TESTIMONY OF THE MANUFACTURED HOUSING ASSOCIATION FOR REGULATORY REFORM

ON THE HOUSING FINANCE REFORM AND TAXPAYER PROTECTION ACT OF 2013

BEFORE THE

COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS

OF THE

UNITED STATES SENATE

October 28, 2013
Washington, D.C.

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for Regulatory Reform
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I. INTRODUCTION

The following testimony is submitted on behalf of the members of the Manufactured Housing Association for Regulatory Reform (MHARR). MHARR is a Washington, D.C.-based national trade association representing the views and interests 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 (Act), as amended by the Manufactured Housing Improvement Act of 2000 (2000 law). MHARR was founded in 1985 and represents producers of manufactured housing from all regions of the United States.

Modern (i.e., post-2000 law) federally-regulated manufactured homes represent an outstanding value for homebuyers. Highly efficient factory-based construction techniques allow builders to produce manufactured homes at a substantially lower cost than comparable site-built construction. These cost savings are ultimately conveyed to homebuyers, as reflected by U.S. Census Bureau data (2011) showing the average structural price of a single-section manufactured home as $40,600 (or $36.41 per square foot) as compared with an average structural cost (i.e., excluding land) of $207,950 (or $83.38 per square foot) for site-built homes. As a result, manufactured homes are a significant source of affordable housing and homeownership, comprising nearly 20% of all owner-occupied homes with monthly housing costs lower than $500. Indeed, the median monthly housing cost for owner-occupied manufactured homes – at $508 per month – is less than half the monthly housing cost of other types of homes, including non-manufactured rental homes (see, Fannie Mae Housing Insights, Vol. 3, Issue 5, June 27, 2013 at p. 2). Thus, a December 2004 HUD study -- "Is Manufactured Housing a Good Alternative for Low Income Families?" -- confirmed that, over an eight-year sample period, the mean monthly housing cost of consumer-owned manufactured homes was consistently and substantially less than the cost of a non-manufactured rented home. Modern manufactured homes thus provide Americans with the most affordable housing and homeownership choice available.

Today, though, millions of Americans who wish to own a home and are attracted to manufactured housing because of its affordability, quality, value and federal certification, are unable to purchase a manufactured home. Over the past decade-plus, manufactured home production has declined by more than 85% (from 373,143 homes in 1998 to 54,881 in 2012). Over the same period, nearly 75% of the industry's production facilities have closed (from 430 to fewer than 110), as have more than 7,500 retail centers. This represents a devastating loss of affordable housing opportunities for Americans -- and especially lower and moderate-income American families -- while tens, if not hundreds of thousands of jobs throughout the manufactured housing industry and related businesses have disappeared over the same period.

This unprecedented decline – both in terms of magnitude and duration -- is due, primarily, to the extremely limited availability of private and public consumer financing for manufactured home purchases. This, in turn, is a direct consequence of: (1) discriminatory federal policies concerning the securitization of manufactured home loans and particularly the home-only "chattel" or personal property loans that constitute the vast majority (76%) of all

manufactured home consumer loans; (2) the failure of relevant federal agencies to implement remedial legislation enacted by Congress to end such discrimination; and (3) inadequate sources of manufactured home financing and a non-competitive manufactured financing market – effectively dominated by one integrated corporate entity -- that has evolved as a consequence of these policies and actions. To reverse this decline and restore (and ultimately expand) the availability of affordable manufactured homes for American families, it is essential that all types of manufactured home financing be included on a mandatory basis – and through clear, definitive and compulsory language -- in the structures, institutions and programs that will be established by the mortgage reform legislation pending before Congress. Suggested amendments to accomplish this mandatory inclusion, premised on the unique status of manufactured housing as the only federally-regulated segment of the residential construction industry, are set forth in detail below for consideration and action by the Committee.

II. THE IMPACT OF DISCRIMINATORY FEDERAL POLICIES IN SHARPLY CURTAILING THE AVAILABILITY OF AFFORDABLE MANUFACTURED HOMES

To a significant degree, the highly-restricted availability of consumer financing for manufactured homebuyers is due to policies adopted and maintained by the Government Sponsored Enterprises (GSEs) – in conjunction with the Federal Housing Finance Agency (FHFA) -- and by the Federal Housing Administration (FHA) -- in conjunction with the Government National Mortgage Association (GNMA) -- which discriminate against manufactured homes and manufactured homebuyers. These policies, which the relevant agencies have acknowledged are based on "perceptions" rather than any recent data concerning the performance of manufactured housing loans for modern manufactured homes produced and sited after the Manufactured Housing Improvement Act of 2000, must be brought to an end through the mortgage reform legislation that is ultimately enacted by Congress.

A. Private Financing -- The Failure of the GSEs to Provide Secondary Market Support for Manufactured Housing Consumer Loans

Congress created the GSEs to provide liquidity and stability for the American housing market and to support affordable home ownership for lower and moderate-income families. Yet, the GSEs, over the past decade-plus, have failed to provide any securitization or secondary market purchase support for manufactured home personal property loans -- which according to U.S. Census Bureau data constitute 76% of all new manufactured home placements -- and minimal support for manufactured home real estate loans. Indeed manufactured housing real estate loans, since 2003, have been subjected to significantly more restrictive criteria than site-built home mortgages, including punitive underwriting standards and discriminatory loan-level price adjustments. As a result, manufactured home loans comprise less than 1% of the total portfolios of the two GSEs even though: (1) an estimated 18-21 million Americans currently live in manufactured homes; (2) manufactured homes, since 1989, have accounted for 21% of all new single-family homes sold; (3) manufactured homes, as of 2009, represented 43% of all new homes sold under $150,000 and 23% of all new homes sold under $200,000; and (4) manufactured housing provides affordable homeownership for consumers with economic

demographics that fall squarely within the core mission of the GSEs (i.e., 73% of all manufactured home households earned less than $50,000 in 2009, with a median household income of $29,900, while 45% of all manufactured home borrowers earned 80% or less of Area Median Income).

This deviation from the GSEs' primary statutory mission, together with a corresponding expansion of the GSEs' participation in the subprime financing market for higher-priced site-built homes, has not only devastated the manufactured housing consumer financing market, but also contributed to the GSEs' failure, culminating in 2008. Put differently, the performance of manufactured housing loans -- at less than one percent of the Enterprises' portfolios -- was not responsible for, or even a significant factor in the GSEs' failure, which resulted instead from their massive participation in the extremely risky and exponentially larger sub-prime finance market for site-built homes. Conversely, manufactured home loans, of all types, which pair purchasers with modern manufactured homes that they can afford, rather than employing gimmicks to paper over insufficient resources, when managed properly, are no more risky than any other home loan and are far less risky than the loans which led to the GSEs' conservatorship. However, FHFA -- the GSEs' conservator and federal regulator – has not only maintained, but has extended such discriminatory policies, contrary to an express congressional directive and without any current data concerning the loan performance of modern manufactured homes that, under the Manufactured Housing Improvement Act of 2000, are subject to mandatory nationwide installation standards and enforcement, and alternative dispute resolution programs, for consumer protection, in all fifty states.

