



## Fannie Mae Manufactured Housing Outreach

### ACTIVITY:

C. Regulatory Activity: Manufactured housing communities owned by a governmental entity, non-profit organization, or residents (12 C.F.R. § 1282.33(c) (3)).

### OBJECTIVE:

1. Increase liquidity to governmental entity, non-profit organizations, or ROC® (collectively "Non-Traditional Owners") through research, data analysis, loan product review and enhancement, implementing a pilot for ROC, and publishing Fannie Mae's experiences (Analyze, Partner and Innovate).

### SUMMARY OF RESULTS:

In 2018, Fannie Mae undertook a comprehensive review of our existing products, evaluated the non-GSE financing options that are commonly used by Non-Traditional Manufactured Housing Community (MHC) Owners, and revisited our history financing Non-Traditional MHC Owners to create a product development strategy aimed at increasing our loan purchases. By year end, we completed the internal approval process for both a product enhancement targeting non-profit borrowers and a resident owned community (ROC) loan purchase pilot. These products will launch in early 2019.

To inform our product development strategy, we conducted extensive outreach to a diverse set of industry stakeholders including lenders, industry trade associations, and non-traditional MHC owners. We presented at key industry conferences, conducted roundtable discussions, and formed the Fannie Mae Manufactured Housing Duty to Serve Advisory Council (the MH Advisory Council), to gain insights and guidance. In addition, we performed market research to understand the challenges and opportunities in financing MHCs with Non-Traditional Owners.

Product Enhancement for Non-Profit MHC Owners. The product enhancement that we approved has two components. The first, is a pricing discount to incentivize lenders to provide financing for non-profit MHC Owners. The second, reimbursement of certain required third-party reports, is aimed to incentivize non-profit MHC borrowers to choose Fannie Mae financing. We believe these incentives, along with the benefit of providing non-profit MHC borrowers a wide range of more flexible financing options than those they commonly use today, will drive a meaningful increase in the number of loans we acquire.

ROC Pilot. Fannie Mae partnered with ROC USA® and National Cooperative Bank (NCB) to design and structure a pilot program for ROCs. NCB is a highly experienced Fannie Mae Cooperative Lender with a history of providing financing to resident owned communities. ROC USA is a strong and committed partner with over ten years' experience not only financing this type of manufactured housing community but also supporting the residents as they purchase the communities and convert from privately owned to resident owned communities. We reviewed historic loan performance data and compared the underwriting guidelines of the two organizations to develop an underwriting matrix for the pilot that blended together our underwriting criteria for limited equity co-ops and manufactured housing communities. The pilot structure reflects unique considerations of ROCs, including residents' limited down payment resources and low debt service coverage ratios. The launch of this pilot represents a significant step in developing a conventional finance product for ROCs.

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

Research the Non-Traditional Owners MHC market to gain knowledge of the current market barriers and challenges by:

Meeting with three government entities and three non-profits that own or are considering owning MHC.



- Meeting with four entities that focus on ROC to gain knowledge of market barriers and challenges.
- Research existing financing options for MHC with Non-Traditional Owners to gain knowledge of the current market barriers and challenges by:
  - Meeting with four Fannie Mae lenders that have significant involvement in MHC finance.
  - Meeting with three non-Fannie Mae lenders that have experience with MHC finance including structures for Non-Traditional Owners.
  - Participate in two key industry conferences in order to gain exposure to a larger cross-section of the MHC market.
  - Host/participate in one manufactured housing roundtable to discuss the market and opportunities for MHC with Non-Traditional Ownership.
- Utilize results from outreach/research activities to identify potential changes, consistent with safety and soundness, to current Fannie Mae MHC guidelines that could result in increased liquidity to meet the needs of Non-Traditional Owners.
- Review and approve one to three guideline changes that will facilitate additional standardization for, and therefore liquidity to, the Non-Traditional Owners MHC market with a focus on government and non-profit ownership. (For activities related to resident ownership, see discussion of pilot below).
- Based on outreach and research conducted as part of the loan product development process, review and refine Baseline loan purchase goals for 2019.
- Educate three lenders that have had involvement in subject guideline changes so that the lenders are able to increase their loan originations for MHC with Non-Traditional Owners.
- Design a pilot program (including implementation plan) specifically for ROC that can be used to test potential guideline changes that could increase loan purchases for ROC. The plan will include details for ongoing management, monitoring, and reporting for 2019 and 2020.
- Establish a plan to create and distribute a white paper that documents Fannie Mae's experience and findings that can eventually be made publicly available to other market participants interested in financing loans for MHC with Non-Traditional Owners.
- Confirm 2019 loan purchase goals based on 2018 research and outreach.

### **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?

We developed, vetted, and approved not only a product enhancement to encourage more Non-Traditional Owners of MHC to choose Fannie Mae financing, but also a loan purchase pilot so we can begin purchasing ROC loans for the first time. Both products will launch in 2019.

To better understand the ROC structure, we spent several days touring ROCs in Rhode Island and Massachusetts with representatives from NCB and ROC USA and met with board members from three of these communities. In these meetings we had an opportunity to hear directly from residents who lived in the communities prior to, during, and after the residents purchased their communities. These listening sessions provided us a better understanding of the process that the residents of a community go through to purchase their communities, the motivations behind why they chose to go through the purchase process, and how the dynamic of the communities changed after the purchase was complete. These conversations also helped us develop a better understanding of the unique considerations of these transactions that we needed to be mindful of as we designed our loan purchase product.

