Fannie Mae

2024
Manufactured Housing
Loan Purchase

ACTIVITY:

A. Regulatory Activity: Support manufactured homes titled as real property (MHRP) (12 C.F.R. § 1282.33 (c) (1)).

OBJECTIVE:

1. Acquire purchase money mortgage (PMM) loans secured by MHRP.

INFEASIBILITY:

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

Consistent with prior years, our Single-Family loan acquisition volume remains constrained due to major macroeconomic factors outside of Fannie Mae's control. Specifically, monetary policy substantially changed beginning in 2022 as the government sought to combat persistent inflation attributable to the COVID-19 pandemic, leading to a period of prolonged higher interest rates that has dramatically reduced our loan purchase activity in low- and moderate-income market segments, including MH. When we initially drafted our 2022 – 2024 Duty to Serve (DTS) Plan in mid-2021, the average interest rate on a 30-year mortgage loan was 2.87%. At the end of 2024, rates are pushing toward 7%, and the market does not appear poised for a meaningful rate reduction in the short term. Elevated interest rates directly contribute to lower levels of existing home sales evident in the "lock-in" effect for homeowners, a trend that exacerbates the already historically high home prices observed in markets across the country. These trends are further analyzed in Section 3 below.

SUMMARY OF RESULTS:

Objective's components detailed in the Plan	*Corresponding actions taken*	*Explanation of any deviations from the Plan (if applicable)*
☐ Purchase 9,500 loans for conventional manufactured housing, which represents approximately a 16% increase over baseline.	While Fannie Mae undertook significant action to support delivery of manufactured home (MH) loans in 2024, we fell short of our ambitious target of 9,500 loans and our baseline of 8,196 loans, both of which were based upon loan purchase activity from 2018 – 2020. All told, we purchased 4,792 MH loans meeting DTS income requirements in 2024.	

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?

Fannie Mae undertakes a variety of actions across loan-level pricing, product eligibility, and industry outreach as we strive to meet our annual loan targets. With respect to pricing, we continue to waive up-front loan-level pricing adjustments for MH loans that meet DTS eligibility requirements, an action which effectively lowers the interest rate to the end consumer. In this way, we increased our loan-level subsidy for Duty to Serve-qualifying MH loans by 225% year-over-year with over $8.29 million in subsidy provided in 2024.

With respect to policy and product eligibility, we focused our attention on the most affordable segments of the MH market, such as single-wide MH loans, and looked for opportunities to address any lender feedback that would help make this program available to more borrowers. In response to that feedback, we simplified our single-wide MH loan eligibility to remove the requirement that planned unit developments (PUDs) consisting of single-wide MH be submitted to Fannie Mae's Project Standards division for project review and approval. Feedback indicated that lenders were choosing not to originate any MH loans in PUDs, whether single-wide or multi-wide, because of this requirement. We estimate that this policy enhancement generated 100 incremental MH loans in 2024 that otherwise would not have been delivered. Beyond *Selling Guide* policy, we continued to expand MH eligibility within individual contract variances — enabling us to provide expanded eligibility for MH loans while still managing credit risk in a manner consistent with safe and sound business practices. Such efforts in 2024 included expanding the use of assets as qualifying income for MH loans, expanding rep and warrant relief for loans underwritten through an automated underwriting system other than Desktop Underwriter® (DU®), and broadening the use of MH as an acceptable accessory dwelling unit (ADU).

Beyond loan-level subsidies and targeted product development efforts, we remain committed to engagements with lenders and other stakeholders to align our conventional financing approach with new and emerging trends in the MH industry. Outdated perceptions of MH as a housing class continues to hamper new market opportunities, even as the national housing policy apparatus is increasingly coalescing around MH as a worthwhile solution to housing affordability challenges. In our experience, working closely with industry stakeholders to communicate the availability of conventional financing for MH deployed in new or novel use cases has generated tangible loan purchases in 2024 while paving the road for greater impact via adoption of MH in future developments across the country. In this regard, we financed infill homes in Atlanta, GA after the city offered a building code variance to allow MH to be sited within the city limits[1]; MH properties that also featured MH ADUs; and new MH properties that had been used to replace housing stock lost in recent wildfires in California. While these efforts did not enable us to meet our

[1] https://www.manufacturedhousing.org/news/clayton-gmha-introduce-2-urban-infill-crossmods-to-atlanta/

loan target for the year, they continue to elevate the perception of MH within the housing market and lay the groundwork for greater industry impact in future years.