B. Non-Implementation of the Statutory "Duty to Serve"

Recognizing the failure of the GSEs to fulfill their statutory duty with respect to manufactured homebuyers, Congress, as part of the Housing and Economic Recovery Act of 2008 (HERA), established a GSE "duty to serve underserved markets" (DTS) with respect to manufactured housing. DTS directed the GSEs 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." The DTS directive was thus both a finding by Congress that the GSEs had not properly served the manufactured housing market and a remedy that directed the GSEs to materially increase their participation in the manufactured housing market for the benefit of lower and moderate-income homebuyers, subject to evaluation and enforcement by FHFA. In adopting this directive, moreover, Congress went out of its way to stress that chattel loans could be considered as part of DTS (see, 12 U.S.C. 4565(d)(3)), directing FHFA to "consider loans secured by both real and personal property" for DTS credit. Yet FHFA, in a June 7, 2010 proposed rule to implement DTS, concluded that chattel loans would not be considered at all and, more than three years later, has yet to issue any final DTS implementation rule.

Congress specifically authorized the consideration of manufactured home personal property loans for purposes of DTS credit for one overriding reason – they provide consumers with the lowest cost access to affordable homeownership and, therefore, constitute the vast bulk of manufactured home consumer loans. Unlike site-built and modular homes, manufactured

homes can be financed as personal property without the homeowner purchasing -- or having an ownership interest in -- the land upon which the home is situated. This includes most manufactured home communities and other placements where site space is rented, or is otherwise owned by a third-party. The amount financed is limited to the home itself which, according to 2011 U.S Census Bureau data, averaged $63,000 for all new manufactured homes (i.e., both single-section and multi-section). Obviously, adding the cost of land to that of the home structure in order to qualify as a conforming real estate transaction substantially increases the loan amount paid by the purchaser. Not surprisingly, then, and as Congress was well aware, chattel loans are routinely used most often by lower-income purchasers to finance the industry's most affordable homes. Yet, FHFA chose to ignore Congress' authorization for the inclusion of chattel loans in DTS and has taken no action to advance DTS in any form, notwithstanding the ruinous consequences for both the industry and consumers of affordable housing.

To justify the exclusion of chattel financing – and thus 76% of the manufactured housing market -- from DTS, FHFA, in its June 7, 2010 proposed rule, cited outdated third-party studies regarding manufactured home depreciation and delinquencies prior to the adoption and implementation of the 2000 reform law. As MHARR pointed out in its administrative comments, however, manufactured homes, when properly sited and maintained by homeowners, can and do appreciate like other types of dwellings. Conversely, other types of dwellings can and do depreciate – as demonstrated by Case-Shiller Home Price data for the first quarter of 2012, in which all three major home value indices (i.e., the National Composite and the 10- and 20-City Composites) fell to their lowest levels since mid-2006. At the same time, contemporaneous data compiled by the American Bankers Association Consumer Loan Delinquency Report showed that loan delinquencies for manufactured homes dropped to 3.76% from 4.08% during the fourth quarter of 2011, while the national mortgage delinquency rate rose to 6.01% at the end of the fourth quarter of 2011. FHFA, however, has never addressed these points while it exercises a de facto pocket veto of the Duty to Serve.

Accordingly, notwithstanding direct congressional intervention and an express legislative mandate to develop a secondary market and flexible underwriting guidelines for both manufactured home real estate and personal property loans, there has been no improvement whatsoever in the GSEs' participation in the manufactured housing market since the enactment of HERA in 2008. And while the will of Congress is being thwarted, the housing needs of lower and moderate-income American families are not being served as a result of an institutional GSE culture that refuses to acknowledge the evolution of manufactured homes from the "trailers" of yesteryear to modern legitimate "housing" (as recognized by Congress in the Manufactured Housing Improvement Act of 2000) and misguided FHFA policy decisions that have not only undermined DTS, but promote ongoing discrimination against manufactured housing and manufactured homebuyers.

C. Public Financing -- Discriminatory FHA-GNMA Securitization Requirements

Nor has the sharply curtailed availability of private sector manufactured home consumer financing been offset, in any manner, by corresponding increases in public sector support and securitization. While the long-established FHA Title I (personal property financing)

program for manufactured homes was once a significant component of the total universe of financing options available to manufactured homebuyers, FHA Title I originations over the past decade-plus have dropped to near de minimus levels. HUD data shows that from 1980 to 1993, FHA averaged approximately 20,000 Title I manufactured housing loan endorsements per year, with a peak volume of approximately 55,000 loans (representing a dollar volume in excess of $900,000,000) in 1983. Between 1990 and 2006, however, loan volume generated through the Title I program declined by 94%, as determined by an August 2007 Government Accountability Office Report ("Federal Housing Administration – Agency Should Assess the Effects of Proposed Changes to the Manufactured Home Loan Program"). Over the same period, FHA Title I manufactured housing loan endorsements plummeted to approximately 1,000 per year, a trend that has continued despite significant improvements to the Title I program – designed to increase its scope and utilization -- legislated by Congress in HERA. Thus, according to GAO, FHA Title I manufactured home lending, as of 2005, accounted for only 2.8 percent of the manufactured home personal property financing market.

In significant part, this sharp decline in Title I originations has been a consequence of GNMA policy decisions concerning the securitization of Title I loans. Beginning in the late 1980s, GNMA imposed a complete moratorium on the certification of new Title I lenders. This moratorium was ultimately lifted and replaced by new certification criteria in June 2010 (see, Attachment A). Those criteria, however, which mandate a minimum $10 million net worth for all originators (as compared with a $2.5 million net worth requirement for site-built and other lenders) as well as a retention of at least 10% of the value of all outstanding manufactured housing asset-based securities ("10-10" rule), have needlessly restricted the pool of approved FHA Title I originators (serving 18-20 million current manufactured homeowners and millions more potential manufactured homebuyers) to just two related entities – Vanderbilt Mortgage and Finance, Inc. (Vanderbilt) and 21st Mortgage, Inc. (21st Mortgage) – which, as explained in greater detail below, now dominate a non-competitive and dysfunctional manufactured housing finance market to the detriment of both homebuyers and the industry, but particularly smaller industry businesses, including independent producers, retailers and communities, among others.

III. DISCRIMINATORY FEDERAL POLICIES HAVE CREATED A DYSFUNTIONAL AND NON-COMPETITIVE MANUFACTURED HOUSING FINANCE MARKET

The market-place reality of the GNMA 10-10 rule, is that the one remaining federally-supported source of secondary-market securitization for chattel-financed manufactured homes, the FHA Title I program, is dominated by a corporate conglomerate – Berkshire Hathaway, Inc. (Berkshire Hathaway) – which owns a controlling interest in both Vanderbilt and 21st Mortgage, as well as Clayton Homes, Inc. which, not coincidentally, dominates the current-day manufactured housing market with approximately 50% of total industry production.

