



FANNIE MAE AND FREDDIE MAC SUPPORT  
FOR CHATTEL FINANCING OF  
MANUFACTURED HOMES  
REQUEST FOR INPUT

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Division of Housing Mission and Goals

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## Introduction

The Federal Housing Finance Agency (FHFA) is requesting public input on considerations that Fannie Mae and Freddie Mac (the Enterprises) should include in their determinations of whether to include manufactured homes chattel loans pilots in their Duty to Serve Underserved Markets Plans, and if so, how such pilots could be designed, taking into account policy and safety and soundness considerations.

## Background

FHFA oversees the Enterprises to ensure that they operate in a safe and sound manner and that they serve as a reliable source of liquidity for the housing finance market. Since 2008, FHFA has also served as conservator of the Enterprises. On December 13, 2016, FHFA published a final rule on its website to implement the Duty to Serve requirements of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (Safety and Soundness Act), as amended by the Housing and Economic Recovery Act of 2008.<sup>1</sup> The final rule was published in the Federal Register on December 29, 2016.<sup>2</sup> The Safety and Soundness Act, as amended, requires the Enterprises to serve three specified underserved markets – manufactured housing, affordable housing preservation, and rural housing – by increasing liquidity for mortgage investments and improving the distribution of investment capital available for residential financing for very low-, low-, and moderate-income families in those markets.

For the manufactured housing market, the final rule provides that, subject to FHFA approval, an Enterprise may propose a pilot to support financing of personal property, or “chattel,” loans on manufactured homes to help meet its Duty to Serve obligations. In 2015, nearly 18 million Americans lived in manufactured homes.<sup>3</sup> Eighty percent of new manufactured homes placed in 2015 were titled as chattel. Thirty four percent of these were located in manufactured housing communities, and 66 percent were located on privately-owned land.<sup>4</sup>

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<sup>1</sup> 12 U.S.C. 4565.

<sup>2</sup> 81 Fed. Reg. 96242 (Dec. 29, 2016).

<sup>3</sup> See U.S. Census Bureau/American FactFinder, “B25033: Total Population In Occupied Housing Unites by Tenure by Units in Structure,” *available at* [https://factfinder.census.gov/faces/tableservices/jsf/pages/productview.xhtml?pid=ACS\\_14\\_5YR\\_B25033&prodType=table](https://factfinder.census.gov/faces/tableservices/jsf/pages/productview.xhtml?pid=ACS_14_5YR_B25033&prodType=table). The estimate of 18 million comprises 12,265,038 households living in owner-occupied “mobile home[s]” and 5,368,027 households living in rental “mobile home[s].” See *id.*

<sup>4</sup> See U.S. Commerce Department, Census Bureau, “2015 - Manufactured Housing Survey Annual Data” (2016), *available at* <http://www.census.gov/data/tables/2015/econ/mhs/2015-annual-data.html>. The U.S. Census presents its manufactured home data in terms of homes being located in “communities” or in “private property.” See *id.*



## Fannie Mae and Freddie Mac Support for Chattel Financing of Manufactured Homes

The cost of purchasing a manufactured home is far below the cost of purchasing a site-built home. In 2015, the average sales price of a manufactured home was \$68,000 and the average cost per square foot was \$27.55.<sup>5</sup> In comparison, excluding the costs of land, the average sales price of a site-built home was \$276,284 in 2015 and the average cost per square foot was \$100.65.<sup>6</sup> This makes manufactured homes a source of affordable housing and manufactured home borrowers have significantly lower incomes, on average, than borrowers for site-built homes.<sup>7</sup>

In developing the final Duty to Serve rule, FHFA considered the potential for the Enterprises to support the manufactured homes chattel lending market with standardized loan products that include customary documentation and borrower protections. FHFA also considered the potential for the Enterprises to improve liquidity and access to credit in the manufactured housing market generally and for very low-, low-, and moderate-income households in particular,<sup>8</sup> noting that the percentage of new manufactured homes titled as chattel increased from 67 percent in 2009 to 80 percent in 2015.<sup>9</sup> Because the Enterprises do not currently support funding for manufactured home chattel loans and because efforts to expand the real estate-titled share of the manufactured housing market have faced difficulties,<sup>10</sup> FHFA added Enterprise support for chattel loan pilots as Regulatory Activities that would be considered for approval under the final rule.

The manufactured homes chattel lending market poses challenges and risks for the Enterprises. Historically, many manufactured home chattel loans have performed poorly, the collateral has generally depreciated, and many chattel loan origination and servicing practices have lacked important borrower protections. Moreover, the Enterprises have limited historical experience

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<sup>5</sup> See U.S. Commerce Department, Census Bureau, “2015 - Manufactured Housing Survey Annual Data” (2016), [available at http://www.census.gov/data/tables/2015/econ/mhs/2015-annual-data.html](http://www.census.gov/data/tables/2015/econ/mhs/2015-annual-data.html).