Through our work to develop a deeper understanding of the current market opportunities and barriers we became much more knowledgeable about the important role that non-profits play in preserving the affordability of MHCs. Importantly, we also learned that many of the government operated MHCs are purchased and operated through non-profit intermediaries. Non-profits often step up to purchase and operate communities when private owners are looking to displace residents and sell land for redevelopment. Non-profits obtain funding for these communities from various sources such as tax-exempt bonds, private funds, public funds, and grants. Although these funds are provided at a low interest rate to preserve affordability, they lack flexibility and the ability for long term financing. The Non-profit entities we engaged with expressed the need for conventional financing sources with flexible terms and pre-payment options that Fannie Mae can offer.

Our efforts in 2018 enabled us to engage with a broad range of industry stakeholders and form partnerships that will remain beneficial to Fannie Mae moving forward. We expect our partnerships to grow in 2019, and connections made through our newly established MHAC will contribute to this growth. Additionally, the council will continue to serve as an important source of on-the-ground insights into MHCs and their unique needs.

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 Actions under this activity allowed Fannie Mae to gain deeper knowledge and understanding of the MHC market barriers and opportunities. Informed by our market research, outreach, and analysis, we designed a pilot for ROCs and product enhancement targeting non-profit MHC borrowers. We believe our 2018 Actions will facilitate future loan purchases of MHCs with Non-Traditional Owners and ROCs. Both support our high-level target of creating standardization in the market for Non-Traditional Owners of MHCs.

We believe there is great potential in MHCs as an affordable, attractive housing option and are excited about the pilot and product enhancements we pursued in 2018. Both are meant to increase liquidity to this underserved market, draw attention to the MHC business, and preserve this valuable source of affordable housing in which Fannie Mae is a long-standing participant.

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



N/A

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

We developed a loan purchase product so that we could finance the acquisition of new ROCs or refinance existing ROCs beginning in 2019. In addition to developing the loan product, we selected two partners with a great deal of experience financing these communities to work with during this pilot phase, so we have an opportunity to evaluate the loan product structure and determine whether any modifications are needed before making the product more widely available. The product enhancement targeting non-profit MHC owners will be marketed to lenders in early 2019. This positions us well to meet our loan purchase targets. In the coming years, Fannie Mae's Actions will be to test and evaluate these new products, prepare a review of the results, and identify what, if any, guideline or other changes might be required based upon performance to date coupled with ongoing industry outreach and research. We will continue our outreach efforts to additional stakeholders to gain deeper knowledge and perspective. At the end of the year, we will confirm our purchase targets based upon performance of the enhancements coupled with outreach and research. In addition, we will continue work on a white paper by collecting and documenting outreach, product development, and loan purchase activities for future publication as outlined in the plan.



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

### **ACTIVITY:**

C. Regulatory Activity: Manufactured housing communities owned by a governmental entity, non-profit organization, or residents (12 C.F.R. § 1282.33(c) (3)).

### **OBJECTIVE:**

1. Increase liquidity to governmental entity, non-profit organizations, or ROC (collectively Non-Traditional Owners) through research, data analysis, loan product review and enhancement, implementing a pilot for ROC, and publishing Fannie Mae's experiences (Analyze, Partner and Innovate).

### **SUMMARY OF RESULTS:**

We have conducted extensive outreach and research to understand the challenges and opportunities of financing non-traditionally owned Manufactured Housing Communities (MHC):

- For our work on Resident Owned Communities (ROC), we partnered with National Cooperative Bank (NCB) and ROC USA to develop a loan purchase pilot.
- We conducted site visits of a number of ROC currently financed by NCB and ROC USA and met with several of the communities' Board of Directors to hear directly from residents about their experiences after purchasing their communities and what drove them to purchase the property.
- We reviewed historic loan performance data and compared the underwriting guidelines of the two organizations to develop an underwriting matrix for the pilot.
- The pilot structure reflects unique considerations of ROC including residents' limited down payment resources.
- As for financing of MHC owned by other non-traditional owners, we consulted with experienced external stakeholders on underwriting challenges and developed a proposed product enhancement to increase our loan purchases.

Following are the 2018 Actions under this Objective:

- Research the Non-Traditional Owners MHC market to gain knowledge of the current market barriers and challenges by:
  - Meeting with three government entities and three non-profits that own or are considering owning MHC.
  - Meeting with four entities that focus on ROC to gain knowledge of market barriers and challenges.
- Research existing financing options for MHC with Non-Traditional Owners to gain knowledge of the current market barriers and challenges by:
  - Meeting with four Fannie Mae lenders that have significant involvement in MHC finance.
  - Meeting with three non-Fannie Mae lenders that have experience with MHC finance including structures for Non-Traditional Owners.
  - Participate in two key industry conferences in order to gain exposure to a larger cross-section of the MHC market.
  - Host/participate in one manufactured housing roundtable to discuss the market and opportunities for MHC with Non-Traditional Ownership.



- Utilize results from outreach/research activities to identify potential changes, consistent with safety and soundness, to current Fannie Mae MHC guidelines that could result in increased liquidity to meet the needs of Non-Traditional Owners.
- Review and approve one to three guideline changes that will facilitate additional standardization for, and therefore liquidity to, the Non-Traditional Owners MHC market with a focus on government and non-profit ownership. (For activities related to resident ownership, see discussion of pilot below).
- Based on outreach and research conducted as part of the loan product development process, review and refine Baseline and loan purchase goals for 2019.
- Educate three lenders that have had involvement in subject guideline changes so that the lenders are able to increase their loan originations for MHC with Non-Traditional Owners.
- Design a pilot program (including implementation plan) specifically for ROC that can be used to test potential guideline changes that could increase loan purchases for ROC. The plan will include details for ongoing management, monitoring, and reporting for 2019 and 2020.
- Establish a plan to create and distribute a white paper that documents Fannie Mae's experience and findings that can eventually be made publicly available to other market participants interested in financing loans for MHC with Non-Traditional Owners.
- Confirm 2019 loan purchase goals based on 2018 research and outreach.

**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):**