The GNMA 10-10 criteria, however – like the discriminatory policies maintained by the GSEs and extended by FHFA -- have no factual basis in the performance of current-day (i.e., post-2000 law) manufactured homes. At a December 14, 2011 meeting with senior GNMA officials, MHARR was advised that the 10-10 criteria (which constitute a policy rather than a rule subject to the Administrative Procedure Act) were developed on the basis of 20-30 year-old FHA manufactured home loan performance data and that the $10 million net worth requirement,

in particular, was a subjective, "policy" figure intended to reflect GNMA's concern that FHA Title I loan originators be established enterprises committed to serving the manufactured housing financing market. Moreover, MHARR was informed by the same officials that GNMA would be willing to revisit the 10-10 criteria and consider lower levels, and would welcome up-to-date information on the performance of present-day manufactured home loans, as well as information indicating the "critical point" between the $2.5 million net worth requirement for site-built lenders and the current $10 million net worth level for FHA Title I manufactured housing issuers that would permit and encourage more lenders to enter and participate in the Title I market.

Such current loan performance information, however, is almost entirely within the control of the two related entities that – since 2010 – have been the only finance companies authorized to originate Title I loans. And precisely because those companies benefit from the exclusionary nature of the 10-10 rule, those companies have no incentive to disclose that information and, from every indication, have not disclosed any such information to GNMA. Nor, apparently, has GNMA sought any such information directly from either of those related entities, even though Vanderbilt, in April 2013, was awarded a three year, $1,313,549.16 sole-source GNMA contract to "service" Title I manufactured home loans based on its standing – as stated in an April 24, 2013 "Justification for Other Than Full and Open Competition" -- as the "only" GNMA-approved Title I lender under the 10-10 rule (see, Attachment B at p. 3: "Vanderbilt is the only GNMA issuer who reapplied and is currently active in the manufactured housing program"). Consequently, even though GNMA has the ability and means to obtain loan performance data from its own sole-source FHA Title I servicing contractor (for manufactured housing loans originated prior to the inception of the 10-10 rule), whether it has sought or obtained such information to date is unknown, and the destructive, market-altering 10-10 rule remains in place. Obviously, if GNMA is in possession of such market data, it should use that information to adjust and lower the 10-10 criteria to allow greater market access and competition as it indicated it would at its December 14, 2011 meeting with MHARR officials.

The ultimate impact of these policies and actions, which effectively limit the FHA Title I originations to just two finance companies affiliated with the industry's largest producer(s) -- combined with the ongoing refusal of the GSEs to securitize manufactured housing chattel loans and the refusal of FHFA to implement the Duty to Serve – is that free-market competition has virtually been eliminated from the manufactured housing chattel finance market. This, in turn, has kept FHA Title I originations artificially low, has eliminated chattel financing choices and options for homebuyers, and has placed smaller, independent producers of manufactured housing at a distinct and unfair disadvantage in the market-place. With only two providers capable of high-volume consumer financing for manufactured home purchases, industry production has remained essentially stagnant at +/- 55,00 homes per year. To not only recover to historic production levels, but to fully satisfy growing consumer demand for affordable homeownership with production levels in the hundreds-of-thousands of homes, more providers and more competition are both essential.

IV. REVISIONS TO ENSURE THE MANDATORY INCLUSION OF MANUFACTURED HOUSING IN THE HOME FINANCING STRUCTURE ENVISIONED BY S. 1217

In order to reverse these policies, ensure the continuing availability of high-quality, affordable manufactured homes for all Americans, and revive the manufactured housing industry, it is essential that, as Congress reforms the national mortgage finance system, the same high-volume loan securitization available to other types of housing be available for all types of manufactured home loans as well, which would expand the number of manufactured home loans – and particularly chattel loans – while increasing overall financing opportunities for lower and moderate-income homebuyers. Based on historical experience with other laws pertaining to housing and mortgages -- and particularly the Duty to Serve and its emasculation by FHFA based on supposedly permissive rather than mandatory chattel financing language -- unless all types of manufactured home loans are explicitly recognized through clear, definitive and mandatory language, by which they are included on an equal basis in all of the structures, institutions and programs to be established and authorized by such legislation, manufactured housing purchasers will be ignored in the implementation of any final GSE reform law.

Furthermore, such inclusionary language must recognize – and make specific reference to -- the unique federal regulation of manufactured housing, which is the only segment of the nation's residential and building industries with construction and installation regulated under federal law and performance-based, preemptive federal standards. Precisely because that unique status has systematically been abused in order to discriminate against the industry and its homebuyers in matters such as zoning and placement – even though the industry today is producing its best, highest-quality homes -- the inclusion of manufactured housing and the protection of its homebuyers in any mortgage reform legislation must also identify manufactured homes by reference to its unique status under federal law.

Accordingly, MHARR suggests that the following language be included in The Housing Finance Reform and Taxpayer Protection Act of 2013 (S. 1217), or any comparable legislation ultimately considered by Congress:

1. In Title I, section 2 (Definitions), subsection 11(A), at the end of the current language, defining an "eligible mortgage," add the following:

> **"Except that such term shall also include real estate mortgages, personal property loans secured solely by the home itself, and hybrid land-home loans for federally-regulated 'manufactured homes' as defined by section 603(6) of the National Manufactured Housing Construction and Safety Standards Act of 1974, as amended; to which the requirements of subsection (E) of this section shall not apply."**

This language would amend the definition of "eligible mortgage" to include all categories of manufactured home loans. Qualifying as an "eligible mortgage" is essential to participation in the activities of the "Federal Mortgage Insurance Corporation" that would be established as the

new partially-privatized securitization utility to succeed the GSEs. At present, an "eligible mortgage" is defined as a "residential real estate loan secured by a property with 1 to 4 single family units...." By referring to "real estate" loans, this definition could potentially exclude all manufactured homes and would definitely exclude all manufactured homes titled and financed as personal property – again, comprising the vast bulk of all manufactured homes sold today. Accordingly, the proposed addition would unambiguously include all types of manufactured home loans within the key definition of an "eligible mortgage." The last clause of the suggested language is designed to exempt manufactured home loans from the current language of Title I, section 2, subsection 11(E), which requires "eligible mortgages" to be "insured by an approved State licensed title insurance company," because of the varying treatment of manufactured home titles under state law.