<sup>6</sup> See *id.*

<sup>7</sup> See Howard Banker & Robin LeBaron, “Fair Mortgage Collaborative, Toward a Sustainable and Responsible Expansion of Affordable Mortgages for Manufactured Homes,” 9 (Mar. 2013), [available at http://cfed.org/assets/pdfs/IM HOME Loan Data Collection Project Report.pdf](http://cfed.org/assets/pdfs/IM_HOME_Loan_Data_Collection_Project_Report.pdf); Foremost Insurance Group, 2012 Mobile Home Market Facts 2 (2012), [available at http://www.foremost.com/mobile-home-market-facts/2012-Market-Facts.pdf](http://www.foremost.com/mobile-home-market-facts/2012-Market-Facts.pdf).

<sup>8</sup> One indicator of limited liquidity in this market is that 62 percent of manufactured home loans reported under the Home Mortgage Disclosure Act for 2015 are held in portfolio by the lenders, as compared with 20 percent for site-built homes.

<sup>9</sup> See U.S. Commerce Department, Census Bureau, “Cost & Size Comparisons For New Manufactured Homes and New Single-Family Site-Built Homes” (2007-2015), [available at https://www.census.gov/data/tables/2015/econ/mhs/2015-annual-data.html](https://www.census.gov/data/tables/2015/econ/mhs/2015-annual-data.html).

<sup>10</sup> One factor inhibiting market change is that manufactured home dealers and lenders are not legally obligated to explain the titling of homes to buyers or its implications. See generally Ann M. Burkhart, Bringing Manufactured Housing into the Real Estate Finance System, 37 Pepp. L. Rev. 427, 443 (Mar. 2010), [available at http://digitalcommons.pepperdine.edu/cgi/viewcontent.cgi?article=1042&context=plr](http://digitalcommons.pepperdine.edu/cgi/viewcontent.cgi?article=1042&context=plr). Another factor is that state laws for converting the titles of manufactured homes from chattel to real property present challenges. For example, some states prohibit converting titles for manufactured homes located on leased land. See National Consumer Law Center, “Titling Homes as Real Property” (Oct. 2015), [available at https://www.nclc.org/images/pdf/manufactured\\_housing/titling-homes2.pdf](https://www.nclc.org/images/pdf/manufactured_housing/titling-homes2.pdf). See also Ann M. Burkhart, Bringing Manufactured Housing into the Real Estate Finance System, 37 Pepp. L. Rev. 427, 443-444 (Mar. 2010), [available at http://digitalcommons.pepperdine.edu/cgi/viewcontent.cgi?article=1042&context=plr](http://digitalcommons.pepperdine.edu/cgi/viewcontent.cgi?article=1042&context=plr)



purchasing manufactured home chattel loans, with no experience after the financial crisis and during conservatorship. In addition, reliable data about the terms, features, performance, and servicing of recent-vintage chattel loans is generally not publicly available. More complete discussions of the advantages and disadvantages of the Enterprises' initiating chattel loan pilots are included in the SUPPLEMENTARY INFORMATION section of FHFA's Duty to Serve proposed rule and final rule.<sup>11</sup>

## Request for Input

To assist in considering what might be an appropriate role for the Enterprises in the manufactured homes chattel loans market, FHFA requests input from interested parties on current manufactured homes chattel financing practices and on possible opportunities for the Enterprises — in a safe and sound manner — to improve chattel financing terms and conditions for very low-, low-, and moderate-income families through the Enterprises' purchases of chattel loans.

FHFA requests that public input be submitted to FHFA no later than February 17, 2017 to enable the Enterprises' to consider the input before their draft Underserved Markets Plans are due to FHFA on or about April 12, 2017. While the due date for this Request for Input will enable the input received to inform each Enterprise's decision on whether to pursue a chattel loans pilot, FHFA also expects the Enterprises to need time beyond the draft Underserved Markets Plan deadline to fully evaluate the public input received through this Request for Input and to inform the longer-term approaches the Enterprises might use in supporting financing needs in the manufactured housing market. Consequently, FHFA notes that there will be additional opportunities for interested parties to provide additional feedback to FHFA and the Enterprises about the Enterprises' support for manufactured housing along with all of their Duty to Serve obligations during 2017. This will include the opportunity to provide feedback on each Enterprise's Underserved Markets Plan.

FHFA specifically requests input from the public on features each Enterprise might consider or include in a potential chattel loans pilot. Interested parties may address any or all of the following subjects and questions, in addition to raising and addressing other issues related to the Enterprises pursuing a chattel loans pilot.

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<sup>11</sup> Duty to Serve Notice of proposed rulemaking, 80 Fed. Reg. 79182, 79187 (Dec. 18, 2015); Duty to Serve final rule, 81 Fed. Reg. 96242, 96250 (Dec. 29, 2016).



