Manufactured Housing Institute

December 5, 2022

Office of General Counsel
Regulations Division
U.S. Department of Housing and Urban Development
451 7th Street SW, Room 10276
Washington, D.C. 20410

MHI Comment Letter
Request for Information Regarding Small Balance Lending
[Docket No. FR6342-N-01]

Dear Secretary Fudge,

The Manufactured Housing Institute (MHI) is pleased to submit this letter, in response to HUD's request for comment regarding barriers to the origination of small mortgages in the FHA program.

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 48 affiliated state organizations.

In 2021, our industry produced more than 105,000 homes, accounting for approximately nine percent of new single-family home starts. These homes are produced by 35 U.S. corporations in 144 homebuilding facilities located across the country. MHI's members are responsible for close to 85 percent of the manufactured homes produced each year.

MHI submits the following 3 major recommendations:

(1) All manufactured home loans - both real and personal property - should be considered small balance loans for the purpose of policies to break down barriers to small balance FHA loans.

(2) FHA should adopt all of the recommendations from MHI's September 26, 2022, comment letter on FHA's Title I program, in order to restore FHA's role in personal property lending.

(3) FHA should fix its appraisal policies with respect to FHA Title II loans for CrossMod® homes, which offer manufactured homes with amenities at affordable prices.

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Classification of Small Balance Loans

The request for input is silent on how to classify which loans are small balance loans.

For the sake of accuracy and simplicity, FHA should simply classify **all** FHA manufactured home loans - both Title I personal property and Title II real property - as small balance loans.

The average purchase price of a manufactured home was $108,100 in 2021[1] while the average real property purchase price was approximately $457,375 in 2021[2]. As such, this makes these cohorts of loans for manufactured homes among the lowest balance properties and loans in the market.

Manufactured housing is also the most affordable homeownership option for American families. As of 2021, the average household income for manufactured home buyers was roughly $45,590, while the average household income for residents of single-family site-built homes was around $100,400.[3]

Even the highest priced manufactured homes on the market are among the lowest dollar amount of single-family homes in almost every market in the country. Therefore, for the ease of simplicity and policy purposes, all manufactured homes should be classified as a "small balance loan."

Modernization is Needed for the Title I Program to Make it Viable

FHA Title I lending has fallen precipitously in recent years - from 1,776 loans in 2010[4], to 848 loans in 2017[5] - to only 5 in fiscal year 2021[6]; this represents a 99.7% decrease in FHA Title I loans since 2010. Yet, personal property loans are vital to manufactured housing, as 77 percent of manufactured home loans are personal property loans.

At the same time, Fannie Mae and Freddie Mac have not purchased a personal property loan in more than 15 years. Thus, even though Federal agency loans (FHA, RHS, VA, Fannie Mae and Freddie Mac) are responsible for some 60 percent of all mortgage loans being originated, they produced only 5 personal property loans nationwide last year.

For these reasons, MHI submitted detailed recommendations to rejuvenate the Title I manufactured home program in our September comment letter. These comments are repeated verbatim below.

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[1] U.S. Census Bureau, Manufactured Housing Survey
[2] Federal Reserve Bank of St. Louis, Average Sales Price of Houses Sold for the United States
[3] U.S Census Bureau, American Housing Survey, 2021 Income Characteristics
[4] FHA Annual Management Report, Fiscal Year 2012
[5] FHA Annual Management Report, Fiscal Year 2018
[6] FHA Annual Management Report, Fiscal Year 2022

Adjust Title I Loan Limits

FHA should adjust the nationwide loan limits as required by statute. Since 2008, FHA has failed to make this adjustment for inflation, despite a 30 percent rise in construction costs. The loan limit is currently $69,678 for a home-only loan.

