

July 22, 2026

Clinton Jones
General Counsel
Attention: Comments/RIN 2590–AB64
Federal Housing Finance Agency
400 Seventh Street SW
Washington, DC 20219

Re: Comments on Proposed Rule — Enterprise Duty to Serve Underserved Markets, RIN 2590–AB64, 91 FR 37848 (June 24, 2026)

Dear Mr. Jones:

I am submitting the enclosed comment letter in response to the Federal Housing Finance Agency's proposed rule rescinding and replacing its Duty to Serve Underserved Markets regulation, published at 91 FR 37848 on June 24, 2026 (RIN 2590–AB64). My comments address the proposed rule's treatment of manufactured housing chattel lending, discussed in the preamble at Section III under the Agency's proposed authority for Enterprises to take any "eligible action," and informed by Executive Order 14394's direction that FHFA reform its guidelines and regulations regarding chattel lending for manufactured housing.

My comments do not respond to a single numbered question in Section IV.J of the proposed rule; rather, they are offered in response to the proposed rule as a whole, and specifically to the Agency's discussion of Enterprise entry into manufactured housing chattel lending.

In brief, I argue that Enterprise large-scale entry into this market should be dependent on their obtaining comprehensive performance data and underwriting guidelines from lenders, a thorough vetting of MH chattel risk and pricing assumptions by FHFA, and incorporation of high deductibles with lenders to minimize Enterprise credit exposure while gathering performance data. I describe how potential Enterprise involvement in chattel lending could possibly raise rather than lower borrower rates. If FHFA proceeds with a small-scale pilot, I believe any larger entry into the chattel market should occur only once a fully-developed analytical framework with robust modeling is in place.

I bring to this comment a background as former Director of Mortgage Credit Pricing at Fannie Mae (1998–2007), former Senior Examiner at the Federal Housing Finance Agency (2016–2018), and former Senior Project Manager at the Office of Thrift Supervision (1989–1998). At Fannie Mae, I led risk analytics and pricing for manufactured housing chattel issues related to its \$9 billion manufactured housing securities' portfolio and stand-alone chattel-related deals. My comments reflect my own analysis and do not represent the views of a former employer.

Respectfully submitted,

Robert Kazdin

Enclosure: Comment Letter on RIN 2590–AB64

COMMENT LETTER

Federal Housing Finance Agency Proposed Rule: Enterprise Duty to Serve Underserved Markets
RIN 2590-AB64 — 91 FR 37848 — June 24, 2026

Submitted by: Robert Kazdin in Individual Capacity

Statement of Scope

This comment is submitted strictly to evaluate the risk-modeling, pricing, and capital-adequacy dimensions of manufactured housing chattel portfolios under the proposed rule. It takes no position on the consumer necessity of manufactured housing finance.

The sole objective is to assess whether the proposed framework adequately accounts for the structural credit risk, data deficiencies, and market dynamics of chattel lending. All findings are grounded in publicly available data, industry research, and my firsthand professional experience in secondary mortgage market pricing during the period when the Enterprises last held significant manufactured housing exposure.

Professional Background and Basis for Comment

I served as Director of Mortgage Credit Pricing at Fannie Mae from 1998 to 2007, where my responsibilities included evaluating and pricing new mortgage products under consideration by the Enterprise — new to Fannie Mae, though not necessarily new to the broader market. These included home equity lines of credit, reverse mortgages, portable mortgages, renovation loans, second liens, and manufactured housing chattel securities, among others. I led the review of Fannie Mae's 2007 single-family risk model to ensure its accuracy. This combination of new-product pricing responsibility and risk model oversight gave me direct professional exposure to the analytical challenges of extending GSE credit risk frameworks into asset classes for which adequate performance data did not exist.

As Senior Examiner at the Federal Housing Finance Agency from 2016 to 2018, I examined the Enterprises' credit risk frameworks, including Fannie Mae's manufactured housing exposure. Between 1989 and 1998, I served as Senior Project Manager at the Office of Thrift Supervision.

Section 1: Firsthand Experience with Chattel Risk Pricing at Fannie Mae

I worked on default and pricing analytics for manufactured housing (MH) chattel loan pools from 1998 to 2007. I initially found that adequate loan-level chattel performance data did not exist to support rigorous independent pricing.

I was presented with a large chattel transaction to evaluate in 2000. When I presented my stress analysis showing the high risk of the transaction, based on general market data, to the originating lender, the lender concurred with the assessment about the risk and withdrew the deal request.