## Sources of Chattel Loan Financing

1. Describe the current sources of financing for chattel loans in the primary market (e.g., mortgage companies, federally insured depository institutions, manufactured housing community owners, specialized finance companies) and their relative market shares. Which entities are the 20 largest originators of chattel loans for chattel manufactured homes, and what is the approximate market share for each originator? Are there geographic or regional differences in funding sources? How is financing concentrated geographically?
2. Describe the current sources of financing for owner-occupied and for investor-owned chattel loans in the secondary market (e.g., hedge funds, individual private investors, real estate investment trusts) and their relative market shares. Which entities are the 20 largest holders of chattel loans secured by manufactured homes, and what is the approximate market share for each entity?
3. Do manufactured housing communities fund their community-financed chattel loans? If so, explain how such a funding process works and what secondary market or other funding sources are used.
4. What types of financing providers do not participate in the chattel market, and what is the appropriate role that the Enterprises could play in broadening that market? What risks should be considered in expanding into this market?
5. What role do manufactured home dealers and manufacturers currently have in financing purchases of manufactured homes? What disclosures are provided? How do interest rates and other terms and conditions compare to non-dealer financing?

## Origination of Chattel Loans

6. Describe currently available home purchase and refinance chattel loan products, including their terms and features, e.g., amortization, credit score requirements, down payment requirements, fixed or variable rate interest. Describe the underwriting criteria for home purchase and refinance chattel loan products. Include the performance history of these products, noting any differences based on whether the home is located in a manufactured housing community or on privately-owned land.
7. Should the Enterprises value chattel-financed homes using an appraisal, the manufacturer's invoice plus cost of appurtenances (e.g., garage, patio, and set-up), the National Appraisal System facilitated by the National Automobile Dealers Association guide data, or other methods? What items should be included in the valuation (e.g., transportation of the home to the site, set-up costs, utility connections)?



8. Is there an industry standard used to value a used chattel-financed home, and should resales of chattel-financed homes be excluded from a chattel loans pilot?
9. Should a chattel loans pilot allow for the refinancing of existing chattel-financed homes and, if so, how should the Enterprises value these chattel-financed homes?
10. Describe current chattel loan and collateral documentation and variations, and discuss challenges to standardizing loan and collateral documentation.
11. Are there typical warranties or other add-ons (e.g., insurance) provided by dealers that increase the purchase price of chattel-financed homes? If so, please describe the terms, conditions, and benefits of these add-ons and the typical costs to borrowers.
12. Under what circumstances, if any, should housing counseling be required as a condition for receiving a chattel loan to be purchased by an Enterprise, and if so, where and how should the counselors be trained?

### **Borrower and Tenant Protections**

13. What protections for chattel loan borrowers should be required beyond those currently provided by federal, state, and local law, and how should those protections be overseen?
14. What tenant protections are appropriate and workable for chattel loans when the home is located in a manufactured housing community as compared to when it is located on privately-owned land?

### **Credit Enhancements, Standardization, and Risk Sharing**

15. What third party credit enhancements (e.g., letters of credit) might be available for chattel loans or securities backed by chattel loans? Which entities are the potential providers of these credit enhancements, and what are the appropriate terms, conditions, and pricing of the credit enhancements?
16. In designing chattel loans pilots, how might the Enterprises incorporate lender recourse or sharing credit risk with private investors?
17. What changes in data collection and reporting and what other efforts at standardization are needed across the manufactured housing industry to increase the marketability of manufactured home chattel loans and to enhance consumer capacity to resell used manufactured homes?



## Chattel Loan Servicing

18. Describe the current practices for chattel loan loss mitigation, including any roles played by manufactured housing communities and any regional variations in mitigation practices.
19. What efforts at chattel loan loss mitigation (e.g., short sale, deed-in-lieu, and modification) should be required in a chattel loans pilot, and how might these requirements affect the pricing of the loans and the interest of investors in purchasing securities backed by the loans?
20. What are the current practices for disposition of repossessed chattel-financed homes? What are the available channels for resale, and what are typical recovery rates for each channel as a percentage of the unpaid principal balance on the chattel loan?
21. What are the servicing practices if the owner of a chattel home fails to pay ground rents for the underlying real estate but is current on the note payment for the home?

## Data Sources

22. Please specify any sources of data for the following:
  - a. Differentiating the land ownership for manufactured homes on privately-owned land as between land owned by the borrower, a relative of a borrower, or a third party;
  - b. Describing chattel loan borrower credit and income characteristics (beyond Home Mortgage Disclosure Act data), including trended borrower data;
  - c. Tracking the borrower's experience with chattel financing and servicing;
  - d. Comparing energy efficiency of chattel-financed homes with site-built housing;
  - e. Describing the decommissioning or breakdown of outdated manufactured homes;
  - f. Identifying the 20 largest servicers of chattel loans secured by manufactured homes; and
  - g. Describing chattel loan performance and model results (e.g., prepayment, delinquency, default).

FHFA will accept public input on this Request for Input no later than February 17, 2017. Submissions may be delivered by one of the following three ways: (1) emailed to FHFA at [DutytoServeStakeholders@FHFA.gov](mailto:DutytoServeStakeholders@FHFA.gov) with the notation "Chattel Pilot RFI" in the subject line;



(2) submitted to the DTS webpage at

<https://www.fhfa.gov/PolicyProgramsResearch/Programs/Pages/DTSchattelInputForm.aspx>; or

(3) addressed to FHFA, Office of General Counsel, 400 Seventh Street, S.W., Eighth Floor, Washington, D.C. 20219. Submissions to FHFA will be publicly posted without change, including personal information such as name, street address, email address, and telephone number.