2. Similarly, in Title IV, section 402 (Housing Trust Fund), subsection 3(C)(iii), new section "(C)" at line 20, after "sustainable homeownership and affordable rental programs," the following should be added:

> **"...which programs shall include 'manufactured homes,' as defined by section 603(6) of the National Manufactured Housing Construction and Safety Standards Act of 1974, purchased through both real estate and personal property loans and manufactured homes utilized as rental housing..."**

In addition, in Title IV, section 402 (Housing Trust Fund), subsection 3(C)(iii), new section "(D)(i)" at line 5, after "sustainable homeownership and affordable rental" the following should be added:

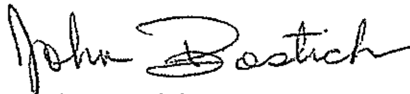
> **"...including manufactured homes purchased through both real estate and personal property loans and manufactured homes utilized as rental housing..."**

Section 402 of the current bill, establishes a new Housing Trust Fund designed to provide grants and loans (including the establishment of pilot programs) to support homeownership and affordable rental housing for lower and moderate income borrowers. Insofar as manufactured housing provides the nation's most affordable source of non-subsidized housing and homeownership – and is already recognized by federal law as "provid[ing] a significant resource for affordable homeownership and rental housing accessible to all Americans" (42 U.S.C. 5401(a)(2)) -- it should be included in the new affordable housing structures and programs created by any final mortgage reform legislation. The proposed language would make it clear that such programs and activities must also include all types of manufactured housing loans.

V. CONCLUSION

For all of the foregoing reasons, bases and justifications, MHARR asks that the foregoing language to ensure the full and equal participation of manufactured homes and manufactured homebuyers in the Housing Finance Reform and Taxpayer Protection Act of 2013 (S. 1217) be considered by the Committee on Banking, Housing and Urban Affairs during its deliberations regarding this legislation and included in S. 1217 at its mark-up.

Sincerely,



John Bostick
Chairman

Danny Ghorbani
President & CEO

Attachment A -- June 10, 2011 New GNMA Manufactured Home Loan MBS Program
Attachment B -- GNMA Justification For Other Than Full and Complete Competition

ATTACHMENT A

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-9000

June 10, 2010

APM 10-07

MEMORANDUM FOR: All Participants in Ginnie Mae Programs

FROM: Theodore W. Tozer, President

SUBJECT: New Ginnie Mae Title I Manufactured Home (MH) Loan MBS Program

Ginnie Mae is pleased to announce its plans for the implementation of a new mortgage-backed security ("MBS") program for manufactured home loans. The program has been created in response to recent changes in the Federal Housing Administration's ("FHA") Title I Program for manufactured housing, as communicated in Title I Letters TI-481 and TI-484,and in support of the Housing and Economic Recovery Act of 2008 ("HERA"). The program is designed not only to fulfill the needs of borrowers and lenders, but also to provide for prudent risk management. Eligible manufactured housing loans may only be pooled as Ginnie Mae II MBS, using the Manufactured Housing Custom Pool type ("C MH").

Effective immediately, Ginnie Mae will accept applications for participation as Issuers of MBS backed by new Title I manufactured home loans ("MH MBS"). Issuers that are currently approved to issue manufactured housing securities are required to re-apply in order to participate in the new program. The major change to the program will be that all approved Issuers will be required to maintain a minimum adjusted net worth of $10 million, as calculated in accordance with the HUD Audit Guide, plus 10% of the amount of MH MBS outstanding.

Ginnie Mae will provide full program guidance no later than September 1, 2010. The new MH MBS program will also feature the following:

- The program applies to pools backed by loan collateral for which the loan application date is June 1, 2009, and thereafter, in order to reflect the effective date of FHA's newly revised Title I program. Guidance for the new FHA Title I program can be found at the FHA Title I letters page. ***Loans originated with manufactured home loan application dates made prior to June 1, 2009, are ineligible for pooling within the C MH pool type, and will no longer be eligible for pooling within any Ginnie Mae securities beyond a September 1, 2010, issuance date;***

- Issuers must provide to Ginnie Mae, at pooling, an acceptable FHA loan application date, otherwise the loan will be rejected;

- The guarantee fee for MH MBS shall remain at 30 bps; however, the minimum pool origination balance will increase to $1mm;

- Title I loans are ineligible for pooling as multiple issuer pools (MIPs), and for immediate issuance transfer (PIIT) pools; and

- Issuers may only use Concurrent Date ("CD") accounting methods for the C MH pooling type.

If you have any questions regarding this memorandum, please contact your Ginnie Mae Account Executive in the Office of Mortgage-Backed Securities at (202) 708-1535.

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-8000

ASSISTANT SECRETARY FOR HOUSING-
FEDERAL HOUSING COMMISSIONER

TI-484

MEMORANDUM FOR: ALL TITLE I LENDING INSTITUTIONS
Attention: Installment Loan Department

SUBJECT: Title I Manufactured Home Loan Program
Clarification and Guidance

This Title I Letter (TI-484) provides clarification and/or technical amendment of certain provisions in Title I Letter 481 (TI-481) entitled "Changes to the Title I Manufactured Home Loan Program", and its appendices, dated April 14, 2009 which implemented the revisions of FHA's Title I Manufactured Home Loan Program of the Federal Housing Administration (FHA), that were made by the Manufactured Housing Loan Modernization Act of 2008, §§2141-2150 of the Housing and Economic Recovery Act (HERA) of 2008. TI-481 implemented changes made by HERA, but does not constitute the complete governance of the Manufactured Home Program. FHA's regulations in 24 CFR Part 201, remain applicable, except as they have been changed by TI-481, TI-482, and this Title I letter.

The following clarifications and technical amendments to the Title I Manufactured Home Loan Program are based on FHA's experience during the one year that has passed since the new changes were put in place by TI-481. The clarifications and technical amendments are as follows:

INCONTESTABILITY OF INSURANCE

TI-481 stated that the HERA amendment eliminated the 2-year incontestability provision found in paragraph 2(g) of the NHA, which provides that any Title I claim payment shall be incontestable after two years from the date the claim was certified for payment by the Secretary. That statement in TI-481 was partially incorrect. The HERA amendment provides that insurance coverage shall be incontestable from endorsement for insurance except for fraud or misrepresentation on the part of the claimant in the origination of the loan The 2 year time period to recover claim payments based upon violations of the claim submission requirements is retained. This correction is reflected in the changes to Appendix 9 provided below.

Section 9-9A of Appendix 9, Denial of Insurance Claim - Policy, is revised in its entirety by this Title I letter as follows to clarify the applicability of the incontestability of insurance clause:

A. Policy

1. Incontestability

Effective for loan applications dated on or after June 1, 2009, when FHA endorses a loan for insurance, the loan is covered under the lender's contract of insurance. The insurance coverage for the loan is incontestable from the date of issuance of the certificate of insurance except for fraud or misrepresentation on the part of the claimant in the origination.

2. Compliance with Claim Requirements

FHA may deny a claim, or within two years after paying a claim, recover the claim payment based upon a violation of FHA's requirements for claim submission unless a waiver is granted. For example, if the note representing the borrower's obligation that is assigned to FHA is invalid or unenforceable, or if the lender making the claim does not follow the FHA claim requirements under the insurance contract, FHA may deny payment of the claim. See Section 9-12 of Appendix 9.