In 2002–2003, I generated loss projections for the entire \$9 billion Fannie Mae MH chattel portfolio to assist in determining impairment for the MH securities. The projections for one specific deal are documented in Fannie Mae's April 2003 Manufactured Housing Securities Status Report (FM-FCIC 00166873, Financial Crisis Inquiry Commission Public Archive, Stanford Law School). It showed projected cumulative collateral losses ranging from 25% to 28% on a highly stressed 1999-5 Conseco mixed land/home and chattel pool, which is consistent with the ultimate actual loss experience shown by Fitch ratings in their Cascade 2021 pre-sale document.

Toward the end of my Fannie Mae tenure, I evaluated a second chattel transaction in which the lender again provided no loan-level performance data. Using my own pricing model and incorporating an uncertainty premium to reflect the data deficiency, I established a deductible and pricing framework for the transaction, which the lender accepted.

My experience during this period led me to conclude that the data infrastructure required to accurately price chattel credit risk was weak. FHFA's own 2026 rulemaking acknowledges that the chattel lending market continues to suffer from limited liquidity, the absence of a securitization infrastructure, and a lack of robust performance data. That condition has persisted for nearly three decades.

Section 2: Structural Risk Characteristics of Chattel Collateral

Unlike site-built homes, which are secured by land and structures that have historically appreciated in value, MH chattel collateral has historically been a depreciating asset. Compounding the collateral depreciation risk, chattel borrowers exhibit materially weaker credit profiles than conventional site-built mortgage borrowers. The combination of depreciating collateral and weaker borrower credit quality produces a riskier profile than conventional mortgage risk.

Beyond borrower credit quality, my analysis during my tenure at Fannie Mae, informed by publicly available manufactured housing credit research, identified unit type (single-wide versus double-wide), land tenure (whether the borrower owned the underlying land or leased a pad in a manufactured housing community), modification status, loan-to-value ratio, placement characteristics, among others, as material determinants of chattel credit risk.

Building on publicly available standard chattel credit models, I developed an independent pricing model and conducted sensitivity analysis across key risk variables. The principal constraint on this analysis was the absence of adequate loan-level performance data.

Section 3: Fannie Mae's Documented Loss Experience — The FCIC Public Record

Fannie Mae's April 15, 2003 Manufactured Housing Securities Status Report (FM-FCIC 00166873), publicly available through the Financial Crisis Inquiry Commission archive hosted by Stanford Law School, provides a relevant empirical basis for understanding what happened to MH collateral during the collapse of the industry in the late 1990s and early 2000s.

The document presents Fannie Mae's own cash flow projections for one of its most stressed manufactured housing pools, reflecting three successive sets of assumptions developed between November 2002 and March 2003. Those projections document cumulative collateral losses in the range of 25% to 28%, with loss severity of 80% to 90%.

Section 4: Quantitative Risk Differential — Chattel versus Conventional Site-Built

The following analysis illustrates the order of magnitude of the credit risk differential between manufactured housing chattel and conventional GSE site-built mortgages. It is not presented as a formal actuarial analysis.

4.1 Expected Loss Comparison

To gain an appreciation for the sizeable risk presented by chattel lending, a comparison between the GSE single-family acquisition book and chattel loss data provides useful insight. To construct this comparison, I use the Conseco 1999-5 deal data discussed above, along with Fitch credit rating agency data. The Fannie Mae projections for the Conseco 1999-5 pool showed losses ranging from 25% to 28%. These portfolios contained a mixture of land/home and chattel loans with chattel representing about three-quarters of the portfolio. When broken out, the chattel portion of the pool losses was determined to be about 5 percentage points higher than the entire pool (a separate chattel loss number was not available and was imputed based on the Fitch 2021 Cascade securitization).

Using the Conseco 1999-5 projections, I derived a general estimate of expected losses using the rating agencies' standard ratio approach, where the AAA stress loss is scaled from the expected loss using a multiple. For example, if the expected loss is 20%, about a 2.5:1 multiple is typically used for chattel by the rating agencies to derive a 50% AAA stress loss; if the expected loss is 10%, about a 3:1 ratio is used, and so on.