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

As described above, much of our work to support the MH market this year took the form of targeted policy updates that streamlined the process for originating and delivering an MH loan to Fannie Mae. Maintaining ambitious loan targets has enabled us to establish a routine cadence of engagement with key MH lenders who can help us scale our conventional lending products to today's homebuyers. We have found that many of the key friction points with conventional MH loan originations are fundamentally related to the home's inherent status as personal property and the time and cost associated with converting the home to real estate. Considering that some of the work associated with converting the home to real estate may take place after loan closing, we looked for opportunities to streamline MH post-closing requirements to improve lender confidence in our conversion process policies. An example of this was our May 2024 *Guide* announcement removing the requirement that all eligible MH have an Affidavit of Affixture recorded along with the mortgage, which clarified that this is only required when a loan on manufactured housing is delivered with a personal property title and when the borrower's intent is to convert to real property. If the manufactured home was previously converted to real property in accordance with applicable law, we will no longer require an Affidavit of Affixture unless required by applicable state law. Streamlining this requirement should reduce operational burden and costs associated with closing an MH loan, which in turn should encourage more originations.

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

Extensive research has been conducted to analyze and explain the reduction in mortgage origination volume in this higher rate environment and its impact on low- and moderate-income consumers. An FHFA paper from 2023 modeled fluctuations in new mortgage originations attributable to changes in prevailing interest rates from 2021 to 2022 and the associated impact on consumer debt-to-income (DTI) ratios, and then applied this analysis to various demographic groups to estimate their impact. The analysis found that as mortgage interest rates increased from around 3% to 7% from 2021 to 2022, purchase mortgage originations were estimated to contract by about 13%, with the decline being largely attributed to increases in consumer DTI ratios as a function of higher rates. Importantly, this decline was almost entirely concentrated among households with an annual income below $100,000 and for loan amounts below $300,000. With an average household income of roughly $53,000[2] and an average loan amount of roughly $180,000,[3] MH loans fall squarely within the population of loans that FHFA suggests have become constrained by DTI ratios in a heightened interest rate environment. With no improvement in prevailing rates throughout 2024, these constraints have persisted throughout the current Duty to Serve Plan cycle.

While the research cited above analyzes the effect of increased rates on the provision of new loans, previously cited research conducted by FHFA in 2024 gives us insight into how existing home sales activity has been dampened by high interest rates. In analyzing the "lock-in" effect, which keeps homeowners with low interest rates in their homes and constrains home sales, FHFA notably concluded that a one percentage point increase in market interest rates decreases the likelihood of a home being sold by roughly 18%. With 2024 interest rates hovering 300 basis points above the lows experienced in 2020 – 2021, this estimate suggests that the resale market has been constrained by over 50% in recent years.

Thus, when considering the effect of a heightened interest rate environment on both credit supply and home supply, the available research suggests that that market has been constrained by more than 60% during the 2022 – 2024 Duty to Serve Plan cycle when compared to the prior Plan cycle. Considering that our 2024 MH loan attainment of 4,792 loans is only 51% lower than our 2021 loan attainment of 9,878 loans, we contend that our efforts to serve the MH market through targeted loan-level subsidy, meaningful policy and programmatic enhancements, and influential industry outreach were successful despite macroeconomic challenges.

[2] Consumer Financial Protection Bureau's Offices of Research and Mortgage Markets, "Manufactured Housing Finance: New Insights from the Home Mortgage Disclosure Act Data," Consumer Financial Protection Bureau, May 2021.
[3] Home Mortgage Disclosure Act. Median loan amount for conventional, first-lien purchase loans made to owner-occupants purchasing the MH and land, 2021 – 2023.

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

ACTIVITY:

A. Support manufactured homes titled as real property (MHRP) (12 C.F.R. § 1282.33 (c) (1)).

OBJECTIVE:

1. Acquire purchase money mortgage (PMM) loans secured by MHRP.

SUMMARY OF PROGRESS:

The following are the 2024 Actions under this Objective:

- Purchase 9,500 loans for conventional manufactured housing, which represents approximately a 16% increase over baseline.

Through March 31, 2024, Fannie Mae purchased 999 purchase-money Manufactured Home (MH) loans eligible for Duty to Serve (DTS) — a 28% decrease year-over-year compared to the first quarter of 2023. Broad economic trends continue to impact Fannie Mae's overall acquisition volume. Key drivers of this trend include volatile interest rates that dampen the outlook for home sales and mortgage origination volumes, and a continued "lock-in" effect for homeowners unwilling to give up their existing low mortgage rate.

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):

Unless there is an unexpected shift in market conditions during the remainder of 2024, we are likely to request a modification to this loan purchase target. As market headwinds affecting loan purchase activity in 2023 have persisted into the first quarter of 2024, it is reasonable to expect that a 2024 modification might be of similar magnitude to the one in 2023, given loan purchase targets were set in 2021 under dramatically different macroeconomic circumstances.

Despite these constraints, Fannie Mae continues to invest in its manufactured housing programs by responding to lender and stakeholder feedback through updated Selling Guide policy designed to streamline the origination of MH loans. In February 2024, we expanded our cash-out refinance eligibility to allow a maximum loan term of 30 years for multi-width manufactured homes. We are pursuing additional policy enhancements, both those explicitly tied to Duty to Serve and others, to be tentatively announced in the second quarter of the year.

