code market was left completely unserved by Fannie Mae, Freddie Mac and FHFA under DTS.

Assuming that the proportional rate of manufactured home real estate placements (i.e., 19%) remained constant in 2020, only 5.1% of the total HUD Code market would have been supported under DTS by Fannie Mae and Freddie Mac, because of a significant decline in the number of first-time purchasers (i.e., 34% to 27%) served under DTS. Conversely, some 94.9% of first -time manufactured homebuyers were left unserved in 2020, showing that the already pathetic performance of the Enterprises within the manufactured housing market, instead of improving with time, has apparently declined.

And just who is hurt by the lack of a fully-competitive, DTS-compliant, GSE-supported manufactured housing market?

Hurt, first and foremost, are those who are totally excluded from the market and from homeownership by the lack of DTS support.

According to the May 2021 CFPB report, the majority of manufactured housing loan applications do not result in an origination. "Only 27% of manufactured home loan applications resul[t] in a home being financed, compared to 74% of applications for site-built homes" even controlling for credit score. CFPB also found that loan denial rates were "higher still for chattel [loan] applications."

And who, in turn, does <u>this</u> hurt the most? The CFPB report found that "Hispanic white, Black and African American, and American Indian and Alaska Native borrowers make up larger shares of chattel loan borrowers than among MH mortgage loan borrowers or among site-built loan borrowers." Further to this point, the report states that "Black and African American borrowers are <u>the only racial group</u> that … is overrepresented in [manufactured home] chattel lending compared to site-built."

Consequently, the lack of <u>any</u> DTS chattel loan support by the Enterprises <u>disproportionately</u> impacts and <u>harms</u> African Americans and other minorities.

It harms them first, through disproportionate exclusion from the market.

It harms them second, by subjecting those who are not rejected and excluded altogether, to disproportionately-high, less than fully competitive interest rates for access to credit. According to a government report cited by Freddie Mac itself, in the absence of GSE-DTS support for manufactured home chattel loans, "<u>more than 90%</u>" of manufactured housing personal property loans reported in the 2018 Home Mortgage Disclosure Act (HMDA) data were "higher-cost originations."

The May 2021 CFPB report is even more definitive, stating: "The rate spread for chattel loans is substantially higher than for either MH mortgages or site-built mortgages. Manufactured housing loans – both chattel and mortgage – are more likely than site-built mortgages to be classified as a Higher-Priced Mortgage Loan (HPML) or a high-cost mortgage as defined under HOEPA. <u>Nearly all of the chattel loans are HPML loans and a higher percentage also are classified as HOEPA loans</u>." (Emphasis added). The CFPB report further exposes the less-than-fully-competitive concentration of lending activity within the manufactured housing market, stating: "The top two [manufactured housing] lenders, 21st Mortgage and Vanderbilt [Mortgage Corp.], <u>are both subsidiaries of Clayton Homes, and make up … 56 percent of chattel lending</u>…." (Emphasis added).

So instead of <u>alleviating</u> these disproportionate and discriminatory impacts, as they are supposed to do under DTS, Fannie Mae and Freddie Mac – and FHFA by extension – are instead <u>perpetuating them</u>.

Let me say that again. The contorted, distorted and less-than-fully competitive manufactured housing consumer finance market that has been left in place – i.e., not remedied through the full, market-significant implementation of DTS by Fannie Mae and Freddie Mac – is discriminatory in its impact and effect.

Among other things, this runs directly contrary to the policy of the Biden Administration, as enunciated in Executive Order 13985 (January 20, 2021), "Executive Order on Advancing Racial Equity and Support for Underserved Communities Through the Federal Government."

That Executive Order states, in part: "Affirmatively advancing equity, civil rights, racial justice and equal opportunity is the responsibility of the whole of government. Because advancing equity requires a systematic approach to embedding fairness in decision-making processes, executive departments and agencies must recognize and work to redress inequities in their policies and programs that serve as barriers to equal opportunity." (Emphasis added). And, indeed, the very next paragraph of that order makes it clear that this includes "closing racial gaps in wages, housing credit [and] lending opportunities," among other things. (Emphasis added).

I would also point you to the Policy Statement on Fair Lending issued over Acting Director Thompson's name just a few days ago, on July 9, 2021. That statement notes, in relevant part, "FHFA is committed to ensuring that its regulated entities operate consistently with the public interest … by providing fair, equitable, and nondiscriminatory access to credit and housing." (Emphasis added).

Fannie and Freddie's de facto non-implementation of DTS within the manufactured housing market does just the opposite, as the CFPB report confirms. Moreover, the GSE's progressive evasion of their DTS responsibilities within the manufactured housing market, as shown by the steady erosion, and now total disappearance of any DTS support commitment for manufactured housing chattel loans in its 2022-2024 DTS implementation plans, shows that their lack of support, with its known discriminatory impacts and effects, is both intentional and dismissive of Congress' mandate.

Consequently, FHFA should and, indeed, **must reject** Fannie and Freddie's 2022-2024 proposed DTS plans, and direct both entities to undertake immediate action designed to facilitate and implement market-significant secondary market and securitization support for all types of manufactured home consumer loans under DTS, **specifically including** home-only personal property loans.

Further, we urge FHFA to join with MHARR in calling for a congressional oversight hearing to determine why there has been virtually no progress in implementing DTS within the manufactured housing market – and for the most affordable segment of the industry – over the course of nearly 15 years.

Thank you.