I set AAA stress at 26% based on the average of Fannie Mae's three projections for the Conseco 1999-5 pool, and then use the ratios above to back out expected loss. First, I determine the loss on the chattel portion of the pool using the 75/25 chattel/land-home split for the pool and a stress loss of 10% for land/home (from the Fitch Cascade 2021 securitization). The stress loss on the chattel portion of the pools was determined to be about 31%. The implied expected loss is about 10% based on a ratio ~3:1.

The base case analysis throughout this comment letter assumes an illustrative expected cumulative loss of approximately 10%. Fitch Ratings recently confirmed that its published base-case expected loss for a recent manufactured housing securitization (Cascade 2021) in which approximately 70% of the collateral consisted of chattel loans was substantially higher than 10%. Fitch explained that its manufactured housing probability-of-default model is based primarily on Green Tree/Conseco performance data from the late 1990s and early 2000s and indicated that the resulting expected-loss estimates are likely higher than what might be expected today because more recent performance data are limited. Accordingly, if Fitch's higher expected-loss estimates prove more representative of future performance than the assumptions in this letter, the implied GSE guarantee fees discussed throughout the letter would be higher than what is estimated.

4.2 Dollar Impact Illustration

Given the expected 10% loss projection for chattel collateral, I illustrate what this loss rate on a pool of MH loans means in dollar terms. The following table illustrates the dollar impact of the risk differential on a hypothetical \$1 billion chattel portfolio compared to an equivalent acquisition-book portfolio, where acquisition-book loss rates are projected at approximately 0.4%. As the table below shows, the expected loss on the chattel pool is \$100 million — twenty times the \$4 million projected loss on the equivalent standard single-family pool. Viewed another way, if a GSE's single-family acquisition book is \$340 billion (the Fannie Mae 2025 single-family acquisition book), MH chattel losses on a \$1 billion chattel pool would be comparable to the losses expected on a \$25 billion standard single-family portfolio, about 7% of the entire Fannie Mae single-family acquisition book.

Scenario	Standard Single-Family House	Chattel	Difference
Portfolio size	\$1 billion	\$1 billion	-
Expected loss rate	0.4%	10%	-
Expected loss dollars	\$4 million	\$100 million	\$96 million
Stress loss rate	3%	31%	-
Stress loss dollars	\$30 million	\$310 million	\$280 million

For a \$100 million pilot program, using the 10% expected loss rate, pilot losses would be expected to be \$10 million — the same expected loss one would see on an approximate \$2.5 billion pilot program for single-family business loans.

When I run sensitivity testing on the expected loss estimate, and base the analysis on the Fitch chattel loan data for the vintage Conseco 1999/2000 actual pool losses for the worst Conseco pools in those vintages (approximate 30% loss rate for a mix of land/home and chattel loans), a 35% cumulative loss rate for solely chattel results when land/home losses are backed out. I use this rate for stress losses and using an approximate 3:1 ratio for stress loss to expected loss, this results in a 12% expected loss projection. For this scenario, the ratio of MH expected losses to single-family expected losses increases to 30 to 1. The MH pool's expected losses on the \$1 billion pool or \$120 million would be similar to those on a \$30 billion standard single-family pool or 8% of Fannie Mae's 2025 acquisition book.

Lastly, if I use the Fannie Mae losses for just chattel generated from the 1999-5 Conseco deal, which is the stress loss assumption of 31%, \$310 million in losses on the \$1 billion portfolio would be expected. This stress loss level would be comparable to the expected loss on a \$78 billion single-family pool or about 23% of the standard 2025 single-family acquisition book for Fannie Mae. This comparison of stress losses for MH to expected losses for single-family business is not far-fetched: during the 1999–2005 period, when the MH industry collapsed, the standard site-built business experienced no comparable downturn.

Section 5: Guaranty Fee (G-fee) Pricing Implications

When pricing MH collateral, I use the expected loss figure from the prior section — 10% base case. Given an assumed average life for MH collateral of 7 years, the annualized expected loss would be based on a 10% loss, which is discounted based on a 9.2% mortgage rate. For simplicity, losses are spread evenly over the first five years, which contains the peak period of historical chattel loan defaults. If a more refined analysis is done where losses are concentrated in the second to fourth years, a similar discounting result occurs.