Update the Lender Origination Fee Cap

FHA should adjust the two percent cap on origination/underwriting fees to the greater of two percent or $2,000. The low-dollar principal amounts of new personal property manufactured home loans mean that the fees a lender can charge are not high enough to cover the costs the lender incurs when underwriting most Title I loans, particularly when considering the increased compliance costs in connection with the Dodd-Frank Act. Other laws, such as the Qualified Mortgage (QM) Rule and HOEPA, include provisions that consider the impact of lower balance personal property loans. FHA's Title II Program for site-built homes does not include any fee cap on loan origination fees.

FHA also follows the QM Rule's total points and fees cap of three percent for these types of loans. However, the average FHA Title II loan size is more than double the maximum loan amount for a Title I personal property loan, which demonstrates that a two percent loan origination fee cap on loans less than half the dollar amount of the average Title II loan is insufficient.

Make FHA Manufactured Home Definitions Consistent with HUD Code Definitions

FHA should make its definitions of "existing manufactured homes" and "new manufactured homes" consistent with terms defined under the Manufactured Home Construction and Safety Standards Act and in the HUD Code. Currently, the terms in the FHA Handbook reference a time period, "within 18 months of the date of manufacture," which conflicts with other HUD definitions. Realigning the FHA's terms with HUD's definitions, which are defined under federal law, would eliminate confusion.

Allow the Financing of Closing Costs

FHA should amend its current policy to allow sellers to contribute up to six percent of closing costs, just like current FHA Title II policy. Current regulations do not allow certain fees to be financed into the loan or closing costs to be paid by the seller. This results in the borrower having to pay these fees out of pocket, which may include survey fees, attorney fees and title insurance premiums.

Amend Underwriting Requirements

FHA has different debt-to-income (DTI) requirements for borrowers using the Title I program, versus those using Title II. Given the historical negative credit subsidy on these loans, we think this is unnecessary. The DTI and asset requirements for Title I borrowers should be the same as for Title II. Further, as HUD modernizes the Title I program, FHA should develop an automated underwriting model for Title I.

Amend Chapter 7 Bankruptcy Credit Requirements

FHA should amend its current Chapter 7 bankruptcy credit requirements to mirror the guidelines for Title II loans. If a Chapter 7 bankruptcy appears on the consumer's tri-merge credit report, any derogatory item dated within the last 12 months will trigger an automatic denial of the consumer's Title I loan application, even if the consumer has only one minor derogatory item on the report. Consequently, a consumer who is interested in financing the purchase of a manufactured home but has a Chapter 7 bankruptcy on any credit report, will not be approved for a Title I loan, even if the consumer has reestablished his or her credit.

Amend FHA Policy on Gifted Funds

FHA should amend its current guidelines on gifted funds to mirror the guidelines for Title II loans. Currently, only a family member, employer, or charitable organization can gift funds to the consumer loan applicant. However, it is not uncommon for consumer loan applicants to receive a gift in the amount of the down payment from someone other than a family member, such as a significant other, domestic partner, friend or ex-spouse. However, the consumer loan applicant is not always allowed to utilize these funds when considering the purchase of a manufactured home. Because all gifted funds must be verified and the lender must confirm that the funds will not be repaid, the source of the gift should not matter.

Lower Mortgage Premiums

Rising interest rates, labor shortages, supply chain challenges, and increasing lumber costs are increasing the costs of housing. Today, the Title I program provides a 6.15% negative subsidy rate to the FHA. This indicates that borrowers are paying costs that are in excess of what is required to cover the risk of the loan. Further, despite the myth that personal property loans are risky, actual performance over the last two years proves that is FALSE. MHI commissioned an independent third party to review loan performance of 350,000 manufactured home loans from the 1st quarter 2019 through the 1st quarter 2021. Based on the data provided above, these loans do not provide significant risk to FHA.

As economic conditions continue to worsen, reducing the MIP allows borrowers the flexibility to spend on necessary items like food, gas, education, and other monthly bills. Given the negative subsidy rate, FHA should reduce mortgage premiums on Title I.

FHA Action is Needed to ensure Accurate Appraisals for CrossMod Homes

CrossMod® homes represent the blending of features characteristic of site-built homes with the innovative, efficient methods used in off-site home construction to create a new class of homes for the manufactured housing industry. CrossMod® homes are placed on a permanent foundation, qualify for conventional financing, help challenge exclusionary zoning ordinances, and are virtually indistinguishable from higher-priced, site-built options.