Note: The June 1, 2009 date provided above was selected by FHA because it reflects the date on which FHA systems necessary for the implementation of these changes were in place.

Section 9-12 of Appendix 9, Demand for Repurchase of a Claim, is revised in its entirety by this Title I letter to read as follows to clarify when demand for repurchase of a claim may be made by FHA.

Although the contract of insurance is incontestable (absent fraud or misrepresentation) as explained in section 9-9, FHA may nevertheless demand that the lender repurchase a loan when the note on the loan for which the claim is made is invalid or unenforceable. The lender is required to assign to FHA a valid and enforceable note. Usually FHA does not discover that a note is not valid or enforceable until the borrower raises defenses or issues when FHA attempts to collect the unpaid balance of the loan from the borrower. Pursuant to §2(g) of the NHA, FHA has two years from the date the claim is paid to demand a repurchase for violation of FHA's claim submission requirements (except in the case of fraud or misrepresentation on the part of the claimant in the origination or with respect to the claims process, in which case there is no time limit). Consistent with existing practice, when a loan is repurchased, FHA will return the claim file to the lender.

Section 9-6 of Appendix 9, Claim Submission, is revised in this Title I letter to insert the following section.

Section 9-6 F, Documents no Longer a Basis for Denial of Claim Payment. For loan applications dated on or after June 1, 2009, since an underwriting review is performed prior to loan insurance, the following documents submitted with the form HUD-637 will no longer be a basis for denial of claim payment:

Form HUD-637

Section A

- Truth-in-Lending Disclosure
- Mortgage, Deed of Trust, Other Security Instrument with Original Recorded Assignment to USA
- Credit Application
- Consumer Credit Report
- Verification of Employment and Income
- Verification of Self-Employment Income

Section C

- Verification of Deposit of Down Payment
- Calculation of Debt-to-Income Ratios
- Purchase Agreement
- Manufacturer's Invoice and FHA Supplement
- Invoices for Delivery and Set-up
- Invoices for Appraisals for Appurtenances
- Value Determination on Trade-In
- HUD-Approved Appraisal of Existing Home and/or Lot
- Advance Notice of Disbursement to Dealer or Seller
- Manufacturer Warranty on New Home
- Placement Certificate
- Evidence of Ownership or Leasehold for Individual Homesite
- Certification of Park or Individual Homesite Approval

Section 9-10 E, Error on the Appraisal. This heading is revised by this Title I letter to read as follows:

> E. Error on the Appraisal Obtained in Connection with the Repossession of the Manufactured Home.

WRITTEN VERIFICATION DOCUMENTS

Section 4-1 B of Appendix 4, Documentation. This Title I letter clarifies the current language in Section 4-1B of Appendix 4 indicating that lenders may not accept or use written verification documents related to credit, employment or income that have been handled by or through interested parties, to include the borrower, the dealer and/or its agents. The written verification documents referred to in this section are lender generated direct verification documents, which are used to verify and supplement documentation submitted by the borrower at application. These verifications are to be sent directly from the lender to the requested responder to obtain independent, written verification of employment, income, rent, or financial accounts. These

verification documents must be sent directly from the lender to the responder and be returned from the responder directly to the lender, without going through interested parties.

VERIFICATION OF EMPLOYMENT AND INCOME

Section 4-4 A of Appendix 4, Verification Requirements. This Title I letter clarifies the requirement in Section 4-4A of Appendix 4 that the lender must verify and document the borrower's employment and income history for the past two years and determine the likelihood of continued employment. If the lender, using sound and reasonable judgment, determines that the borrower's history warrants additional verification to determine the likelihood of continued employment, the lender must contact the employer to receive a statement addressing this topic. The lender may send a written verification form that requests this information, or it may choose to verify this verbally. All verbal verifications must be properly documented and submitted with the pre-closing, pre-endorsement, and claim packages.

FLOOD INSURANCE

Section 5-5 B of Appendix 5, Flood Insurance. This Title I letter amends Section 5-5B of Appendix 5 to provide a fuller description of the policy that was already in place prior to the issuance of TI-481, and remains unchanged by TI-481.

If a borrower does not maintain flood insurance when required by FHA regulation, 24 CFR 201.28, the lender should force-place the insurance and may pass on the expense to the borrower. However, the cost of such insurance may not be included in the calculation of HUD's claim payment.

When a lender obtains title to a home through repossession, the lender may obtain and maintain flood insurance if the property is or will be located in a special flood hazard area identified by the Federal Emergency Management Agency (FEMA) until the sale or disposition of the home. The amount of the insurance may be no less than the unpaid balance due on the Title I loan, or not less than the actual value of the home where State law precludes a higher amount. The cost of such insurance may be included in the calculation of HUD's claim payment.

If the lender fails to obtain such flood insurance and an uninsured home is damaged, HUD will adjust its claim payment. When a manufactured home is without flood insurance and has sustained, at any time prior to the sale or disposition of the home, damage that would normally be covered by such insurance, the appraised value for claim calculation purposes will be based on the retail value of comparable homes in undamaged condition without any deduction for such damage.

REFINANCING PRE-PROGRAM REVISION LOANS

Section 11-3 of Appendix 11 overlooked the requirement for all refinanced manufactured home loans to be subject to the new provisions of the Title I Manufactured Home Loan Program, as revised under HERA. This Title I letter corrects that omission as set forth below.

Section 11-3 E of Appendix 11, Refinancing Pre-program Revision Loans, is rescinded by this Title I letter in its entirety. The FHA Manufactured Housing Loan Modernization Act of

2008 requires all newly refinanced manufactured housing loans to be subject to all provisions and guidelines of the Act. Therefore, manufactured housing loans originated under the original Title I portfolio loan insurance program prior to HERA, may be refinanced, but will be subject to all provisions and guidelines as specified under the Manufactured Housing Loan Modernization Act of 2008.

Section 11-3 F of Appendix 11, <u>Refinancing Pre-program Revision Loans to Revised Program Loan.</u> This Title I letter amends Section 11-3F of Appendix 11 as follows:

A portfolio loan product may not be refinanced under streamline refinance guidelines, but may be refinanced under the new program, subject to all of the provisions and guidelines as revised under the Manufactured Housing Loan Modernization Act of 2008.

Portfolio loans that are refinanced to a new loan under the revised program will be removed from the lender's portfolio insurance reserve account and will be individually insured, subject to the upfront insurance premium and the annual premium as specified in Appendix 7.

<u>REFINANCE</u>

Section 11-1 B of Appendix 11, <u>Conventional Refinance,</u> specifies the conditions under which a conventional loan may be refinanced to a Title I loan. This Title I letter amends section 11-1 B to clarify the conditions as follows:

- The original loan must not be in default.
- A new appraisal is required to determine the eligible loan amount.
- The new loan must retain the original borrowers.
- The new loan is subject to all provisions and guidelines as specified under the Manufactured Housing Loan Modernization Act of 2008.