The g-fee analysis for expected losses translates into a 160 basis point portion of the total g-fee. Capital would be sized to the stress-minus-expected gap of 31% minus 10%, or 21% over the life of the pool, which is discounted to a 16% capital level. Assuming a 12.5% before-tax return on equity (ROE), the g-fee attributable to the capital portion is 200 basis points. The total fee is 160 plus 200, or 360 basis points. If I add 10 basis points for administrative expenses for small chattel loan size, the total fee is 370 bps. I add a 50 basis-point uncertainty premium to the 370 basis point g-fee for an all-in credit g-fee of 420 basis points, as presented in Appendix A. (This g-fee approach does not give capital credit for g-fee income. If credit is given, the g-fee would decrease.)

The guarantee fee numbers above are rough estimates using readily available data and are intended to provide directional guidance, not absolute guidance.

With regards to capital requirements, it is assumed that the GSE ERCF places chattel lending in the “other” category for risk-weighting, which I assume assigns it a risk-weight of 100%, equivalent to an 8% capital requirement. As shown above, this is well below the estimated base level capital requirement of approximately 16% derived above based on the loss experience for the 1999-5 Conseco pool. Prior to entering the chattel guarantee business, FHFA should ensure that the GSE capital requirements reflect the credit risk for chattel lending, whether it’s a pilot chattel program or a larger scale program.

Section 6: The Interest Rate Buildup

The FHFA NPRM states that interest rates on MH chattel loans averaged approximately 9.2%. This rate reflects multiple components — including the liquidity premium from the absence of a GSE secondary market, the weaker credit profile of chattel borrowers, cost of funding the loans, servicing, overhead, and the option value related to variations in default risk, which function as a form of prepayment.

The NPRM states a goal of the Duty to Serve amendment to accelerate GSE entry into the chattel market would be to compress chattel rates from 9.2% toward conventional levels of 6.6%. To the extent the spread reflects a liquidity premium, GSE entry could legitimately compress that component through liquidity provision.

However, the effect of GSE entry on chattel rates must also account for several offsetting forces: (1) if the Enterprises apply stress scenarios calibrated to actual historical chattel loss experience, the resulting capital charge and expected loss projections from the GSEs could produce a g-fee that fully offsets or exceeds the liquidity gain; (2) CRT investors, who guarantee the credit risk, could charge an additional premium based on their more conservative evaluation of credit risk and the lack of reliable data; and (3) MBS investors could determine that defaults — which function effectively as prepayments — are highly volatile, requiring a higher fee for the option value relative to what is currently built into lender rates.

This triple-layer pricing penalty — GSE risk overpricing, the CRT market's uncertainty premium, and investor-lender data asymmetry — collectively creates a friction that could offset liquidity gains.

If the 9.2% pool figure quoted in the rule's preamble reflects an origination mix of FICO scores, LTV values, and other borrower characteristics with credit risk not comparable to the Consec 1999-5 pool, this number may need to be revised upwards or downwards to allow an apples-to-apples comparison with the GSE-implied interest rates. To be conservative, I assume that the 1999-5 Consec pool is slightly riskier than the loans represented by the 9.2% interest rate and adjust the 9.2% lender rate upwards by 0.3 percentage points to 9.5% in order to compare to the GSE interest rates derived in Appendix A on an apples-to-apples basis. The FHFA should refine the estimate upwards or downwards to ensure an apples-to-apples comparison is made. (For simplicity, the 9.2% rate is still used for discounting purposes in Appendix A.)

The main buildup of the chattel interest rate indicates that for chattel loans purchased and held in portfolio by the GSEs, the all-in rate could be 10.6%, once gains from liquidity and the likely higher GSE g-fee are accounted for (see Appendix A).

If the GSEs establish a CRT transaction and also sell the chattel loans to investors in the form of MBS, the additional CRT premium and the default-option fee, due to investor uncertainty, could raise the all-in rate by approximately 0.5 percentage points. This might be offset by an approximate 0.2 percentage point reduction in the liquidity premium due to the move to the investor securitization platform, resulting in an all-in interest rate of 10.9% — 1.7 percentage points above the baseline 9.2% lender gross interest rate and 1.4 percentage points above the adjusted lender gross interest rate of 9.5%.

Over a longer period of time, as the securities' market for MH chattel matures, the uncertainty premium charged by investors and the GSEs will likely decrease and the all-in rate could decrease to 10.2%.

It is noted that all rate components above and in Appendix A are rough, directional estimates intended to illustrate the likely order of magnitude of the cost build-up for manufactured-housing chattel lending. They should not be interpreted as precise measures of any lender's actual funding cost, servicing cost, capital charge, or profit margin. The GSE credit pricing components in Appendix A are based on my experience pricing chattel loan pools at Fannie Mae.

