

PRIVILEGED AND CONFIDENTIAL

March 21, 2017

Mr. Jim Gray
Director, Duty to Serve Program
Federal Housing Finance Agency
400 7th St. SW
Washington, DC 20024

Via email: DutytoServeStakeholders@fhfa.gov

Request for Input (RFI): Support for Chattel Financing of Manufactured Homes

Dear Mr. Gray:

The *Vermont Manufactured Housing Association* is pleased to submit comments in response to FHFA's January 2017 Request for Input (RFI) on Enterprise purchases of chattel manufactured home loans. V.M.H.A. is a statewide alliance of dealers who retail manufactured and modular housing.

Our association strongly feels that exposing the Manufactured Housing industry to the secondary market as a chattel mortgage product would greatly expand our reach to a demographic of eager buyers and re-finance clientele. A significant number of long-established Vermont dealers own and manage manufactured housing communities (aka "mobile home parks"). As community owners, it is a constant goal to maintain a robust and healthy presence on the local tax rolls. The availability of lending capital for the purchase, the replacement of older homes and the re-financing of existing homes will favorably serve a significant percentage of the tax base.

Manufactured homes are a critical source of affordable housing for more than 22 million working families. Close to 60 percent of new manufactured homes sell for less than \$70,000. Manufactured housing can offer this value to consumers because of technological advancements and cost savings associated with the factory-built process. The affordability of manufactured homes has long made these homes the preferred choice for many families, including first-time homebuyers, retirees and families in rural areas. However, compared to site-built homes, consumers do not share the same financing options. These limitations put consumers at a disadvantage in a number of areas including the ability to: purchase new and existing homes; reduce interest rates through refinancing, and sell homes to the broad range of interested buyers.

Manufactured housing is one of three "underserved markets" identified in the 2008 HERA provision which creates a Duty to Serve (DTS) for Fannie Mae and Freddie Mac (the "Enterprises"). We believe that the Enterprises cannot meet this obligation without supporting chattel financing.

Our friends at MHI have offered relevant responses as well as prompted our own below to the questions posed in FHFA's Request for Information. We hope that you find our position (as described in paragraph 2 above) supportive to the argument for our under-served portion of the market. Thank you for the opportunity to offer this important feedback to you. We look forward to our continued engagement with the Enterprises and FHFA on this important initiative.

Sincerely,
Dale W. Snader,
Vermont Manufactured Housing Assoc., Pres., Treas.
Dale's Homes Inc., Pres.

Responses to Questions

Sources of Chattel Loan Financing

1. *Describe the current sources of financing for chattel loans in the primary market (e.g., mortgage companies, federally insured depository institutions, manufactured housing community owners, specialized finance companies) and their relative market shares. Which entities are the 20 largest originators of chattel loans for chattel manufactured homes, and what is the approximate market share for each originator? Are there geographic or regional differences in funding sources? How is financing concentrated geographically?*
 - Relative to the site built market, manufactured homes do not share the same financing options, including a secondary mortgage market. These limitations put consumers at a disadvantage in several areas including the ability to: purchase new and existing homes, reduce interest rates through refinancing, and sell homes to the broad range of interested buyers.
 - In current environment, financing for chattel loans typically comes from financial institutions that either retain loans or sell to other institutions for their portfolios. There are only a limited number of national lenders, some regional lenders, and small community lenders or credit unions that originate chattel loans.
2. *Describe the current sources of financing for owner-occupied and for investor-owned chattel loans in the secondary market (e.g., hedge funds, individual private investors, real estate investment trusts) and their relative market shares. Which entities are the 20 largest holders of chattel loans secured by manufactured homes, and what is the approximate market share for each entity?*
 - Most lenders hold loans in portfolio.
 - In our experience as V.M.H.A. retailers, the narrow number of lenders that serve the local market are compelled to write notes for limited terms and at higher interest rates. Interest rates are even higher through outside manufactured housing mortgage brokers who solicit our office.
 - There is not a current secondary market at this time – GSEs need to help create this market through the Duty to Serve.
3. *Do manufactured housing communities fund their community-financed chattel loans? If so, explain how such a funding process works and what secondary market or other funding sources are used.*
 - Many communities have affiliates that purchase loans from third party lenders.
 - These third-party lenders provide financing for consumers to purchase homes from affiliated retailers to be placed in the communities.
 - A significant number of long-established Vermont dealers own and manage manufactured housing communities. Exposing the Manufactured Housing industry to the secondary market would greatly expand our reach to a demographic that is often made up of eager first-time home buyers, whether it is for a new home or an existing home.

