



Fannie Mae Manufactured Housing Outreach

ACTIVITY:

B. Regulatory Activity: Chattel. Loans on manufactured homes titled as personal property (12 C.F.R. § 1282.33 (c) (2)).

OBJECTIVE:

3. Explore securitization structures that attract private capital and provide sustainable liquidity to the chattel market (Do What We Do Best).

SUMMARY OF RESULTS:

Over the course of 2018, Fannie Mae conducted a wide-ranging analysis of the potential secondary market for chattel loans. Ultimately, we found there is an appetite for a chattel loan security, as revealed by analysis of available data and interactions with potential secondary market participants. These findings reinforce Fannie Mae's planned activities in the chattel market, beginning with a potential 2019 loan purchase pilot.

The work conducted for this Objective is best summarized by an internal confidential and proprietary memorandum titled, "Chattel Lending Market Analysis and Financing Strategy. It consists of three chapters that detail the work conducted in keeping with this Objective. The first chapter sizes the market and provides a robust, proprietary analysis of major originators in the chattel market. The second chapter recaps interactions with several potential secondary market participants and lays out five likely financing options. The third chapter focuses on certain key internal questions related to a potential securitization of chattel loans, including critical tax and accounting considerations.

As referenced in the internal memorandum, Fannie Mae's ultimate role in developing a secondary market for chattel is still not yet defined. Fannie Mae, as well as other parties, such as ratings agencies (as needed) and investors, will need more information on the performance of recently originated chattel loans, which is something that other sections of the Duty to Serve Plan (the Plan) address. However, the research activities conducted for this Objective addressed several open questions and developed a framework to use when addressing others.

Together, the analyses conducted under this Objective pave the way for a potential strategy for Fannie Mae to attract private capital and provide sustainable liquidity to the market.

Following are the 2018 Actions under this Objective as published in the December 14, 2018 Duty to Serve Plan:

- Study the chattel market to understand the opportunity to develop a chattel security.
 - Acquire loan balance data for chattel originations over the last five years to determine the overall size of the chattel market and market size trends.
 - Identify the top 10 originators and their market share, and determine if loans are being sold. If chattel loans sales are of a significant volume, gather additional information about the investors.
- Explore the requirements for structuring a chattel security, including:
 - Determining if mortgage backed securities can be comprised of personal property assets.
 - Determining if LTVs above 80 percent would be allowed in a security, and, if so, determine what credit enhancement options are acceptable or required, noting that mortgage insurance is not available for chattel loans.
- Engage rating agencies via teleconference to gather information about opportunities and requirements to rate a chattel security.



- Establish points of contact with Moodys, Standard & Poor, and Fitch Ratings to engage throughout chattel pilot development.
- Gather information on any historical data held by the rating agency and/or the data that would be needed to support a chattel security rating.
- Discuss security structure options and credit enhancement requirements.

Research tax and accounting issues associated with a chattel security to gain understanding of items such as implications to GAAP earnings and the effect on Fannie Mae's balance sheet.

Explore security structure options to address credit risk and pricing issues. Leverage loss projections created by an analysis of data gathered in Objective #1 to assist in exploration of options such as retaining a first loss position and bond guarantees.

Engage lenders and/or dealers with previous experience with chattel securities to gain insight on data and performance information and an understanding of underwriting criteria and lessons learned from their experience.

Engage private equity fund managers with knowledge and experience in manufactured housing to discuss market potential, roadblocks, and plausible products and structures.

Use learning acquired through 2018 actions to inform future actions in 2019 and 2020.

SELF-ASSESSMENT RATING OF PROGRESS:

- Objective met
- Objective exceeded
- Objective partially completed: 75-99% (substantial amount)
- Objective partially completed: 50-74% (limited amount)
- Objective partially completed: 25-49% (minimal amount)
- Objective partially completed: 0-24% (less than a minimal amount)

PARTIAL CREDIT JUSTIFICATION:

N/A

IMPACT:

- 50-Substantial Impact
- 40
- 30-Meaningful Impact
- 20
- 10-Minimal Impact
- 0-No Impact

IMPACT EXPLANATION:

1. How and to what extent were actions under this objective impactful in addressing underserved market needs or laying the foundation for future impact in addressing underserved market needs?