Section 7: Bank Risk-Weighting

The high credit risk represented by MH chattel loans also has a significant effect on bank financing of chattel. Banks currently apply a 100% risk weight to chattel loans, equivalent to an 8% capital requirement.

Since the above analysis indicates that the more appropriate capital requirement for chattel loans far exceeds the current 8% bank requirement, banks have an incentive to finance chattel MH loans to produce an above average return on equity. The bank capital rule creates the illusion that chattel loans are safer than historical data indicates. Regardless of whether a chattel loan is held by a bank or guaranteed by a GSE, the capital held against it should reflect the same underlying risk; comparable capital treatment across institution types is warranted. FHFA may wish to raise the issue with the bank regulators to modify their risk weight on MH chattel from 100% to a much higher risk weight to reflect significantly greater risk of chattel loans.

Section 8: Recommendations

I offer the following recommendations, grounded in the analysis above.

First, if the Enterprises elect to enter the manufactured housing chattel market, loan-level performance data for the vintages in the 1990s through the early 2000s should be retrieved to understand chattel stress period mechanics to assist in the establishment of loss projection and capital requirements. Additionally, recent loan-level historical performance data and underwriting guidelines should be obtained from originating lenders to support rigorous independent credit modeling. The FHFA should, to the extent possible, require lenders to supply loan level data to the GSEs.

During the GSEs' analysis of the data and the creation of pricing models, consideration should be given to a deductible structure on chattel transactions, sized appropriately to the scale of Enterprise activity during this period. This deductible should remain in place until sufficient performance data has been accumulated and validated to support accurate risk pricing. The deductible structure protects the Enterprises from unquantifiable tail risk during the data-building period and creates a market incentive for originators to provide the transparent performance data that safe and sound GSE participation requires. Furthermore, consideration should be given to requiring originating lenders to fund a reserve account sized to cover a major portion of the deductible amount, ensuring that the first-loss protection is genuine rather than nominal.

If the Enterprises are unable to obtain historical performance data from lenders, a deductible strategy should continue until the Enterprises have enough information to properly evaluate and price the risk and establish clear underwriting criteria for chattel loans.

Second, even with a higher deductible structure in place, the Enterprises would retain exposure to catastrophic loss above the deductible threshold. Adequately pricing that tail risk requires stress scenarios calibrated to actual historical chattel loss experience — using the vintage 1990s to 2000s time period.

This should form the baseline for catastrophic risk pricing above the deductible. All relevant public documents from that period should be reviewed for stress calibration and formally incorporated into the Enterprises' Duty to Serve risk frameworks.

Third, the FHFA should consider ensuring that outcome-based chattel targets do not extend beyond a small-scale pilot until a fully-developed analytical framework with robust modeling is developed. This would be based, in part, on whether the GSEs have the data infrastructure and modeling capability necessary to support safe and sound chattel risk pricing.

Fourth, FHFA should determine the viability of GSE entry into the manufactured housing chattel loan business through a detailed buildup of the manufactured housing chattel interest rate, similar to the analysis presented in Section 6 and Appendix A of this comment letter. Credit g-fees, CRT pricing, and investor pricing of default-related prepayment option should be researched and incorporated into the analysis to help determine the role GSEs will play in chattel lending.

Fifth, when building the pricing model, in addition to standard procedures for evaluating and pricing loan-level data, the GSEs should consult with lenders, manufacturers, and the rating agencies to help develop the model. Because of the high variability in chattel performance, rating agency methodologies and rating levels should be thoroughly reviewed to understand their analytical approaches. Additionally, due to the history of modifications and delayed payments of mortgage loans for chattel lending, this variable should receive additional scrutiny in the pricing model.

Sixth, FHFA should thoroughly evaluate how to modify the ERCF to establish a robust capital framework for chattel loans, determining the capital necessary to be held. This capital framework is one of the most important elements required to effectively price chattel lending, for both a pilot and a larger-scale program.

Seventh, where possible, FHFA should consider requiring that any GSE chattel pilot program include mechanisms to ensure participating originators provide complete and audited loan-level performance data as a condition of GSE participation. Without such a requirement, an adverse selection dynamic may result in the Enterprises accumulating lower-quality chattel paper while private lenders retain the best-performing assets.