Unfortunately, FHA guidance to appraisers regarding comparable sales to CrossMods® has unintentionally undermined the objective of providing consumers with the amenities of site-built homes at affordable prices commensurate with them being manufactured homes. Without improved guidance, appraisers will continue to consistently undervalue CrossMod® homes, which will threaten the broad adoption of CrossMods® in the market – and thereby prevent CrossMod® homes from achieving their full consumer potential. That is why we seek your immediate attention to address this issue.

Since CrossMods® are still relatively new in the market, nearby CrossMod® homes often are not available for appraisers to use as comparables for an Enterprise-backed CrossMod ® mortgage loan. While CrossMod® homes are the best and most appropriate comparable for an appraiser to utilize for other CrossMod® homes, when such comparables are not available, site-built homes, along with the appropriate adjustments that are made with any appraisal, are the most appropriate option. Despite FHA guidance suggesting that site-built homes can be used as comparables when no CrossMod® comparables exist, in practice, appraisers instinctively are reverting to using traditional Department of Housing and Urban Development (HUD) Code manufactured homes as comparables, which is permitted by the current FHA guidance.

As a result, the existing FHA CrossMod® appraisal guidance is clearly undermining the programs' intended effect as appraisals for CrossMod® homes are typically inaccurate – well below true market values. This has caused the utilization of CrossMods® by developers to be stymied because the artificially low appraisal values do not support the necessary loans for purchase. Developers therefore are moving away from CrossMods®, as they do not want to take the risk of transactions failing to close due to faulty appraisals.

Given that FHA manufactured housing CrossMod® programs were created to facilitate manufactured housing that is specifically built to meet construction and architectural design standards that are consistent with site-built homes, it is inappropriate for the programs to be undermined because appraisers are using traditional manufactured homes as comparables. Site-built homes are more physically similar to CrossMod® homes than are traditional manufactured homes. Providing clear appraisal guidelines that require the use of site-built comparables for CrossMod® homes, but only when other CrossMod® homes are not available, will result in clarity for appraisers to ensure they select appropriate sales comparables that are the most physically similar to the subject property.

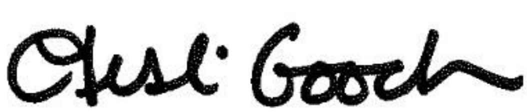
We urge you to address this problem as soon as possible by changing the language in your guidance for appraisers, so that they have clarity about how to value CrossMod® homes.

Conclusion

Manufactured homes represent the essence of small balance, affordable loans to low- and moderate-income families. Any FHA initiatives to address barriers to lenders doing more mortgage loan origination of small balance loans must focus to a significant degree on this critical sector of the market. MHI stands ready to work with FHA to develop policy changes that achieve this objective.

Thank you for your consideration of these recommendations.

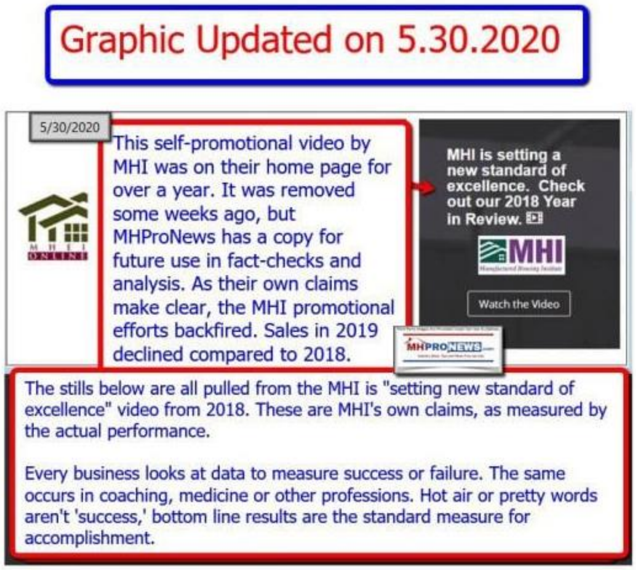
Sincerely,



Lesli Gooch, Ph.D.
Chief Executive Officer

NOTICE: MHProNews has edited in the highlighting above. The analysis that follows includes only expert analysis and commentary ONLY on the CrossMods® segments of this letter.