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

ACTIVITY:

A. Support manufactured homes titled as real property (MHRP)

OBJECTIVE:

1. Acquire purchase money mortgage (PMM) loans secured by MHRP.

SUMMARY OF PROGRESS:

Through June 30, 2024, Fannie Mae purchased 2,290 purchase-money Manufactured Home (MH) loans eligible for Duty to Serve (DTS) — a 23% decrease year-over-year compared to the same period in 2023.

Broad economic trends continue to impact Fannie Mae's overall acquisition volume. Key drivers of this trend include volatile interest rates that dampen the outlook for home sales and mortgage origination volumes, and a continued "lock-in" effect for homeowners unwilling to give up their existing low mortgage rate. In analyzing the "lock-in" effect in its March 2024 working paper, FHFA notably concluded that a one percentage point increase in market interest rates decreases the likelihood of a home being sold by 18%. With 2024 interest rates hovering around 300 basis points above the lows experienced in 2020 - 2021, this estimate suggests that the resale market has been constrained by over 50% in recent years. This supply constraint affecting existing sales is exacerbated by the 21% year-over-year decline in new manufactured homes shipped in 2023, sales of which bleed into 2024 and have further constrained our loan purchase activity this year.

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

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

ADDITIONAL INFORMATION (IF APPLICABLE):

Unless there is an unexpected shift in market conditions during the remainder of 2024, we are likely to request a modification to this loan purchase target. As market headwinds affecting loan purchase activity in 2023 have persisted into the first half of 2024, it is reasonable to expect that a 2024 modification might be of similar magnitude to the one in 2023, given loan purchase targets were set in 2021 under dramatically different macroeconomic circumstances.

Despite these constraints, Fannie Mae continues to invest in its manufactured housing programs by responding to lender and stakeholder feedback through updated Selling Guide policy designed to streamline the origination of MH loans. In May of 2024, we expanded our shared equity loan eligibility to include MH in a community land trust, beyond those already permitted in approved condo and planned unit development (PUD) projects. This update will enable community land trusts utilizing scattered-site or infill development strategies to use MH units without having to convert the sites to a condo or PUD regime.

In the same announcement, we also clarified our policy that an Affidavit of Affixture is only required when a loan on MH is delivered with a personal property title and the borrower's intent is to convert to real property. If the MH was previously converted to real property in accordance with applicable law, we will not require an Affidavit of Affixture unless applicable state law requires a new Affidavit. This update provides more clarity to lenders regarding our policies for homes being converted to real estate, the process for which is often cited as the most significant challenge that lenders face in originating MH loans.

Fannie Mae

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

ACTIVITY:

A. Support manufactured homes titled as real property (MHRP)

OBJECTIVE:

1. Acquire purchase money mortgage (PMM) loans secured by MHRP.

SUMMARY OF PROGRESS:

Through September 30, 2024, Fannie Mae purchased 3,679 purchase-money Manufactured Home (MH) loans eligible for Duty to Serve (DTS) — a 16% decrease year-over-year compared to the same period in 2023. Given the volatility in the current macroeconomic environment, we are projecting difficulty in meeting our goal of 9,500 MH loans and our baseline of 8,196 loans, both of which were modeled based upon 2018 – 2020 loan purchase activity.

While our loan purchase activity has been negatively impacted by macroeconomic factors in 2024, we are pleased that the percentage of our overall MH acquisitions which have met Duty to Serve income requirements has increased in recent years, which we attribute to the action we took in late 2022 to waive upfront loan-level pricing adjustments (LLPAs) for loans meeting Duty to Serve requirements.

Key risk factors to Fannie Mae acquisition volumes include volatile interest rates and the associated impact on home sales and mortgage origination volumes. While long-term interest rate dynamics may have begun to improve with the Federal Open Market Committee's decision to reduce the federal funds rate by 50 basis points at its September meeting, further home price growth throughout 2024 continues to constrain the sale of existing inventory. And while the Census Bureau reports seasonally adjusted housing starts of single-family homes increased 15.8% in August, the percentage of starts represented by manufactured homes remains below 10% and largely in line with historical trends. Thus, the combination of compressed sales of existing inventory and lower levels of new MH supply reaching the marketplace is contributing to our off-track status.

SELF-ASSESSMENT RATING OF PROGRESS:

☐ On track to meet or exceed the target

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):

Despite headwinds in the macroeconomic environment, Fannie Mae continues to engage with its approved seller/servicers to understand opportunities and barriers to adopting manufactured housing lending. When considering barriers, lenders are sharing that adequate homeowners' insurance coverage is becoming increasingly difficult to find. One lender shared that certain insurance providers will not provide coverage on older MH properties or are otherwise charging premiums which are cost-prohibitive for low-income buyers. These challenges will undoubtedly continue to constrain our reach into rural areas—where the housing stock tends to be older and MH properties generally comprise a higher share of single-family housing stock.