Manufactured Housing Institute

August 31, 2020

Mr. Alfred M. Pollard
General Counsel
Federal Housing Finance Agency
Eighth Floor, 400 Seventh Street SW
Washington, DC 20219

Re: Enterprise Regulatory Capital Framework (12 CFR Part 1750/RIN 2590–AA95)
MHI Comments – The Importance of Duty to Serve

Dear Mr. Pollard,

The Manufactured Housing Institute (MHI) writes to submit comments in conjunction with FHFA's proposed capital rule for Fannie Mae and Freddie Mac (the "Enterprises"). The proposed rule would establish risk-based capital requirements that would govern the Enterprises at a time when FHFA is taking other steps to accelerate the process of recapitalizing the Enterprises, with a goal of having the Enterprises exit conservatorship. MHI believes that as the Enterprises increasingly act more like private entities, eventually operating outside of the supervision of FHFA as conservator, it is more important than ever that statutory responsibilities in the form of Duty to Serve and Housing Goals are adhered to and that FHFA holds the Enterprises accountable for their compliance with these responsibilities.

The nation continues to navigate an affordable housing shortage, exacerbated by the Coronavirus crisis. Ensuring that the Enterprises support the availability of financing for manufactured homes has never been more important. The current COVID-19 crisis illustrates both the challenges and opportunities related to the Enterprises' statutory Duty to Serve and Housing Goals responsibilities. MHI appreciates that the Coronavirus crisis has resulted in increased levels of defaults and loan losses for the Enterprises, and that the Enterprises and FHFA are struggling to address this impact through imposition of repricing of certain types of risks. At the same time, the uncertain economic climate that the Coronavirus crisis has created, with private sector lenders generally being more cautious, makes the Enterprises' role in access to mortgage credit all the more important.

Since manufactured housing is the most affordable source of single family homeownership in America, MHI believes that it is critically important that: (1) the Enterprises continue to press forward on their Duty to Serve Plans with respect to manufactured housing, and (2) FHFA hold the Enterprises strictly accountable for their performance relative to the promises made in their Duty to Serve Plans.

The Manufactured Housing Institute (MHI)

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 49 affiliated state organizations. In 2019, our industry produced nearly 95,000 homes, accounting for approximately 10 percent of new single-family home starts. These homes are produced by 32 U.S. corporations in 129 plants located across the country. MHI's members are responsible for close to 85 percent of the manufactured homes produced each year.

Manufactured housing is the largest form of unsubsidized affordable housing in the U.S. and the only type of housing built to a federal construction and safety standard. It is also the only type of housing that Congress recognizes as playing a vital role in meeting America's housing needs as a significant source for affordable homeownership accessible to all Americans. Today, 22 million people live in manufactured housing and the industry employs tens of thousands of Americans nationwide.

Duty to Serve

In 2008, the Housing and Economic Recovery Act of 2008 (HERA) established a statutory Duty to Serve requirement for Fannie Mae and Freddie Mac. The statute requires Fannie Mae and Freddie Mac to serve three specified underserved markets – manufactured housing, affordable housing preservation, and rural markets – in order to increase the liquidity of mortgage investments in those areas and facilitate access to mortgage credit for low-, very-low, and moderate-income families in these market areas. With respect to manufactured housing, the statute and rule required the Enterprises to consider chattel manufactured home loans, as well as real estate manufactured home loans.

On December 13, 2016, FHFA issued its Duty to Serve Underserved Markets final rule. Under the final rule each Enterprise must prepare an Underserved Markets Plan describing the specific activities and objectives it will take in each period over a 3-year period. In December 2018, Fannie Mae and Freddie Mac each submitted their Underserved Markets Plan (Plans), which were approved by FHFA. FHFA is responsible for evaluating the Enterprises' performance in relation to their Plans, using four statutory evaluation areas: (1) Outreach to qualified loan sellers and other market participants, (2) Loan Products, (3) Loan Purchases, and (4) Investments and Grants.

In the short run, in light of the impact of COVID-19 on the economy, MHI believes the importance of the Enterprises carrying out their charter access to credit and statutory Duty to Serve manufactured housing responsibilities should be a priority. Therefore, FHFA evaluation and scrutiny of their performance in relation to their Duty to Serve Plans are critically important.