Eighth, management should be kept continually aware of the performance of chattel lending pools — most notably delinquency status, defaults, modifications, payment delays, and pool losses — given the performance of the 1999-2001 Conseco pools.

Ninth, as part of the bank regulators' current discussion on adjusting risk weights for LTV levels on mortgage loans, FHFA may wish to raise the issue with them of modifying the risk weight on MH chattel from 100% to a much higher risk weight to reflect the significantly greater risk of chattel loans. Comparable capital requirements between banks and the GSEs for equivalent chattel risk are warranted, regardless of which entity ultimately holds the loan.

Section 9. Conclusion

My central conclusion, based on firsthand experience pricing chattel risk at Fannie Mae and examining the Enterprises' credit risk frameworks at FHFA, is as follows: without adequate historical loan-level performance data on manufactured housing chattel assets, the Enterprises face significant challenges accurately pricing chattel credit risk. The proposed rule, by establishing outcome-based chattel initiatives without first ensuring the data infrastructure necessary to support sound underwriting and pricing, may impose on Fannie Mae and Freddie Mac a risk that is difficult to adequately measure, model, or price.

Furthermore, based on a simplified analysis that builds the mortgage rate up from its individual components, GSE entry into the manufactured housing chattel lending market — while likely creating greater liquidity — might result in a net increase in the mortgage rate for chattel borrowers, due to the combined effect of higher GSE pricing for credit risk, higher CRT pricing reflecting credit uncertainty in the collateral, and increased option-fee pricing from investors reflecting the impact of default volatility on prepayment speeds. FHFA should perform a similar interest-rate build-up analysis to help evaluate the role of GSE entry into the chattel lending market.

The historical record is unambiguous on the risk of chattel lending. Fannie Mae's own loss estimates from the April 2003 status report — now public through the FCIC archive — document significant cumulative collateral losses for a mixed land/home and chattel pool. The magnitude of these losses warrants tight oversight of the Enterprises by FHFA and the establishment of clear guidelines for building a framework to assess the risk of MH chattel.

If the relevant data for assessing and modeling the risk of MH chattel cannot be obtained from the major lenders in the industry, FHFA should consider requiring the GSEs establish a high deductible pricing arrangement with lenders until the necessary data is obtained, analyzed, and modeled. I respectfully urge the FHFA to consider ensuring that outcome-based chattel targets do not extend beyond a small-scale pilot until a fully-developed analytical framework with robust modeling is developed.

Respectfully submitted,

Robert Kazdin
Bethesda, Maryland

Former Director of Mortgage Credit Pricing, Fannie Mae
Former Senior Examiner, Federal Housing Finance Agency
Former Senior Project Manager, Office of Thrift Supervision

Appendix A: Comparison of Current Market Mortgage Rate for Manufactured Housing Chattel to Implied Rate After GSE Involvement

Overview

The FHFA is considering directing the Enterprises (Fannie Mae and Freddie Mac) into the personal property (chattel) market to create liquidity and lower interest rates to borrowers. This mandate is based, in part, on the expectation that the gains from secondary market liquidity will compress interest rates for underserved borrowers.

This analysis shows that, in the short-run, the gains to a lender's all-in interest rate from reducing the **Liquidity Premium** needs to account for offsetting increases to the interest rate due to **Higher GSE Credit Fees**. If the GSEs transfer the loans to the investor market, additional offsets need to account for **Credit Risk Transfer (CRT) Uncertainty Premiums and Higher Option Fees for Volatile Default Assumptions from Investors**.

All rate components in the analysis are rough, directional estimates intended to illustrate the likely order of magnitude of the cost build-up for manufactured-housing chattel lending. They should not be interpreted as precise measures of any lender's actual funding cost, servicing cost, capital charge, or profit margin.

Most importantly, the table assumes the pool of chattel loans used to derive the 9.2% rate has the same credit-risk characteristics as the chattel component of the 1999-5 Conseco pool which the GSE estimates are based on. If the 9.2% number misestimates the credit characteristics of the chattel portion of the Conseco 1999-5 pool, the difference between the lender interest rate and the GSE-derived interest rate changes. For the analysis below, I conservatively assume that the Conseco 1999-5 pool is slightly riskier than the loans represented by the 9.2% interest rate and add 0.3 percentage points to obtain a 9.5% rate used for comparison purposes.