Section 11-2 A of Appendix 11, <u>Streamline Refinance</u>. This Title I letter amends Section 11-2A of Appendix 11 to reflect that all new manufactured home loans are subject to the new provisions of the Title I Manufactured Home Loan Program, as revised under HERA.

The total principal amount for a loan made to refinance an existing Title I insured manufactured home loan, lot loan, or combination loan may not exceed the cost of prepaying the existing loan, plus the addition of the upfront insurance premium. This option is only available for loans originated under the provisions and guidelines of the Manufactured Housing Loan Modernization Act of 2008, and is not permitted for loans originated under the portfolio loan program.

Section 11-2 B of Appendix 11, <u>Refinance to Add a Lot.</u> This Title I letter amends Section 11-2C of Appendix 11 to clarify the basis for determining the loan amount as follows:

The maximum combination loan amount is the cost of prepaying the existing loan on the manufactured home, plus the lesser of the purchase price or the appraised value of the lot as determined by a HUD-approved appraisal. The cost of the upfront premium charge may be added

to the loan.

COMBINATION LOANS Section 10-3 D of Appendix 10 was inadvertently omitted from TI-481.

Section 10-3, D of Appendix 10, Disbursement Condition. This Title I letter revises Section 10-3D of Appendix 10 in its entirety to read as follows:

The Title I program requires a combination loan to be closed as a single transaction. This can mean that funds are advanced to purchase the lot, but the manufactured home may not be able to be placed on the lot for up to several months after closing. When this occurs, the upfront insurance premium due must be paid within 10 days of the final loan disbursement for the manufactured home unit and the loan file must be submitted for endorsement within 30 days of this same disbursement date. The lender may not charge the borrower interim interest on the money advanced to pay for the lot.

APPRAISALS ON COMBINATION LOANS WITH EXISTING HOMES

Section 10-5 of Appendix 10, Appraisals. This Title I letter amends Section10-5 of Appendix 10 to clarify the type of appraisals required, as follows:

If the loan will include an existing manufactured home that is considered personal property, the lender must obtain a personal property appraisal in addition to a real estate appraisal for the land. If the existing home has been placed on a permanent foundation and is now classified as real estate, the lender shall obtain a single appraisal from an FHA Title II Roster appraiser, who must certify to prior experience appraising manufactured homes as real property.

PAYMENTS ON THE LOAN

Section 2-5 B of Appendix 2, Payments on the Loan, provides for equal installment payments on the loan which are due monthly. This Title I letter clarifies that the lender is permitted to increase the first and last payment of the loan, but not by more than 1.5 times the amount of the regular monthly installment payment, as per 24 CFR 201.14 .

LOAN DEFAULT AND LOSS MITIGATION

Section 8-5 B (2) of Appendix 8 Modification Agreement.

In addition to all requirements stated for loan modifications, this Title I letter clarifies the current policy to permit the first and last payment under a modification agreement to be higher than the modified regular installment payment, but not by more than 1.5 times the amount of the modified regular installment payment, consistent with 24 CFR 201.14.

ATTACHMENT B

Justification for Other Than Full and Open Competition

U.S. Department of Housing
and Urban Development
Office of the Chief Procurement Officer

PART 1 - PROGRAM OFFICE RECOMMENDATION

I recommend the use of other than full and open competition for the acquisition of [*describe services or supplies*]
Ginnie Mae Manufactured Housing Master Subservicer

Negotiations should be conducted with the following source(s) only [*provide names, addresses and points of contact; continue on separate sheets as needed*]:
Vanderbilt Mortgage and Finance, Inc.

The estimated cost of this acquisition is: **$1,313,549.16M**

The statutory exception which allows this use of other than full and open competition is [*select one*]:

- [x] Only one responsible source and no other supplies or services will satisfy agency requirements - 41 USC 253 (c)(1) (see FAR 6.302-1)
- [ ] Unusual and compelling urgency - 41 USC 253 (c)(2) (see FAR 6.302-2)
- [ ] Industrial mobilization; engineering, developmental or research capability; or expert services - 41 USC 253 (c)(3) (see FAR 6.302-3)
- [ ] Authorized or required by statute - 41 USC 253 (c)(5) (see FAR 6.302-5)
- [ ] Public interest (*NOTE: requires Secretarial approval and Congressional Notification*) - 41 USC 253 (c)(7) (see FAR 6.302-7)
- [ ] A description of the circumstances that support the use of the above statutory authority is attached and included as Exhibit 1 to this justification.

Program Office Certification. I certify that the information contained in this justification is accurate and complete to the best my knowledge and belief.

Head of Program Office [*name*]	Title/Name of Office:	
MICHAEL R. DRAYNE	SVP, Office of Issuer & Portfolio Management	
Signature: [signature]	Date: 04.23.2013	For additional information contact: Erica Johnson (202) 475-7841

PART 2 - CONTRACTING OFFICER REVIEW AND CERTIFICATION

Provide additional justification and comments here. Continue on back as needed.

Contracting Officer Certification.

I certify that the information contained in this justification is accurate and complete to the best of my knowledge and belief

Name:	Signature:	Date:
CLAUDIA WOMBLE	Claudia Womble	April 24, 2013

PART 3 - OTHER APPROVALS

Up to $650,000 - Contracting Officer

Name	Title
Signature	Date

$650,000 to $12,500,000 - Competition Advocate

Name Lisa D Maguire	Title ACPO, Policy, Systems & Risk Management
Signature Lisa D. Maguire	Date 4/25/13

$12,500,000 to $62,500,000 - Head of the Contracting Activity

Name	Title
Signature	Date

Over $62,500,000 - Senior Procurement Executive

Name	Title
Signature	Date

Additional Contracting Officer justification/comments from front [*attach additional pages if needed*]

Additional Guidance for Completing the Justification
(see HUD Handbook 2210.3, Chapter 4)

PART 1 - Program Office Recommendation

The supporting documentation in the Exhibit 1 must describe:

- The nature of the proposed acquisition that requires other than full and open competition;
- The unique qualifications of any proposed sole source; and
- The market research conducted (see FAR Part 10) and the results or the reason(s) why market research was not conducted.

The cost estimate must include all costs of the proposed acquisition, e.g., options, systems life costs, etc. The total will determine the approval level needed (see 3 below).

FAR Subpart 6.3 describes the statutory exceptions, their applicability and limitations on their use.

"Head of the Program Office" means:

- For all Headquarters acquisitions: the cognizant Assistant Secretary or designee.
- For field acquisitions: the program office director (e.g., Director, Multifamily Housing) within the State or Area Office.

PART 2 - Contracting Officer Review and Certification

Besides any information provided to support the program office's justification, the Contracting Officer shall provide:

- Documented results of any Commerce Business Daily notices or explanation of why no notice was published.
- A statement of actions the Department may take to remove barriers to competition for subsequent acquisitions of similar services / supplies; and
- A determination that the anticipated cost / price is fair and reasonable. (See FAR Subpart 6.3 for further guidance.)

