



Fannie Mae Manufactured Housing Loan Product

ACTIVITY:

D. Regulatory Activity: MHC with certain pad lease protections (12 C.F.R. § 1282.33(c) (4)).

OBJECTIVE:

1. Conduct research and outreach to determine market opportunities for FHFA's minimum tenant pad lease protections (FHFA Pad Requirements), offer one loan product enhancement, and acquire loans (Test and Learn, Partner and Innovate, Do What We Do Best).

SUMMARY OF RESULTS:

In 2018, Fannie Mae developed and approved a new product enhancement to encourage manufactured housing community owners to adopt FHFA's minimum tenant pad lease protections (TPLPs) in their communities. The final result, a pricing incentive package that includes a price reduction for lenders and reimbursement of certain required third-party reports for borrowers, was carefully designed based on direct feedback from industry stakeholders as well as our own market research. This outreach and research were done to better understand what protections are currently provided to residents in manufactured housing communities (MHCs) and how those protections vary from state to state, as well as to understand how to minimize the operational and administrative complexities owners would shoulder if they chose to voluntarily adopt these TPLPs.

We first did a preliminary survey of the market and quickly concluded that no state requires all the protections specified in FHFA's Duty to Serve rule. We found that in some cases there was a significant gap between the state laws and the specified FHFA protections. We determined the best way for Fannie Mae to meet FHFA's target of increasing the protections for residents of MHCs was to create a product enhancement to encourage owners to voluntarily include TPLPs in their leases.

Because we focused on engaging with stakeholders early in the design phase of our product development process, we were able to identify borrowers who were receptive to the idea of incorporating the TPLPs and were willing to provide us valuable feedback throughout the process. Our product enhancement was designed to mitigate against the potential barriers lenders and owners identified through our outreach process. For example, many owners expressed concern about the complexity of updating all of their leases to incorporate the additional protections at one time. To address this concern, we developed a tiered pricing incentive offering more substantial benefits to borrowers who were able to incorporate the TPLPs in a larger percentage of their residents' leases by the mortgage loan origination date.

This new product enhancement will launch in early 2019, at which point, Fannie Mae will execute on the training and marketing plan we developed this year. We believe this product enhancement will meaningfully contribute to our ability to help encourage broader adoption of the TPLPs, but we plan to evaluate lender and borrower feedback following the product enhancement launch to make any needed modifications.

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

- Conduct outreach to three manufactured housing organizations to get more insight on the impact/effectiveness of the FHFA Pad Requirements and similar requirements in different locations as well as which protections have the most impact.
- Conduct outreach to five States that require the most significant number of pad lease protections included in the FHFA Pad Requirements to understand how such requirements are enforced and monitored.
- Conduct outreach to 10 MHC owners (including ROC) and four lenders to better understand the barriers to incorporating the FHFA Pad Requirements and the market opportunities for financing MHC that meet the FHFA Pad Requirements.



Conduct outreach to five MHC owners to better understand any owner resistance to adopting FHFA Pad Requirements and how to address that resistance.

Based on the outreach and other research results, identify, review, and approve at least one product enhancement for lenders and/or MHC owners that would incent loan purchases secured by MHC that meet the FHFA Pad Requirements.

Review the 2019 loan purchase goal and Baseline to determine any necessary adjustments based on the knowledge attained through the activities completed during 2018.

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?

Manufactured housing has helped low- and moderate income households achieve homeownership since the 1970s and continues to be an important affordable housing option for both owners and renters. Rent prices in manufactured housing often average half the cost of comparable apartments, making manufactured housing one of the largest sources of unsubsidized affordable housing in the country. According to the Manufactured Housing Institute, about 50,000 MHCs exist in the U.S., housing about 2.7 million Americans. Some of these communities have thousands of homes; others are small e.g., where two or three homes share a parcel. Fannie Mae is committed to supporting not just these important communities but also the residents who live there.

The product enhancement we developed will encourage owners to voluntarily provide TPLPs to residents of MHCs in areas where state law does not mandate their inclusion. These protections address renewable lease terms, rent increases, rent payments, unit sale and sublease rights, and advance notice of a planned sale or closure of the community. We believe that the product we designed will contribute to making all these protections more common in MHCs.

Based on the outreach and feedback we received through the product development process, we know that the design of this enhancement may be more well suited for smaller communities in states where there are fewer gaps between what protections are mandated and what protections will be voluntarily included. In our product design we tried to balance the need to give owners a reasonable amount of time to meet the required minimums with making sure we could make accurate representation of the number of leases in the communities that included the protections.



However, we are committed to continuing our outreach to lenders and borrowers to see how we can further refine the enhancement if needed.

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.

Through the Actions completed in 2018, we were able to identify the challenges and opportunities in this underserved market and develop a product enhancement. This product enhancement serves as the foundation for future impact and creates awareness and standardization of the TPLPs across the MHC industry. In the coming years, as outlined in our Plan, we will continue to train our lenders to market the product enhancements and encourage owners to adopt the TPLP. We will continue to look for ways to make additional enhancements if necessary to better serve this market.

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 believe our Actions in 2018 will encourage more MHC owners to adopt the additional protections required to meet full implementation of the FHFA protections. This work will allow us to start purchasing and tracking the number of loans we acquire that are secured by MHC that provide TPLP to their residents. This allows us to both meet FHFA's objective to encourage broader adoption of these protections and to meet our ambitious targets of acquiring 437 units with TPLPs in 2019 and 625 units in 2020.

As explained above, we intend to closely monitor market reception to the product so that we can make any needed modifications to make this an attractive product enhancement for a wide range of MHCs.



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

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OBJECTIVE:

1. Conduct research and outreach to determine market opportunities for FHFA's minimum tenant pad lease protections (FHFA Pad Requirements), offer one loan product enhancement, and acquire loans (Test and Learn, Partner and Innovate, Do What We Do Best).

SUMMARY OF RESULTS:

We conducted extensive research with Manufactured Housing Community (MHC) owners, lenders, and tenant advocacy groups to better understand the market reception to and awareness of tenant pad lease protections. The protections were well received by a majority of the stakeholders we spoke with, however many highlighted the need for increased education of the benefit and intent of the protections so that both residents and MHC owners can become more comfortable with their adoption. These conversations helped to shape our proposed product enhancement in the form of pricing incentives which we believe will drive more borrowers to adopt the protections.

Following are the 2018 Actions under this Objective:

- Conduct outreach to three manufactured housing organizations to get more insight on the impact/effectiveness of the FHFA Pad Requirements and similar requirements in different locations as well as which protections have the most impact.
- Conduct outreach to five States that require the most significant number of pad lease protections included in the FHFA Pad Requirements to understand how such requirements are enforced and monitored.
- Conduct outreach to 10 MHC owners (including ROC) and four lenders to better understand the barriers to incorporating the FHFA Pad Requirements and the market opportunities for financing MHC that meet the FHFA Pad Requirements.
- Conduct outreach to five MHC owners to better understand any owner resistance to adopting FHFA Pad Requirements and how to address that resistance.
- Based on the outreach and other research results, identify, review, and approve at least one product enhancement for lenders and/or MHC owners that would incent loan purchases secured by MHC that meet the FHFA Pad Requirements.
- Review the 2019 loan purchase goal and Baseline to determine any necessary adjustments based on the knowledge attained through the activities completed during 2018.

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):