Fannie Mae

2024
Manufactured Housing
Loan Purchase

ACTIVITY:

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

OBJECTIVE:

1. Increase loan purchases of MHCs owned by government entities, nonprofit organizations, or residents.

INFEASIBILITY:

☒ Check here if the Enterprise is submitting an infeasibility request for the objective.

As described in further detail below, Fannie Mae continues to find that there is limited appetite for its conventional financing execution made available to MHCs owned by residents, nonprofits, or government entities in the marketplace. Throughout our engagements, we have found that capital providers in geographic markets that are conducive for resident and mission-driven ownership of MHCs have loan product structures that are generally more competitive than what we can offer through our secondary market execution. Specific flexibilities available to these borrowers in the marketplace often include loan-to-value (LTV) ratios exceeding 100%, debt service coverage ratios near or at 1.00, waivers of the requirement to order third-party due diligence reports, interest rate “guarantees” that allow residents to lock in financing terms and interest rates up to 18 months prior to closing the loan, and below-market loan note rates made available through low-cost capital from state housing finance agencies (HFAs). Considering the availability of competitive product structures and the dearth of overall available transactions in the marketplace, we have encountered significant difficulty in serving the market for MHCs with non-traditional ownership that align with safety and soundness considerations.

SUMMARY OF RESULTS:

Objective’s components detailed in the Plan	*Corresponding actions taken*	*Explanation of any deviations from the Plan (if applicable)*
☐ Purchase loans secured by seven MHC properties which are owned by residents, government entities, or nonprofit organizations, comprising an estimated 1,131 units and representing a 250% increase from the baseline.	Despite industry engagement that exceeded efforts in prior years, Fannie Mae fell short of both our ambitious target of seven MHC properties and our baseline of two MHC properties owned by residents, government entities, or nonprofit organizations, otherwise known as “non-traditional owners” (NTOs). We financed one MHC owned by a nonprofit organization, providing $6.2 million in mission-adjusted unpaid principal balance to a community comprised of 80 pad sites. Our activity this year represents a critical Duty to Serve (DTS) achievement, as we provided financing enabling an NTO to acquire an MHC for the first time since DTS began in 2018. All other loan activity in this market segment in prior years were refinancings of existing mortgage debt.	

SUMMARY OF RESULTS CONTINUED:

Objective's components detailed in the Plan	*Corresponding actions taken*	*Explanation of any deviations from the Plan (if applicable)*
☒ Continue efforts to support resident-owned communities through ROC pilot program implementation and other tactics.	We met with ROC USA Capital and National Cooperative Bank (NCB) regularly throughout the year to pursue engagement strategies targeting resident-owned communities (ROCs)in ROC USA Capital's existing loan portfolio. While identified ROCs ultimately chose financing through other capital sources, we remain committed to engaging with this critical market segment in future years to compete for transactions as they are nearing maturity of existing debt.	
☒ Perform an assessment of lender outreach and education efforts to identify opportunities to increase non-traditional MHC loan purchases.	We improved upon prior-year engagements in the ROC sector to include our first-ever in-person presentation targeting certified technical assistance providers active in facilitating resident conversions in markets across the country. We also engaged lenders through our Delegated Underwriting and Servicing (DUS®) program to compete for specific deals where existing non-agency financing was known to be approaching maturity.	

SELF-ASSESSMENT RATING OF PROGRESS:

☐ Target met
☐ Target exceeded
☐ Target partially completed
☒ No milestones achieved

IMPACT:

☐ 50 – Very Large 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 in laying the foundation for future impact in addressing underserved market needs?

Despite meaningful differences in sponsorship, operations, and business strategy, we have found that the financing landscape for NTO communities, which have already converted to non-traditional ownership, is fairly-well served. NTO communities can refinance existing debt through a variety of primary and secondary market sources, including local and regional banks, community development financial institutions, commercial mortgage-backed securities conduit loans, state HFAs, and agency financing. Thus, the overwhelming need within the marketplace is financing that enables the NTO entity to acquire the community on the open market. As previously highlighted, the market for conversion of MHCs to NTO relies largely upon generating loan proceeds that exceed 100% of the property's appraised value. Thus, it is unlikely that we will be able to serve the NTO financing market without unsecured financing or sufficient equity contributions being made to bring acquisition financing needs down to a level consistent with our sustainable underwriting criteria.

Considering these constraints, our efforts to extend acquisition financing to enable a nonprofit to acquire its first MHC in the Denver, CO, market represent a significant investment in the financing landscape for NTO MHCs. Additionally, the project represents one of the first known instances of a nonprofit acquiring an MHC with the explicit intent of converting it to a ROC at a future date.[1] We aimed to provide a seamless experience for the borrower and the lender, ultimately holding indicative credit pricing constant throughout the longer-than-typical application timeline to allow the borrower time to negotiate the extension of important subordinate financing without increasing credit fees.