4. *What types of financing providers do not participate in the chattel market, and what is the appropriate role that the Enterprises could play in broadening that market? What risks should be considered in expanding into this market?*
 - For the most part, regional and national depository institutions do not participate in the chattel market due to a lack of a secondary market.
 - There are several risks new providers might cite for not entering the chattel market: lack of familiarity with the community operator and chattel lender relationship; titling and lien perfection laws; and default servicing laws that differ from mortgage lending laws.
 - In our experience as V.M.H.A. retailers, the narrow number of independent lenders that serve the local market are compelled to write notes for limited terms and at higher interest rates. Interest rates are even higher through out-of-state manufactured housing mortgage brokers who solicit our office. We are lucky to have one local lender among the others who is providing a competitive package in this under-served market and has realized great success.

5. *What role do manufactured home dealers and manufacturers currently have in financing purchases of manufactured homes? What disclosures are provided? How do interest rates and other terms and conditions compare to non-dealer financing?*
 - Currently manufactured home dealers do not have a role in financing purchases of manufactured homes.
 - A retailer employee must be licensed as a mortgage loan originator and the retailer's entity must be licensed or registered under the SAFE Act to participate in the financing process.

Origination of Chattel Loans

6. *Describe currently available home purchase and refinance chattel loan products, including their terms and features, e.g., amortization, credit score requirements, down payment requirements, fixed or variable rate interest. Describe the underwriting criteria for home purchase and refinance chattel loan products. Include the performance history of these products, noting any differences based on whether the home is located in a manufactured housing community or on privately-owned land.*
 - Most chattel loans are fixed rate, closed-end, level payment, fully amortizing, with terms ranging from eight to thirty years.
 - Loan pricing often is built on a confluence of factors including LTV, credit score, term to maturity, age of the home and whether it is single or multi-section, and if discount points are charged.

7. *Should the Enterprises value chattel-financed homes using an appraisal, the manufacturer's invoice plus cost of appurtenances (e.g., garage, patio, and set-up), the National Appraisal System facilitated by the National Automobile Dealers Association guide data, or other methods? What items should be included in the valuation (e.g., transportation of the home to the site, set-up costs, utility connections)?*

- Some lenders determine the maximum amount for a purchase money chattel loan as a percentage of the manufacturer's invoice and include the costs associated with the sale of the home such as transportation, set-up, optional equipment like A/C, skirting, decks, etc.; others use appraisal services such as DataComp.
- Parameters for financing appurtenances (e.g. garages, patios) and other dealer-added options and on-site installed design elements vary from lender to lender.
- In Vermont, our new manufactured home packages are required by HUD to be placed upon an engineered foundation (usually a concrete slab) and to be fastened with an approved anchoring system. Common mandated components such as these require the input of a paid engineer and should help to set expectations and standardize the appraisal process. Regardless, in our market an appraisal service is always used by the lender for new homes.