As the work associated with this Objective largely consists of research conducted for the benefit of Fannie Mae's exploration of a secondary market for chattel, there were no opportunities to directly impact the market in the short-term.

However, the Actions conducted for this Objective in 2018 aim will support future impact because they have made known the willingness of secondary market participants to support a potential chattel security. A rigorous analysis of the originators in the market and discussions with various stakeholders, including potential lenders and



investors, revealed preliminary support for the concept of a chattel security, highlighted key questions that need to be addressed, and identified potential stakeholders who need to be engaged.

Continued evolution of the chattel market would require engagement from a broader group of chattel originators, combined with Fannie Mae assuming a role as a liquidity provider, to gain scalability and uniformity in the primary and secondary market. As Fannie Mae's role in the chattel secondary market will likely be as a conduit between lenders and investors to provide liquidity that ultimately benefits chattel borrowers, the research conducted in 2018 clearly lays the foundation for future impact by confirming that this role is feasible in the long-term.

2. (Optional): How do actions under this objective support future actions detailed in the Plan for the underserved market? If there have been any changes in the planned next steps or timeline for work under or related to this objective, describe the changes and provide a brief explanation.

The analysis conducted under this objective revealed a viable, potential secondary market for chattel loans, should Fannie Mae eventually purchase them. As such, the implication of these activities is that Fannie Mae will proceed with the next steps outlined in the Plan according to the timeline for work outlined in the Plan.

3. (Optional): Are there any market factors that adversely impacted the actions under this objective? If so, describe.

The analysis of securitization structure options was not adversely affected by market factors. While there were unexpected market developments, such as the revelation that multiple chattel market participants were actively preparing for the issuance of private label security backed by chattel assets, Fannie Mae incorporated those developments into its analysis.

4. (Optional): How did the actions under this objective contribute to increased or future loan purchases for the underserved market?

The analysis of potential securitization structures that attract private capital and provide sustainable liquidity to the chattel market reveals preliminary interest among internal Fannie Mae stakeholders, rating agencies, and potential investors. As such, these Actions support future chattel loan purchases, beginning with the potential purchase of 1,000 loans in 2019 as part of a chattel pilot. Fannie Mae remains committed to the loan purchase targets outlined in the Plan, in part because of the findings of its analysis of potential securitization structures.



Fannie Mae Manufactured Housing Second Quarter Report: January 1 - June 30, 2018 Outreach

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OBJECTIVE:

3. Explore securitization structures that attract private capital and provide sustainable liquidity to the chattel market (Do What We Do Best).

SUMMARY OF RESULTS:

Fannie Mae is actively engaging industry partners, including lenders, manufactured home community owners, retailers, and others to understand the mechanics of the chattel loan market. We have worked directly with chattel loan originators to acquire data that will help scope the size of and trends in the market as well as institutional investors that have invested in chattel loans in an effort to explore purchases of chattel loan portfolios and common structures of chattel transactions. These efforts will inform the future development of the Chattel Pilot.

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- Engage rating agencies via teleconference to gather information about opportunities and requirements to rate a chattel security.
 - Establish points of contact with Moodys, Standard & Poor, and Fitch Ratings to engage throughout chattel pilot development.
 - Gather information on any historical data held by the rating agency and/or the data that would be needed to support a chattel security rating.
 - Discuss security structure options and credit enhancement requirements.
- Research tax and accounting issues associated with a chattel security to gain understanding of items such as implications to GAAP earnings and the effect on Fannie Mae's balance sheet.
- Explore security structure options to address credit risk and pricing issues. Leverage loss projections created by an analysis of data gathered in Objective #1 to assist in exploration of options such as retaining a first loss position and bond guarantees.



- Engage lenders and/or dealers with previous experience with chattel securities to gain insight on data and performance information and an understanding of underwriting criteria and lessons learned from their experience.
- Engage private equity fund managers with knowledge and experience in manufactured housing to discuss market potential, roadblocks, and plausible products and structures.
- Use learning acquired through 2018 actions to inform future actions in 2019 and 2020.

SELF-ASSESSMENT RATING OF PROGRESS:

- On-target to meet or exceed the objective
- Progress delayed and/or partial completion of the objective expected
- Unlikely to achieve any milestones of the objective

ADDITIONAL INFORMATION (IF APPLICABLE):