In no particular order of importance:



1) MHI and the CrossMods® program is reportedly having similar problems with Fannie Mae and Freddie Mac in their respective versions of the financing that supports this 'new class of manufactured homes' branded as CrossMods®. **MH Advantage**® is the Fannie Mae version of the plan and Freddie Mac calls their program **CHOICEHome**®

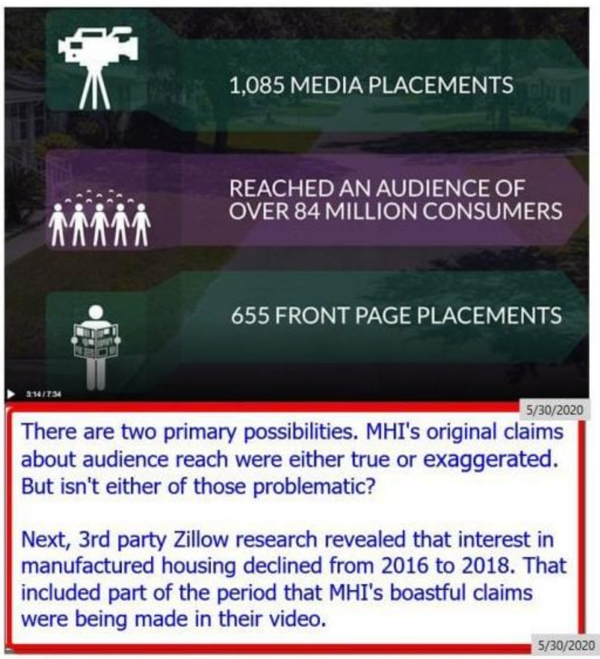
2) Per Fannie Mae and Freddie Mac data to FHFA, only low double digit **total** *national* sales have occurred in the years since this program was debuted.

3) From MHI's claimed perspective, instead of having a letter to HUD focused solely on CrossMods® and then having another letter on all other the other issues, MHI muddied their own arguments this way in an array of thus tepid requests.

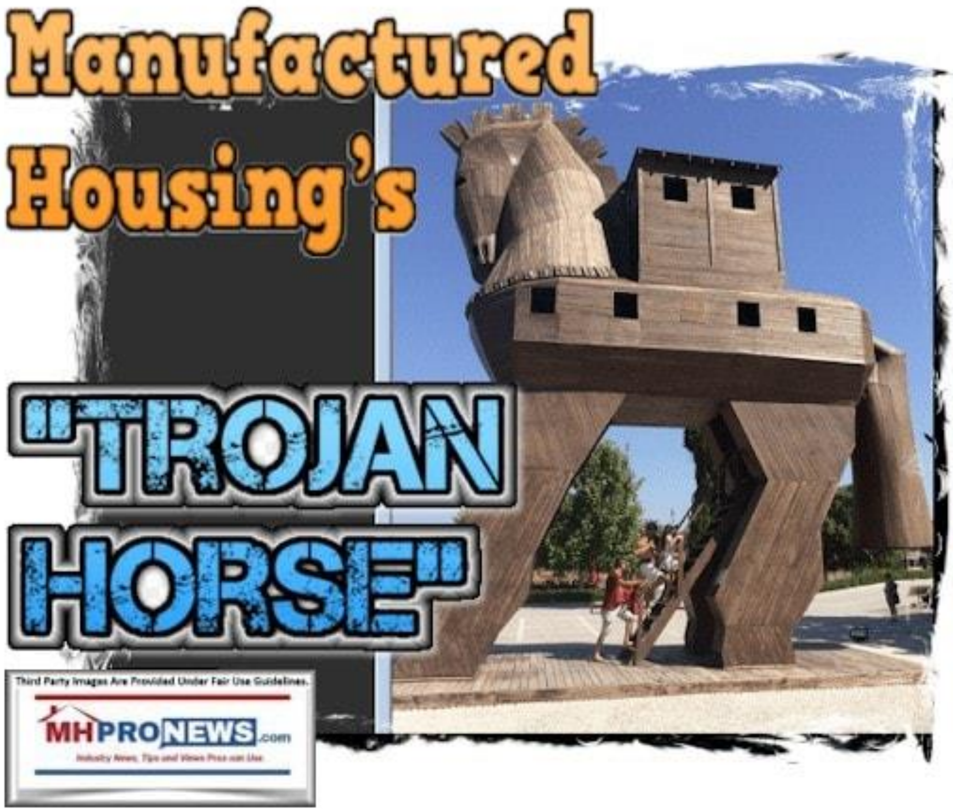
4) The reality is that CrossMods was attacked early and often in manufactured housing as a flawed plan. Manufactured housing always had residential style manufactured homes that could be ground set. Manufactured housing has offered residential style manufactured homes that could have attached or integrated garages or carports. The smarter play was to elevate the ENTIRE HUD Code manufactured home industry. Instead, this method diminished decades of manufactured housing production as their own arguments in this letter to HUD reflect.