The Contracting Officer signing the certification shall be the same individual who will sign the proposed acquisition action which is the subject of this justification.

PART 3 - Other Approvals

The Contracting Officer shall obtain the approval for the dollar value ranges indicated.

If any person required to sign in these blocks disapproves this justification, he/she shall return it to the requesting activity with a written determination.

The requesting activity may obtain the name of the "Contracting Activity Competition Advocate" from the cognizant contracting office.

The "Head of Contracting Activity" is defined at Subpart 2402.1 of the HUD Acquisition Regulation (48 CFR Chapter 24). The cognizant contracting office may also provide the name of this individual.

JUSTIFICATION FOR OTHER THAN FULL AND OPEN COMPETITION

1. **Requiring Activity:** Government National Mortgage Association
   Contracting Activity: Office of the Chief Procurement Officer/HHQ
   Requisition Number: RCS-T-13-00015
   Contract Number: TBD

2. **Nature and/or description of the action being approved:**

The Government National Mortgage Association (Ginnie Mae) hereby requests a sole source contract with Vanderbilt Mortgage and Finance, Inc. The current contract expires on April 30, 2013. This requirement requires a contractor to be a Ginnie Mae issuer and an approved Title I mortgagee in good standing. "Good standing" is referenced in the Ginnie Mae 5500.3, Revision 1, Chapter 2, dated 10/01/11, as it references the dual application as an approved FHA mortgagee.

The existing contract C-OPC-23151 is administered under the Old Title I program. Today, there are new laws and regulations governing the Title I program.

The Government National Mortgage Association (Ginnie Mae) requires a contract that will provide continued services that include but are not limited to the following: servicing current, delinquent and defaulted loans, both pooled and non-pooled including enforcement and foreclosure/repossession or replevin (repossession) services, management and disposition of acquired properties, preparation and submission of insurance claims to FHA and VA reports to Ginnie Mae.

3. **Description of supplies or services required to meet Ginnie Mae's needs:**

Holders of the Mortgage Backed Security (MBS) receive a monthly "pass-through" of principal and interest payments on the pool of mortgages backing the securities, less amounts to cover servicing costs and certain Ginnie Mae fees. Ginnie Mae guarantees the registered holder the timely payment of scheduled monthly principal and interest payments, loan prepayments and early recoveries of principal on the underlying mortgages. If borrowers fail to make timely payments on their mortgages, the Issuers must make the timely payments to the registered holders, using their own resources.

Through its MBS programs, Ginnie Mae provides structures for channeling funds from the nation's capital markets into the housing market. The U.S. Government's full faith and credit guaranty backing the securities makes them widely accepted in those sectors of the capital markets that otherwise would not be likely to supply funds to the primary mortgage market. Funds received through the sale of the securities are then used to make additional residential and other mortgage loans. Through this process, the program serves to increase the overall supply of credit available for housing and helps to ensure that credit is available at reasonable interest rates.

Since 1986 Ginnie Mae has defaulted manufactured housing issuers and by so doing assumed the issuer responsibility for over 2.2 billion in mortgage/installment loan contracts (loans). Responding to the need to partner with a contractor who will service the mortgage/installment

loans, Ginnie Mae awarded its first contract to Ofori and Associates (Ofori), an 8(a) contractor on October 1, 2005. The contract (C-NYC-00900) was awarded for a base period of 15 months. The original contract was valued at an aggregate amount of $ 2,776,748.00. There were three extensions totaling seven months increasing the total aggregate amount of the contract to $4,172,877.40. The Ginnie Mae held portfolios covered under this first awarded contract consisted of 4,835 loans totaling approximately $60.6 million.

In August, 2007, Ginnie Mae awarded a second contract to 8(a) contractor, Ofori, for a base of 36 months and two 12 month option periods (C-OPC-23151). Ginnie Mae held portfolios covered under this second awarded contract consisted of 3,660 loans totaling approximately $54.0 million.

The existing contract was awarded as a result of a competitive 8(a) acquisition under FAR Part 19.805 Competitive 8(a). The contract was valued at an aggregate amount of $11,434,190.12. As of April 2013 there are 192 loans left to be serviced. The contract ended in July 2012 and was extended under a sole source authority for nine months in order to allow time for market research to be conducted in order to identify a new 8(a) contractor, and also allow time for a re-compete process for the award of a new contract. The extension expires April 30, 2013.

4. Identification of the statutory authority permitting other than full and open Competition:

This action is taken under the authority 41 USC 253 (c) (2), FAR 6.302-1) – Only one responsible source and no other supplies or services will satisfy agency requirement. Issuers had to meet and maintain a minimum adjusted net worth valuation of $10 million plus 10 percent of each of the following: a) 10 percent of the dollar amount of all Manufactured Housing MBS outstanding, b) 10 percent of the outstanding balance of the Issuer's Commitment line balance, and c) 10 percent of the outstanding balance of all pools funded by the Issuer.

Securities Based On	Net Worth Requirements
Single Family	$2,500,000 plus .2% of RPB plus the amount of available commitment authority
Manufactured Housing (MH)	$10,000,000 plus 10% of the Issuer's total effective outstanding obligations

5. A demonstration that the proposed contractor's unique qualifications or the nature of the acquisition requires use of the authority cited.

The existing contract C-OPC-23151 is administered under the Old Title I program and these loans must continue to be serviced under the Old Title I program. Today, there are new laws and regulations governing the Title I program.

The Old Title I program was retired as of April 2009 by FHA and a new program was announced at that time. Ginnie Mae announced its support for the new program as of October 2010 with an updated set of requirements for issuers. All previous Title I Manufactured Housing issuers needed to re-apply to operate under the new program.

JUSTIFICATION FOR OTHER THAN FULL AND OPEN COMPETITION

Based on recent market research in accordance with FAR 10.002(2) (i), the program office has identified one responsible source, who is still doing business under the old Title I Mortgage Program, Vanderbilt Mortgage and Finance Inc. Vanderbilt is the only GNMA issuer who re-applied and is currently active in the Manufactured Housing program.

6. A description of the efforts made to ensure that offers are solicited from as many potential sources as practicable, including whether a FEDBIZOPPS notice was or will be published as required by FAR 5.2, and, if not, which exception under 5.202 applies.

The Contracting Officer will publicize a notice in FedBizOps stating that HUD will award a sole source contract for a period of three years (one year base period with two (1) one-year option periods) to Vanderbilt Mortgage and Finance, Inc., under the authority of U.S.C. 2304(c) (1). As implemented by FAR 6.302-1, only one responsible source and no other supplies or services will satisfy agency requirements. Based on market research, in that, Vanderbilt is the only available source under the Old Title I program available to service the remaining loans and there is no industry interest to acquire an "Old" Issuer certification, this JOFOC is for multiple years to meet the bona fide need of the Government.