Fannie Mae and Freddie Mac Support for Chattel Financing of Manufactured Homes

8. *Is there an industry standard used to value a used chattel-financed home, and should resales of chattel-financed homes be excluded from a chattel loans pilot?*
 - Historically, used homes were valued at 90% of the NADA value; DataComp provides the NADA values in its appraisals as the cost approach value, but uses market comparables as well.
 - The industry believes that the resale market is larger than the purchase market.
 - As mobile home community owners, many dealers can broker the resale of homes within their particular community. It is common to have a number of homes listed for sale at any one time in the larger communities, either by the park owner/broker or by a licensed realtor.
 - In regards to appraisal of existing homes, values cannot effectively be based upon year-of-manufacture, because conditions are not always relative to the home's age. We have found that the NADA criteria are no substitute for local market history and having an awareness of the importance of the proximity of comparables. In this case appraisal services are vital.
9. *Should a chattel loans pilot allow for the refinancing of existing chattel-financed homes and, if so, how should the Enterprises value these chattel-financed homes?*
 - Manufactured homeowners have the same need for refinancing as site-built homeowners.
 - See no. 8 above
10. *Describe current chattel loan and collateral documentation and variations, and discuss challenges to standardizing loan and collateral documentation.*
 - Currently chattel loans are documented by promissory notes and security agreements.
 - The industry sees few challenges to standardizing loan and collateral documentation.

11. *Are there typical warranties or other add-ons (e.g., insurance) provided by dealers that increase the purchase price of chattel-financed homes? If so, please describe the terms, conditions, and benefits of these add-ons and the typical costs to borrowers.*
- New homes typically come with a one year manufacturer's warranty and are backed by dispute resolution mechanisms established by HUD.
 - Additionally, consumers can purchase "service contracts" from several companies that would protect the structure of the home, the systems originally supplied by the manufacturer (e.g. plumbing, electrical system, etc.), and appliances included in the home at the time of delivery, after the one year manufacturer's warranty has expired.
12. *Under what circumstances, if any, should housing counseling be required as a condition for receiving a chattel loan to be purchased by an Enterprise, and if so, where and how should the counselors be trained?*
- We do not believe that housing counseling should be required, although counseling can be invaluable to first-time home buyers.

Borrower and Tenant Protections

13. *What protections for chattel loan borrowers should be required beyond those currently provided by federal, state, and local law, and how should those protections be overseen?*
- The current protections for chattel loan borrowers already cover a wide range of issues.
 - As alluded to in the final rule, the enterprises could require compliance with selected provisions of Regulation X's consumer protections for chattel loans to be eligible for Duty to Serve credit and require a "Notice of Default" and "Right to Cure" both before and after repossession.
14. *What tenant protections are appropriate and workable for chattel loans when the home is located in a manufactured housing community as compared to when it is located on privately-owned land?*
- The lease term must be for a minimum of one year and renewable absent good cause.
 - There must be at least 30 days' advance written notice of a rent increase.
 - There must be at least a five-day grace period for rent payments, and tenants also must have a right to cure defaults on rent payments.
 - If the tenant defaults on rent payments, the tenant must have the right to:
 - Sell the tenant's unit without having to first relocate it out of the community, allowing a reasonable time period, such as ninety (90) days, after an eviction to sell the home in the community, provided (1) the home meets minimum set up requirements; (2) all prospective residents submit an application for residency and meet reasonable resident approval criteria, and (3) when the home is sold, the homeowner pays all outstanding site rent.
 - Sublease or assign the lease for the unexpired term to the new buyer of the tenant's unit without any unreasonable restraint, provided that all prospective

residents submit an application for residency and meet reasonable resident approval criteria.

- Allow “For Sale” signs not greater than 24"x18" in the window of the home and not in the front yard.
- Tenants must receive at least 120 days’ advance notice of a planned change in land use within which time the tenants, or an organization acting on behalf of a group of tenants, may match any bona fide offer for sale. The community owner shall consider the tenants’ offer and negotiate with them in good faith.

Credit Enhancements, Standardization, and Risk Sharing

15. What third party credit enhancements (e.g., letters of credit) might be available for chattel loans or securities backed by chattel loans? Which entities are the potential providers of these credit enhancements, and what are the appropriate terms, conditions, and pricing of the credit enhancements?

- Currently there are no third-party credit enhancements available for chattel loans or securities backed by chattel loans.
- If the Enterprises move forward with a chattel pilot, credit enhancements could be developed for loans more than 80% LTV.