Note: the MHI 'Momentum' video still at the left were a series of screen captures by *MHProNews* that critiqued the MHI 2018 self-promotional video. Much of the video focused on what was later called CrossMods.

There is much more. See the linked reports that follow below.



MHI's 2018 video touted their social media program's 'reach.' But because the industry declined in total production and shipments following the launch of this program, those claims were undermined by the poor performance. Prior to this effort, MHI tried an advertorial campaign that also had problems highlighted by MHProNews fact checks and evidence-driven critiques.

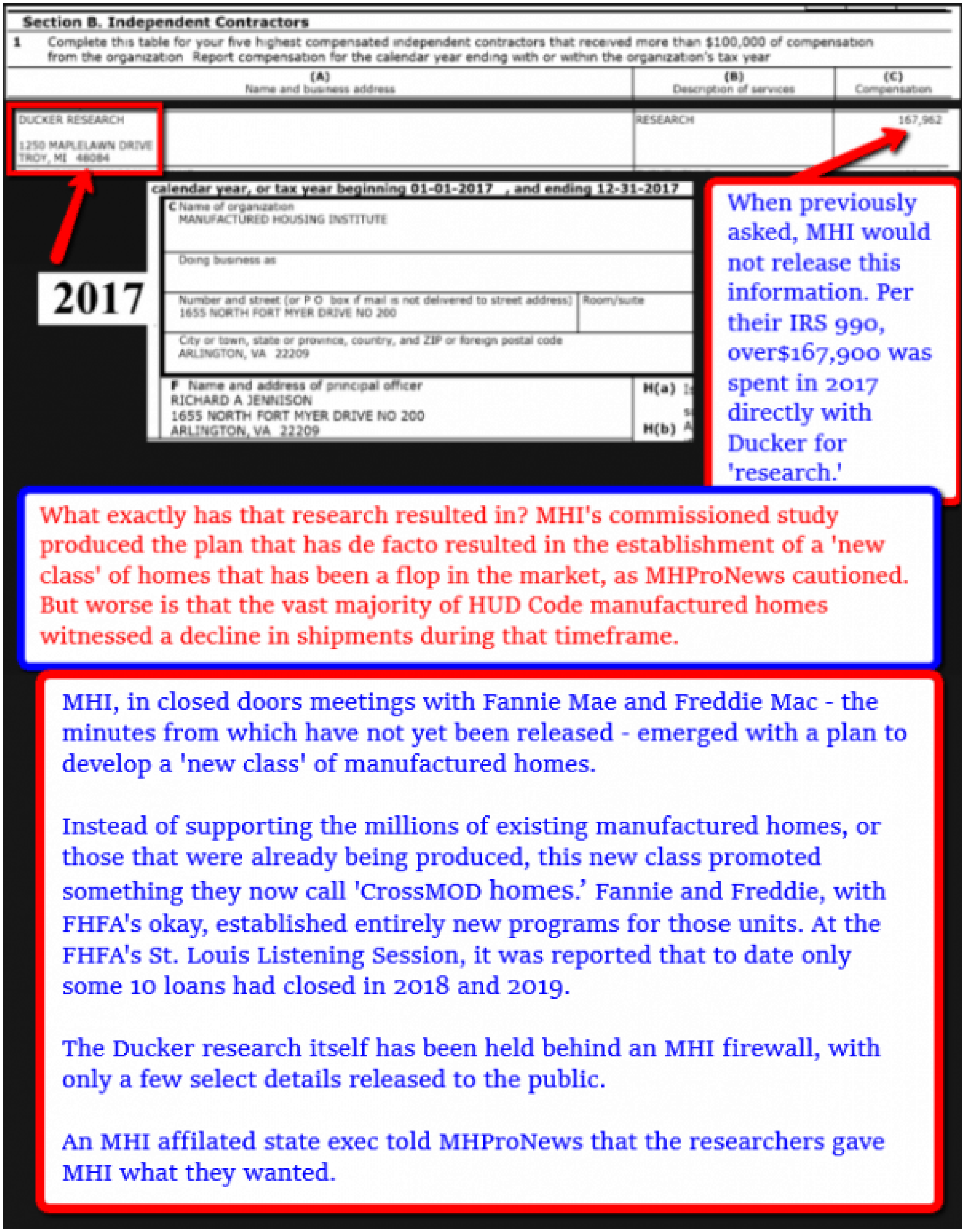


This report above was posted Feb 21, 2018. It predicted that the so-called 'new class of homes' could be a 'Trojan Horse' for manufactured housing. If one measures performance by new homes shipped, that concern has proven to be true. How could we know almost 2 years in advance where the industry might be today? Because we know the industry from the inside, not just as publishers - but as performance based professional service providers. The MHI plan - supported by Clayton Homes, Fannie Mae and Freddie Mac, was arguably flawed from the outset.

https://www.manufacturedhomepronews.com/manufactured-housings-trojan-horse/

MHI paid 6 figures to Drucker Worldwide to promote what became CrossMods, per MHI's 990.

https://www.manufacturedhomepronews.com/manufactured-housing-institute-walk-out-cover-up-and-shock-at-their-vegas-event/