2. What did the Enterprise learn from its work about the nature of underserved market needs and how to address them?

While we cannot participate at-will in the market for converting existing communities to non-traditional ownership given the capital/risk constraints discussed above, we are encouraged by the circumstances regarding the one deal we financed this year and are hopeful that it is indicative of emerging trends in the NTO market. To enable the acquisition financing, the nonprofit implemented aspects of its "real estate rescue" program to secure short-term financing, enabling its interim ownership of the MHC.[2] By providing a sufficient equity contribution to bring the LTV ratio to a tolerable threshold, the nonprofit was able to further strengthen the underwriting profile of the loan by securing additional hard- and soft-pay subordinate financing from local and state providers. Our experience in the market this year is consistent with recent years: We continue to observe that individual geographic markets that have encouraged NTO ownership through legislative means — such as instilling a tenant opportunity-to-purchase at the time a community is listed for sale — also tend to provide competitive financing options via a combination of traditional permanent debt products supplemented with creative subsidy structures. The resulting market landscape is one in which we, with our secondary market underwriting practices, may be unable to compete with local financing sources.

Despite these market limitations, we share the belief that non-traditional ownership of MHCs has the potential to improve resident outcomes and continue to observe that NTO structures have been successful in attracting net-new capital into the MHC marketplace. We will continue our industry outreach in future years with the hope of remaining competitive in this niche market segment.

3. Optional: If applicable, why was the Enterprise unable to achieve the Plan target?

Please see the above infeasibility request, where we have outlined our reasons as to why we were unable to achieve the Plan target.

---

[1] https://nonprofitquarterly.org/a-community-creates-denvers-first-resident-owned-mobile-home-park/
[2] https://www.sharingconnexion.org/our-programs/real-estate-rescue/

Manufactured Housing
First Quarter Report: January 1 - March 31, 2024
Loan Purchase

ACTIVITY:

B. Manufactured housing communities (MHCs) owned by a governmental entity, nonprofit organization, or residents (12 C.F.R. § 1282.33 (c) (3)).

OBJECTIVE:

1. Increase loan purchases of MHCs owned by government entities, nonprofit organizations, or residents.

SUMMARY OF PROGRESS:

The following are the 2024 Actions under this Objective:

- Purchase loans secured by seven MHC properties which are owned by residents, government entities, or nonprofit organizations, comprising and estimated 1,131 units and representing a 250% increase from the baseline.
  - Continue efforts to support resident-owned communities through ROC pilot program implementation and other tactics.
  - Perform an assessment of lender outreach and education efforts to identify opportunities to increase non-traditional MHC loan purchases.

Through March 30, 2024, Fannie Mae has not financed any MHC properties owned by government entities, non-profit organizations, or residents. We are pursuing one transaction which would enable the acquisition of an MHC by a non-profit and is progressing through final underwriting. We anticipate that this transaction will close and deliver in the second quarter of the year. We are planning to participate in a convening of national and regional non-profits involved in facilitating resident ownership in April.

In this Duty to Serve plan cycle, we have conducted outreach and provided training to a national non-profit focused on resident conversions while also developing new relationships with their regional affiliates in pursuit of any opportunities to refinance maturing debt on MHCs which are owned by residents. In 2023, no fewer than five resident-owned communities (“ROCs”) with financing scheduled to mature in either 2023 or early 2024 elected to pursue other financing sources, which included state housing finance agencies, local banks and credit unions, and CDFIs with product terms specifically crafted to meet the needs of ROCs.

Manufactured Housing
First Quarter Report: January 1 - March 31, 2024
Loan Purchase

Challenges which have negatively impacted our ability to serve this sector in recent years will persist into 2024, notably the heightened interest rate environment and the effect this has on borrower sentiment regarding new debt financing.

SELF-ASSESSMENT RATING OF PROGRESS:

☐ On track to meet or exceed the target

☐ Progress delayed and/or partial completion of the objective expected

☒ Unlikely to achieve any milestones of the objective

ADDITIONAL INFORMATION (IF APPLICABLE):

Manufactured Housing
Second Quarter Report: April 1 - June 30, 2024
Loan Purchase

ACTIVITY:

B. Manufactured housing communities (MHCs) owned by a governmental entity, nonprofit organization, or residents

OBJECTIVE:

1. Increase loan purchases of MHCs owned by government entities, nonprofit organizations, or residents.

SUMMARY OF PROGRESS:

Through June 30, 2024, Fannie Mae has financed one MHC property owned by government entities, non-profit organizations, or residents.