In the longer term, as Fannie Mae and Freddie Mac move towards eventual exit from conservatorship, there will be incentives for them to increasingly focus on profits as private entities. It was precisely the concern that the relatively smaller loan volume of important areas like manufactured housing could lead to the Enterprises ignoring such important areas that led to the adoption of Duty to Serve. Therefore, as the Enterprises move toward ending the conservatorship, adherence to Duty to Serve responsibilities will become increasingly critical.

Chattel Manufactured Home Loan Duty to Serve Plans

The vast majority (77 percent) of manufactured homes are financed as chattel (where the mortgage is only on the home and not on the underlying land.) However, there is effectively virtually no secondary market for chattel loans. The Enterprises have not purchased any chattel loans since some 14 years ago. The volume of FHA Title I manufactured home chattel loans is miniscule and falling – only 526 Title I loans in 2018, which fell to 204 loans in 2019. There are numerous reasons for this: Title I rules are outdated, loan limits have not been updated in over a decade, and Ginnie Mae securitization requirements have effectively excluded most chattel loan originators.

Therefore, it is critical that the Enterprises follow through on their promises to begin the purchase of chattel loans, as laid out in their Duty to Serve Plans. Fannie Mae's Duty to Serve Plan, established in December 2018, was to "Purchase outright, participate in a debt structure, or guarantee 1,000 chattel loans (UPB of approximately $60 million" in each of calendar years 2019 and 2020.) To date, almost 2/3 of the way through the second of these two years, we are not aware of any chattel loans that Fannie Mae has purchased, participated in a debt structure, or guaranteed. Freddie Mac's Duty to Serve plan, also established in December 2018, was to purchase from 250 to 500 chattel loans in 2019 and 600 to 1,500 chattel loans in 2020. To date, almost 2/3 of the way through the second of these two years, we are not aware of any chattel loans that Freddie Mac has purchased.

We strongly urge FHFA to hold both Enterprises fully accountable for their performance in terms of chattel loan purchase targets in 2019 and 2020, including detailed, publicly available explanations for any failures to meet numerical targets and steps the Enterprises plan to take to improve their performance.

Real Estate Manufactured Home Loan Duty to Serve Plans

Fannie Mae's Duty to Serve Plan, established in December 2018, referred to a successor program to MH Select™, which would finance high quality loans, and which has been established under the new name MH Advantage®. The Plan laid out targets for purchase of these types of loans as follows:

- 2018: 100 to 250 loans,
- 2019: 250 to 500 loans, and
- 2020: 500 to 750 loans.

Freddie Mac's Duty to Serve Plan stated that in 2019 and 2020 it "will focus on increasing awareness of product features, research opportunities to improve collateral valuations, test new product features, leverage purchases to inform product design and conduct a product assessment to determine opportunities for new or updated product features to support the financing of manufactured homes." Freddie Mac has developed a counterpart to Fannie Mae's MH Advantage® – in the form of Freddie Mac's CHOICEHome®.

MHI appreciates that both Fannie Mae and Freddie Mac have taken action to launch these programs. However, there are steps that they can each take in the future to make these programs more accessible – including streamlining the programs and expanding outreach to lenders and appraisers to familiarize them with these programs. These are precisely the types of actions that the statute identifies as Duty to Serve responsibilities.

Conclusion

MHI appreciates the FHFA's efforts through Duty to Serve to ensure that the innovations of manufactured housing are available for more people seeking quality homeownership. As you work to establish risk-based capital requirements for the Enterprises, we urge you to also ensure that our nation's secondary mortgage market supports equal and open access to financing for manufactured home loans (secured by either personal or real property) by continuing to hold the Enterprises accountable for meeting their Duty to Serve targets.

Manufactured housing is critical to increasing the availability of affordable homeownership, and further involvement by the Enterprises in this market will not only strengthen homeownership opportunities, but also offer an alternative to consumers who are hurt by unaffordable rents or the shortage of adequate housing. We look forward to further engagement with the FHFA and the Enterprises and stand ready to help the Enterprises continue to increase their support for manufactured housing.

Sincerely,

Lesli Gooch

Lesli Gooch, Ph.D.
Chief Executive Officer