The Four Stages of the Analysis - The Interest Rate Buildup

1. **Current Lender Market Standard (Column 1):** Various pieces of the components of the **9.20%** gross market coupon are estimated. The adjusted gross coupon is **9.50%**, for comparability with GSE rates.
2. **GSE Pricing (Column 2):** The GSEs purchase loans and retain in portfolio. Liquidity premium begins to get lowered (0.50%), while the baseline model establishes a steep 4.20% credit floor. The all-in borrower rate is **10.60%**.
3. **Risk Transferred to Investor Market (Column 3):** The model assumes GSEs transfer credit and portfolio risk to the investor market in the form of CRTs and MBS. CRT investors charge uncertainty premiums of **0.25%** and MBS investors charge an additional **0.25%** over the base **0.25%** option fee. The liquidity premium decreases to **0.30%**, based on the move to securitization. The all-in borrower rate moves up to **10.90%**.
4. **Securities' Market Matures (Column 4):** As performance data evolves, liquidity premium decreases, and GSEs and investors reduce uncertainty premiums. All-in borrower rate decreases to **10.20%**

Cost Component Comparison (Annual Yield Basis)

Cost Component Layer	1. Current Market ABS	2. Immature GSE Floor	3. Adjusted CRT+ Additional Option Fee from Sale to Investors	4. Mature MBS Product
1. Base Cost of Capital	4.40%	4.40%	4.40%	4.40%
2. Liquidity Premium	1.00%	0.50%	0.30%	0.15%
3. Credit Risk Charge	2.30%	3.70%	3.70%	3.70%
4. GSE Uncertainty Credit Premium	0.00%	0.50%	0.50%	0.25%
5. CRT Investor Premium	0.00%	0.00%	0.25%	0.10%
6. Default Put Option Fee	0.25%	0.25%	0.50%	0.35%
7. Servicing, Legal, Overhead, and Other Profits	1.25%	1.25%	1.25%	1.25%
8. Total - Gross Consumer Coupon	9.20%	10.60%	10.90%	10.20%
9. Adjustment for Comparable Pool Characteristics	0.30%	0.00%	0.00%	0.00%
10. Modified Total – Gross Consumer Coupon	9.50%	10.60%	10.90%	10.20%

Methodology & Assumptions Guide: Chattel Pricing Model

Line 1: Base Cost of Capital (4.40%)

- **Economic Rationale:** This layer represents the foundational risk-free wholesale cost of money before any asset-specific risk, liquidity, or operational items are factored in.
- **Private Market ABS Anchor:** Private specialized originators utilize institutional warehouse lines of credit or other sources. The base cost of capital for these lines is tied to 10-year Treasury rate at the June 2026 rule publication date, which was 4.40%.
- **GSE Conduit Anchor:** GSEs are assumed to utilize the same 4.40% benchmark for its cost of capital. This number remains locked across all four stages of the model.
- **For simplicity,** the 4.40% base cost of capital is held constant for both the private lender and the GSE, rather than separately breaking out the lender's own funding spread. This is a simplification and does not affect the total 9.20% lender rate, since Line 3 is solved as a residual for the lender against that observed figure.

Line 2: Liquidity Premium

- **Economic Rationale:** This represents the structural yield penalty demanded by investors to compensate for the absence of an active secondary trading market.
- **Column-by-Column Assumptions:**
 - **Column 1 (1.00%):** Represents the liquidity spread required by private-label ABS buyers to hold non-GSE conforming, chattel personal property paper.
 - **Column 2 (0.50%):** Reflects the initial pilot-program phase of GSE entry. Due to likely small pool sizes initially and early-stage administrative setup costs, the liquidity premium compresses to only 50 basis points.
 - **Column 3 (0.30%):** Securitizing loans to sell to capital markets' investors reduces the liquidity premium to 30 basis points.
 - **Column 4 (0.15%):** Reflects the case where the asset class achieves greater liquidity status.

Line 3: Credit Risk Charge

- **Economic Rationale:** The annualized cash provision required to structurally absorb baseline expected losses (EL) while generating a mandatory return on the regulatory capital held to guard against catastrophic unexpected losses (UL).
- **Formula Structure:** Based on expected and stress losses.
- **Column-by-Column Assumptions:**
 - **Column 1 (2.30%):** Solved as a residual against the observed 9.20% market coupon, holding the other cost components constant. Average pool life is 7 years. Using an 8% bank capital requirement at 15% pre-tax return (120 bps) and 10 bps overhead, the implied expected-loss charge is 100 bps — roughly a 7% expected loss, and below the 10% GSE expected loss base case. The lender's loss assumption may rely on the recent chattel performance experience, while the GSE's expected loss is based on worse economic assumptions.