To encourage deal submissions, Fannie Mae also attended a roundtable of national and regional nonprofits involved in facilitating resident ownership in April of this year. Relationships established through this type of market engagement may prove fruitful in future years when more resident-owned cooperatives are estimated to reach maturity on their existing financing and may see Fannie Mae as a viable outlet for refinancing.

SELF-ASSESSMENT RATING OF PROGRESS:

☐ On track to meet or exceed the target

☐ Progress delayed and/or partial completion of the objective expected

☒ Unlikely to achieve any milestones of the objective

ADDITIONAL INFORMATION (IF APPLICABLE):

In the 2024 Duty to Serve plan cycle, Fannie Mae has conducted outreach and provided training to a national non-profit focused on resident conversions while also developing new relationships with their regional affiliates in pursuit of any opportunities to refinance maturing debt on MHCs which are owned by residents. As in 2023, 2024 saw some resident-owned communities (“ROCs”) with financing scheduled to mature elect to pursue other financing sources, including state housing finance agencies, local banks and credit unions, and CDFIs with product terms specifically crafted to meet the needs of ROCs. Fannie Mae staff also identified and engaged multiple times with a DUS lender on a specific non-profit-owned multi-property portfolio opportunity through this year.

Challenges which have previously impeded Fannie Mae's ability to serve this niche sector persist into 2024, notably the heightened interest rate environment, the small size of this market, the preference for many non-traditionally owned and operated MHCs to maintain local banking relationships, and below market-rate pricing offered by local Housing Finance Authorities and municipalities.

Fannie Mae has a prospective ROC deal in its pipeline via DUS lender channels, but the current timeline to close is unknown. Multifamily staff has conducted regular outreach with lenders on individual deal opportunities, including a large portfolio of non-profit owned MHCs. Despite proactive outreach and pricing deemed "competitive" by the lender, Fannie Mae was not presented the opportunity to quote the portfolio deal as the borrower elected to pursue financing via a municipal housing bond.

Fannie Mae

Manufactured Housing
Third Quarter Report: July 1 - September 30, 2024
Loan Purchase

ACTIVITY:

B. Manufactured housing communities (MHCs) owned by a governmental entity, nonprofit organization, or residents

OBJECTIVE:

1. Increase loan purchases of MHCs owned by government entities, nonprofit organizations, or residents.

SUMMARY OF PROGRESS:

Through September 30, 2024, Fannie Mae has financed one MHC property owned by a non-profit. Notably, this was Fannie Mae's first-ever loan to a non-profit borrower enabling its acquisition of an MHC, as all other loans counted towards this Objective in prior years were refinance loans. Despite this success, prospective deal volume remains insufficient to enable us to meet the target of seven properties for 2024.

In the third quarter of this year, Fannie Mae partnered with National Cooperative Bank and ROC USA to present its conventional financing product to the president of a ROC in Minnesota, whose existing debt is scheduled to mature in early 2025. Subsequent feedback indicated that the state housing finance agency (HFA) was willing to offer 35-year amortization on a 10-year loan despite constrained loan-to-value and debt service coverage ratios—a product structure which lies outside of Fannie Mae's credit parameters for MHC properties.

Beyond its ongoing efforts through the ROC pilot offering, Fannie Mae continues to engage with its DUS lender network regarding prospective non-traditionally owned MHCs. In August, we issued a competitive quote for a refinance of a resident-owned community in Florida, but with the understanding that the borrower has sufficient time until maturity on its existing debt to wait for a more favorable interest rate environment, we do not expect this loan to close and deliver in 2024.

SELF-ASSESSMENT RATING OF PROGRESS:

☐ On track to meet or exceed the target

Fannie Mae

Manufactured Housing
Third Quarter Report: July 1 - September 30, 2024
Loan Purchase

☐ Progress delayed and/or partial completion of the objective expected

☒ Unlikely to achieve any milestones of the objective

ADDITIONAL INFORMATION (IF APPLICABLE):

In the 2024 Duty to Serve plan cycle, Fannie Mae has conducted outreach and provided training to a national non-profit focused on resident conversions while also developing new relationships with their regional affiliates in pursuit of any opportunities to refinance maturing debt on MHCs which are owned by residents. As in 2023, 2024 saw some resident-owned communities ("ROCs") with maturing financing elect to pursue other financing sources, including state housing finance agencies, local banks and credit unions, and Community Development Financial Institution ("CDFI s") with product terms specifically crafted to meet the needs of ROCs.

Challenges which have impeded Fannie Mae's ability to serve this niche sector persist into 2024, notably the heightened interest rate environment, the small size of this market, the preference for many non-traditionally owned and operated MHCs to maintain local banking relationships, and below market-rate pricing offered by local Housing Finance Agencies and municipalities.