Section B. Independent Contractors

1 Complete this table for your five highest compensated independent contractors that received more than $100,000 of compensation from the organization Report compensation for the calendar year ending with or within the organization's tax year

(A) Name and business address	(B) Description of services	(C) Compensation
DUCKER RESEARCH 1250 MAPLELAWN DRIVE TROY, MI 48084	RESEARCH	167,962

2017

calendar year, or tax year beginning 01-01-2017 , and ending 12-31-2017

C Name of organization
MANUFACTURED HOUSING INSTITUTE

Doing business as

Number and street (or P O box if mail is not delivered to street address) | Room/suite
1655 NORTH FORT MYER DRIVE NO 200

City or town, state or province, country, and ZIP or foreign postal code
ARLINGTON, VA 22209

F Name and address of principal officer
RICHARD A JENNISON
1655 NORTH FORT MYER DRIVE NO 200
ARLINGTON, VA 22209

H(a)

H(b)

When previously asked, MHI would not release this information. Per their IRS 990, over$167,900 was spent in 2017 directly with Ducker for 'research.'

What exactly has that research resulted in? MHI's commissioned study produced the plan that has de facto resulted in the establishment of a 'new class' of homes that has been a flop in the market, as MHProNews cautioned. But worse is that the vast majority of HUD Code manufactured homes witnessed a decline in shipments during that timeframe.

