

Duty to Serve & Chattel Lending: Key Points

Main Message: The GSEs should create a vibrant secondary market for chattel loans. MHI's written comments provide a roadmap on how FHFA and the GSEs can safely and profitably purchase chattel loans.

Point 1: GSEs can't adequately meet Duty-to-Serve requirements by excluding chattel lending, which is a critical source of financing for close to 70% of the manufactured housing market.

Requiring the GSEs to purchase chattel loans as part of their statutory Duty to Serve is the single most important step the FHFA can take to improve access to mortgage credit for manufactured housing consumers.

Support for chattel lending will have the following benefits:

- Attract more lenders into the market, thereby increasing competition and options for borrowers.
- Reduce the pricing differential between site-built and chattel homes.
- Create refinancing opportunities for borrowers that do not currently exist.
- Improve standardization with the chattel loan market

Point 2: MHI's written comments provide a roadmap on how FHFA and the GSEs can safely and profitably purchase chattel loans.

- Risk Sharing Options – including lender recourse or private mortgage insurance (PMI)
- Chattel loans sited on owned land
- Low LTV loans
- For all these types of loans – the GSEs can adjust G-fees and LLPAs commensurate with increased risk compared to site-built homes.
- GSE chattel loans over 80% LTV can be done under the GSE charter
- – By either attracting Private Mortgage Insurance (PMI); Lender recourse, or risk-sharing
- Oversight of consumer protections can be built into the GSEs' reps/warrants and automated underwriting policies.

Things to consider that are of interest to FHFA:

- How can effective loss mitigation be done?
 - Chattel loan modification based on NPV?
 - Refinancing?
- What are the channels for the disposition of repossessed homes?
 - Through MH retail network?
- How do we know there would be investor demand?

Point 3: MHI supports robust consumer protections – both setting clear safe loan terms at origination, and for community residents.

- Underwriting standards and lending practices have improved dramatically since the early 2000s.
- Dodd Frank QM protections apply.
- For a chattel loan to receive DTS credit, MHI supports the following:
 - TILA, and ability to repay provisions.
 - Many RESPA protections – servicing, loss mitigation, etc.
- MHI supports key tenant protections in communities, such as
 - Long-term leases with adequate notice of rent increases.
 - Adequate notice when the community is being sold.
 - Tenant right to sell repossessed or evicted home in place
 - Ability to place signs advertising the sale of the home.

Point 4: The past is NOT prologued. The lack of Chattel performance data and/or Consecro experience is not a reason to not give Duty-to-Serve credit for chattel loans.

- Loan performance from the Consecro securities purchases a decade ago has nothing to do with current proposals for GSEs to buy quality chattel loans.
- Use of any data on loan performance from before 2008 is not appropriate – the mortgage world has changed significantly since then – better underwriting, Dodd-Frank rules like QM, etc.
- The failure of the GSEs to have recent chattel loan performance data should not be a reason for the GSEs not to purchase chattel loans.

Point 5: While the CFPB noted that there is a significant interest rate spread between site-built and manufactured housing, there are reasons for this:

- CFPB Estimates cost of chattel lending is up to 500 basis points higher than for site-built homes. Here’s how:

Description	Impact
Lack of Secondary Market	100-150 bps
Interest Rate Risk	150-200 bps
Servicing costs / limited or no risk-sharing.	150 bps.

Point 6: While some have proposed reforming titling laws rather than support chattel lending, experience suggests these changes could cause more harm than good and will likely not jump-start GSE participation.

- Despite the continuing contention that calling an un-affixed Home on leased land “real property” would result in increased availability of lower-cost, longer-term mortgage loan financing, proponents of this approach have provided no empirical evidence to support this claim; no lenders or investors have agreed with this contention.
- Under these proposals, the time of conversion to real property depends on completion of the physical “location” of the Home, but without documentation of the fact, creating legal uncertainty in every case – particularly when a borrower files for bankruptcy.
- The proposals would entail a significant period between closing and completion of the conversion process with attendant risks to lenders who would be unperfected during this time.
- Adding the costs of a real property closing is antithetical to providing affordable housing.
- Adding fifty-one (51) new methods of conveyance and encumbrance to the existing two hundred five (205) methods will complicate -- not simplify -- the law.
- Such changes will cloud title in manufactured housing communities.

Point 7: While blanket community lending is critically important, this segment does not suffer from adequate access to capital. MHI believes these efforts need to be incorporated into the GSE’s housing goals. This is a better mechanism to ensure that the GSEs do not merely purchase the “cream of the crop.”

- MHI does not support DTS credit for blanket community lending. There is adequate access to capital.
- Community loans only indirectly benefit low and moderate-income borrowers – compared to chattel loan purchases which directly benefit such borrowers
- Above all, DTS credit for community loans should not be used to justify not purchasing chattel loans
- Alternatively, blanket community lending should be included in the multifamily housing goals.
 - Will level the playing field with loans for apartment buildings
 - Could be structured to serve the low and moderate-income consumers particularly in rural and impoverished areas
- If FHFA goes forward with community lending counting towards DTS credit:
 - The size of the community should not matter. Large communities serve low and moderate-income families. Communities should have tenant protections as noted above.
 - FHFA should revisit its income calculations for communities – 1. Most communities serve populations with incomes below the median. The formula should be revised to provide extra credit.
 - The rule notes that “The methodology would compare the median income for the census tract in which the community is located with the median income for the entire metropolitan area in which the census tract is located” Problem – Many communities are in rural areas outside of MSAs.

- Underwriting guidelines need to be revisited to ensure GSEs do not purchase only the highest quality communities in favorable locations.

Point 8: MHI supports a robust underserved markets plan that 1. Brings parity to conventional MH purchases to SF purchases, 2. Provides underwriting flexibility to purchase energy-efficient homes, and 3. Eliminates G- Fee surcharges for manufactured homes when performance mirrors single-family homes.

- For manufactured housing titled as real estate:
 - Innovation: to incentivize the purchase of energy star homes (7-10% of production), the GSEs should have flexibility on debt to income ratios to account for lower utility costs.
 - Should manufactured housing loans perform as well as traditional single-family homes, the manufactured housing g fee surcharge should be eliminated.
 - According to a 2014 GAO report, only 7 percent of conventional manufactured home mortgages were sold to the Enterprises compared to 41 percent of conventional loans for site-built homes
 - The GSE's should purchase conventional manufactured home mortgages at a commensurate rate to single-family conventional mortgages.