- **Column 2, 3, 4 (3.70%):** Reflects base GSE MH chattel model assessment of chattel credit risk using Conseco 1999-5 pool Fannie Mae average 26% stress loss estimate adjusted for chattel percentage of 75% of loans. This results in 31% stress loss and 10% expected loss, discounted by 9.2% rate. Average pool life is 7 years. A 12.5% pre-tax return is used based on lower expected return for GSEs versus the assumed 15% pre-tax return for chattel lenders.

Line 4: GSE Uncertainty Premium

- **Economic Rationale:** The uncertainty premium reflects that stress losses may exceed the base case, using a higher stress loss level as a reference point
- **Column-by-Column Assumptions:**
 - **Column 1 (0.00%):** By definition, the lender uncertainty premium is zero.
 - **Columns 2 and 3 (0.50%):** This is based on the increased chattel stress loss assumption of 35%, which is 4 percentage points above the 31% base stress loss using the worst performance of the Conseco 1999/2000 pools. Expected losses are projected to increase from 10% to 12%. Stress and expected discounted by 9.2%.
 - **Column 4 (0.25%):** It is assumed that GSEs gain more confidence with chattel credit risk and this reduces the uncertainty g-fee to 0.25%.

Line 5: CRT Investor Premium

- **Economic Rationale:** The explicit yield premium demanded by private capital market investors to purchase the high-risk, first-loss, and mezzanine default-absorption tranches of a securitization.
- **Column-by-Column Assumptions:**
 - **Columns 1 and 2 (0.00%):** This is 0.00% because private lenders and GSEs maintain all the risk internally.
 - **Column 3 (0.25%):** The GSEs offload much of its credit risk via Credit Risk Transfer (CRT) notes. Because chattel asset performance experience is uncertain, CRT investors demand a 0.25% risk surcharge to hold the tranches. The GSEs pass this investor fee directly down into the consumer's monthly coupon.
 - **Column 4 (0.10%):** After some time, CRT investors reduce their premium to 0.10% with additional performance experience and greater certainty on loss exposure.

Line 6: Default Put Option Fee

- **Economic Rationale:** Compensation for the embedded option held by the borrower. Because chattel structures depreciate rapidly and borrowers do not own the underlying land, a borrower facing financial distress may not execute an equity sale. Instead, they may default, exposing the lender to sudden spikes in default volatility. A very low option fee cost is assumed for voluntary prepayments, which are historically very low.
- **Column-by-Column Assumptions:**
 - **Columns 1 and 2 (0.25%):** Private lenders charge for default volatility and charge a distinct option fee to the consumer at origination. GSEs assumed to price similarly.

- **Column 3 (0.50%):** External capital market investors lack the specialized data and ground-level networks of private originators. Facing severe information asymmetry, they build an additional 0.25% option fee directly into the required bond yields.
- **Column 4 (0.35%):** As the securitization product matures, external capital market investors gain information and reduce the option fee.

Line 7: Servicing, Overhead, Legal, and Profit Fees (1.25%)

- **Economic Rationale:** The fixed servicing, overhead, legal and profit fees for the chattel product. This includes fixed administrative overhead covering data management, legal maintenance of the trust, other operational costs and profit fees.
- **Why It Remains a Fixed Floor:** This layer stays locked at 1.25% across all four columns.

Line 8: Gross Coupon Rate

- **Summation:** This is the sum of Lines 1 through 7 for each column.

Line 9: Adjustment for Comparable Pool Characteristics

- **Economic Rationale:** When comparing the interest-rate buildup for GSEs to chattel lenders, it is necessary to compare pool types with similar credit-risk characteristics. Due to the scarce current market data for chattel loans and discussions with chattel lenders, I assume that the credit-risk characteristics for loans represented by the 9.2% interest rate are slightly riskier than those characteristics for the Conseco 1999-5 pool. As such, I make a conservative adjustment to the chattel loan rate of 0.30 percentage points to more appropriately compare the lender interest rate against the GSE implied interest rates.

Line 10: Adjusted Gross Coupon Rate

- **Summation:** This is the sum of Lines 8 and 9 for each column.