There are 192 loans to be serviced on this 3 year contract request. In past years, Ginnie Mae has been able to accomplish for 2011, 368 performing loans and 142 non-performing loans and for 2012, 178 performing loans and 88 non-performing loans (a rough average of110 to 200 performing loans and 30 to 100 non-performing loans per year). A loan amortizes over a pre-determined timeframe (not within Ginnie Mae's control). Borrowers pay off their loans during this timeframe and have the right to make payments throughout that timeframe to completely payoff the loan. Sometimes loans payoff early if a house is sold or someone comes into money or if they decide to refinance their loan. Ginnie Mae and HUD have no control over any of these factors.
It is important to note that just because a loan pays off and the loans in the portfolio are paid off does not mean there are not outstanding loans being worked through FedDebt at Treasury. This product requires the loan balance be referred to Treasury for wage garnishment. This process is handled by the contractor as well as dealing with any of those loans tied to borrowers who file bankruptcy. So even after the last loan is paid in full, there could be work needing to be performed as it relates to non-performing loans.

The remaining 192 loans under this program are the last ones to be serviced. There will not be a requirement for these services once these 192 are completed and therefore, there will not be a follow-on requirement.

7. The Contracting Officer has determined that the anticipated cost to the Government will be fair and reasonable.

The Contracting Officer will determine that the anticipated cost to the Government is fair and reasonable. The Government will compare the prices submitted for this contract to the existing contract action and to the Independent Government Cost Estimate to determine the proposed cost

to be fair and reasonable. The cost to continue this effort is estimated to cost $437,849.72 for the base period and $437,849.72 for the subsequent option periods which totals $1,313,549.16 . The estimate for the subsequent option periods does not decrease as the Government is unable to determine the pace of the loans remaining in the Ginnie Mae portfolio. As previously stated, borrowers pay off their loans during this timeframe and have the right to make payments throughout that timeframe to completely payoff the loan. Sometimes loans payoff early if a house is sold or someone comes into money or if they decide to refinance their loan. Ginnie Mae and HUD have no control over any of these factors. The contract type will be a hybrid type contract with firm fixed price and cost-reimbursement line items.

The Government's estimated cost for this sole source requirement for a three year period is estimated to be $1,313,549.16 for a base period and two one year options. Funding for the base period has been reserved in the amount of $437,849.72.

Periods	Yearly Cost
Base Period	$437,849.72
Option Period I	$437,849.72
Option Period II	$437,849.72
TOTAL	$1,313,549.16

8. A description of the market research conducted (see FAR Part 10) and the results or a statement of the reason market research was not conducted:

Pursuant to FAR Parts 10 and 12, comprehensive market research was conducted during the acquisition planning stage for another 8(a) vendor that could provide the service and although four vendors did provide interest, none of the vendors could meet the requirement of a Ginnie Mae approved issuer and FHA Title I Mortgagee. The Small Business Administration (SBA) has approved removal of this requirement from the 8(a) business development program .

A RFI was issued on February 15, 2012, seeking 8(a) firms who could fulfill the requirement. The RFI instructed all interested firms to provide their capabilities statements. As a result of concerns from 8(a) contractors that the net worth requirement to become a Ginnie Mae issuer was unrealistic for a small business, the RFI was later amended to waive the minimum net worth and liquidity requirements for being a Ginnie Mae issuer per the Ginnie Mae Guide. In addition, the interested parties were informed that there was a requirement to be an approved Ginnie Mae Single Family Issuer, as well as an approved FHA Title I mortgagee in good standing. The RFI yielded four responses from 8(a) contractors. None of the four respondents met the requirements of a Ginnie Mae Single Family Issuer or FHA Title I Mortgagee.

Additionally, the review of all firms on an unrestricted basis was considered as part of market research with the Government's review of eligible firms under the Old and New Title I program available to service the remaining loans. A review of the certified vendors under the Old and New Title I program was conducted of the size standard ($7M) of the appropriate NAIC code and no other vendor met the bona fide need of certification under the Old and New Title I program.

9. Any other facts supporting the use of other full and open competition:

This requirement will be terminated in the near future. The scope of the work for this proposed sole source requirement will change as it will contain no additional portfolios and the current portfolio is a run-off. This means that as loans are paid off, the portfolio will shrink. There will be no additional portfolios issued to an awardee after this contract award. Currently, the services to be obtained under the proposed contract are being provided under HUD contract C-OPC-23151, Ofori & Associates. When the contract was awarded, there were 3,660 loans to service in the portfolio. Presently, there are approximately 192 loans to service. As previously stated, loans are decreasing and will never reach the previous capacity. Therefore, new loans will not be acquired by this contractor as Vanderbilt will only service the loans in the existing portfolio which will decrease over time. For example, when the contract was awarded, there were 3,660 loans to service; while, today, there are approximately 192 loans to service. As the loans mature, they will no longer require servicing in this portfolio.

The portfolio consists of mortgage loans with amortization schedules to which borrowers have an obligation to pay-off according to the loan terms. However, borrowers can pay off the loan earlier than obligated or choose to not pay on the loan and enter into some level of default on their obligation. Depending on the borrower behavior would dictate the pace of which this defaulted loan portfolio would shrink. The last loan in the defaulted portfolio is slated for a payoff in 2015; however, there are still potential services required to be performed on Ginnie Mae's behalf. If a borrower is in some level of delinquency, the contractor works with them to either become current or refer them to Treasury for wage garnishment proceedings. These proceedings result in litigation with the court system to enter into agreements with borrowers.
In light of the complex nature of loan servicing, Ginnie Mae is not able to definitively determine when this service will end hence the request for an up to three year contract.

Ginnie Mae cannot sustain a disruption in service to the manufactured housing servicing contract which would be extremely disruptive to Ginnie Mae. The contractor performs all servicing functions tied to the defaulted manufactured housing portfolio. If a disruption in service were to occur, all elements related to servicing borrower(s)' mortgage loans would cease as it relates to the defaulted manufactured housing portfolio. This type of disruption will cause not only Ginnie Mae issue, but borrowers would be impacted. Example of disruptions would be untimely processing of mortgage payments, taxes and insurance not paid, and default management would cease.

10. A listing of the sources, if any, that expressed, in writing, an interest in the acquisition.

While HUD sought competitive offers for the required services, it has been unable to locate another source. Given the criticality of this requirement and the need to fulfill the requirement not later than April 30, 2013, HUD has determined to obtain the services via a separate non-competitive contract in accordance with FAR Part 6 as stated in this justification. Consequently, no other sources have expressed an interest, and there is not a listing of sources at this time. Due to the time criticality, the Contracting Officer will extend the current contract for a period not to

exceed ninety (90) days to allow negotiation with the only responsible source. This is a requirement to be permitted to perform the work under this contract.

11. A statement of the actions, if any, the agency may take to remove or overcome any barriers to competition before any subsequent acquisition for the services or supplies are required.

As stated previously, the current portfolio is shrinking and there will be no additional portfolio to issue to a new awardee after the proposed sole source contract.