MHI, in closed doors meetings with Fannie Mae and Freddie Mac - the minutes from which have not yet been released - emerged with a plan to develop a 'new class' of manufactured homes.

Instead of supporting the millions of existing manufactured homes, or those that were already being produced, this new class promoted something they now call 'CrossMOD homes.' Fannie and Freddie, with FHFA's okay, established entirely new programs for those units. At the FHFA's St. Louis Listening Session, it was reported that to date only some 10 loans had closed in 2018 and 2019.

The Ducker research itself has been held behind an MHI firewall, with only a few select details released to the public.

An MHI affilated state exec told MHProNews that the researchers gave MHI what they wanted.

https://www.manufacturedhomepronews.com/expose-manufactured-housing-institute-ducker-research-cost-salaries-other-spending-program-revealed/

The fallacy of this argument that 46 percent would buy a CrossMod while only 9 percent would consider a mainstream manufactured home was oddly revealed by Fannie Mae recently. The market has pushed more people to consider manufactured housing, while CrossMods have languished, as MHI has now admitted in their logically problematic letter to HUD on 12.5.2022, shown above. Fannie Mae research said that "most" Americans would consider a manufactured home, apparently, no thanks to MHI.

https://www.manufacturedhomelivingnews.com/**new-freddie-mac-research-brief-says-majority-of-consumers-would-consider-purchasing-a-manufactured-home-most-have-good-perception-of-manufactured-housing-facts-analysis/**

"We are calling on the Manufactured Housing Institute to stop marketing this [CrossModTM] home product and to stop misleading the public."

MHBA Executive Director Tom Hardiman, CAE, via the MHBA's blog post on 2.7.2020.

https://www.manufacturedhomelivingnews.com/manufactured-homeowners-interests-threatened-by-manufactured-housing-institute-deceptive-scheme-per-modular-home-builders-associations-tom-hardiman/

"**What happens to the value of the tens of thousands of "regular" manufactured housing units when the industry itself turns it back on them**…" – that MHBA statement is actually an apt question, because logically their value will be undermined. But it won't be tens of thousands, it could be millions of homes.

"…**I will never make a disparaging remark about a manufactured home. It is a viable and affordable housing solution that is much needed in this country and has provided decent living accommodations for countless people.**"

- MHBA Executive Director Tom Hardiman, CAE, via the MHBA's blog post on 2.7.2020.

Why is MHBA's executive director making a stronger case for HUD Code manufactured homes than the Manufactured Housing Institute has been doing in recent years? When someone discerns the logic of Hardiman, he is arguably well grounded in facts in saying that MHI's posture is de facto selling out the interests of millions of manufactured homeowners. That in turn harms 'white hat' independent manufactured home businesses and/or investors who may not even realize how MHI and their 'big boy' backers is allegedly harming their interests.

Third Party Images Are Provided Under Fair Use Guidelines.

That quoted statement from an insider to MHProNews was uploaded on 4.30.2020. Despite 2½ years of additional 'promotion' by MHI later, and that same statement *still* applies.

This quote from an MHI insider was uploaded on 4.30.2020. As is so often the case, it has stood the test of time. The MHI admission now demonstrates that this is still true some 2.5 years later. MHI's letter makes it clear that it is likely to continue that way for the foreseeable future. At what point does MHI admit defeat and pull the plug on a program that was flawed from the beginning?

https://www.manufacturedhomepronews.com/paltering-manufactured-homes-crossmodtm-homes-manufactured-housing-institute-clayton-homes-berkshire-hathaway-manufactured-home-lenders-dts-and-you/

The above report was uploaded on November 12, 2019.

Uploaded on February 6, 2019 https://www.manufacturedhomepronews.com/what-are-we-chopped-liver-mhi-member-december-2018-reactions/

Because MHProNews grasps the nuances of the industry and we publish remarks that are properly sourced, these reports have stood the test of time. By contrast, MHI – with a budget millions of dollars larger and with a staff numbers of times larger – can't get their own pitched plan to work? Aren't the disconnects obvious and embarrassing to MHI?