16. In designing chattel loans pilots, how might the Enterprises incorporate lender recourse or sharing credit risk with private investors?

- Lender recourse could entail liability for a percentage of the loss when a repossessed home is resold.

17. What changes in data collection and reporting and what other efforts at standardization are needed across the manufactured housing industry to increase the marketability of manufactured home chattel loans and to enhance consumer capacity to resell used manufactured homes?

- Currently, HMDA data does not separate Land-Home Loans from Chattel Loans. Separate HMDA data for each product will be helpful in studying the demographics of the market and characteristics of each type of loan.
- Promoting existing data aggregators which have extensive sale and resale data, both compiled and granular, would promote standardization and enhance consumer capacity to resell used manufactured homes.
- Refer to two types of documentation:
 - Lists of common and uncommon high-end upgrades sold by mobile home manufactures in their packages
 - Search out any commonly used manufactured homes appraisal formats if available. Manufactured home appraisals are quite common in Vermont.

Chattel Loan Servicing

18. *Describe the current practices for chattel loan loss mitigation, including any roles played by manufactured housing communities and any regional variations in mitigation practices.*

- Chattel loan loss mitigation typically begins when a payment is not received on or before its due date, resulting in letters, email and phone calls to the homeowner. If a loan remains delinquent after the late charge grace period expires, most lenders will send a notice of default and right to cure. Cure periods are typically thirty days.
- Prudent lenders will obtain consumer consent to the exchange of information between the landlord and the lender about the status of site lease and loan payments.
- Manufactured home communities in our area do not perform collection services for lenders because of debt collector licensing requirements.

19. *What efforts at chattel loan loss mitigation (e.g., short sale, deed-in-lieu, and modification) should be required in a chattel loans pilot, and how might these requirements affect the pricing of the loans and the interest of investors in purchasing securities backed by the loans?*

- Like the real estate market, short sale, deed-in-lieu, and modification are all useful loss mitigation tools.
- The industry does not foresee these requirements affecting pricing of loans.

20. *What are the current practices for disposition of repossessed chattel-financed homes? What are the available channels for resale, and what are typical recovery rates for each channel as a percentage of the unpaid principal balance on the chattel loan?*

- Homes repossessed in communities are typically sold in place and remain in the community; homes repossessed from private land are sometimes taken to the lot of a retailer for resale. To avoid the cost of transporting the home to a retail sales lot, our local lenders prefer to market the repossessed home where it was originally set.
- Repossessed homes are currently available for sale and utilize practices like real estate listings - i.e. MHVillage which is like the MLSs used by REALTORS®, listed and marketed by brokers, posted on social media sites.

21. *What are the servicing practices if the owner of a chattel home fails to pay ground rents for the underlying real estate but is current on the note payment for the home?*

- Practices vary from lender to lender.
- Absent consumer consent to the exchange of information between the landlord and the lender, the lender may not know until the borrower is evicted and the home is subject to a landlord's lien.

Data Sources

22. Please specify any sources of data for the following:

- Differentiating the land ownership for manufactured homes on privately-owned land as between land owned by the borrower, a relative of a borrower, or a third party;
- Describing chattel loan borrower credit and income characteristics (beyond Home Mortgage Disclosure Act data), including trended borrower data;
- Tracking the borrower's experience with chattel financing and servicing;
- Comparing energy efficiency of chattel-financed homes with site-built housing;
 - Manufactured homes, because they are built in a factory using performance standards, take into consideration the entire building envelope, can be as energy efficient as site-built homes which rely on prescriptive standards that may not be cost effective for the consumer.
 - Manufactured homes are built to meet Energy Star standards with an Energy Star label (approved through inspection) available. The industry is working with energy providers to retrofit older homes – provide examples of providers if available.
- Describing the decommissioning or breakdown of outdated manufactured homes;
 - There are 8.5 million manufactured homes currently in the market.
- Identifying the 20 largest servicers of chattel loans secured by manufactured homes; and
- Describing chattel loan performance and model results (e.g., prepayment, delinquency, default).