Fannie Mae

Increasing Liquidity for Manufactured Housing Titled as Real Property

PUBLIC SUMMARY OF LEARNINGS | NOVEMBER 2020

Introduction

Fannie Mae's Duty to Serve Underserved Markets Plan for the Manufactured Housing Market contains an Objective, Single Family Objective #2, that relates to increasing liquidity for manufactured housing ("MH") titled as real property. Under this Objective, the Plan calls for Fannie Mae to "publish to the public a summary of learnings since 2018 including items such as qualitative market information, trended data for Fannie Mae's MH loan portfolio, and performance data about variances or policy changes issued."

This brief aims to supply that information so that the public can observe whether and to what degree Fannie Mae has increased liquidity to the market for MH titled as real property through its Duty to Serve efforts to date. This brief will also mention some forward-looking factors that might affect Fannie Mae's ability to increase liquidity to this market in the future.

Trended data for Fannie Mae's MH loan portfolio

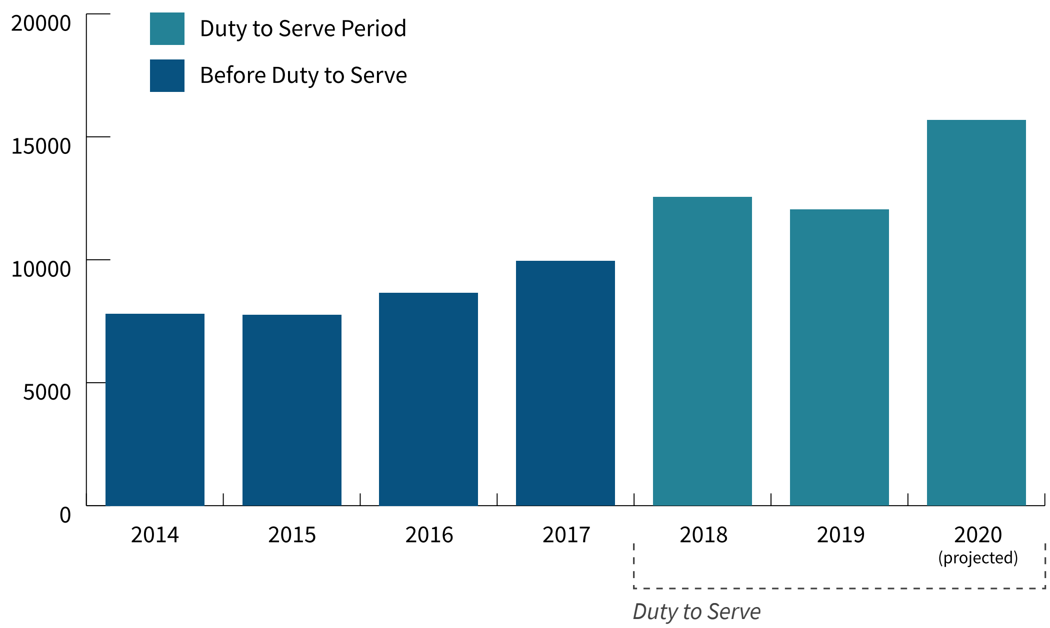
Loan purchases during the Duty to Serve period, beginning in 2018, demonstrate growth as compared to the period preceding the Duty to Serve Plan. Loan purchase growth is the most direct measure of Fannie Mae's commitment to this underserved market and is evidence of a successful initial three years. Specifically, Fannie Mae purchased the following number of MH loans that either would have met the statutory criteria for Duty to Serve (before 2018) or qualified for Duty to Serve (2018 or after).

By the simple measure of the average number of loans purchased in the three years of Duty to Serve compared to the three years preceding Duty to Serve, Fannie Mae has increased its loan purchases in this market by 53%.

Year	Loans Purchased
2014	7,806
2015	7,748
2016	8,659
2017	9,950
2018	12,551
2019	12,034
2020*	11,758
2020**	15,677

*First nine months
**Projected

This summary focuses on loans that meet the criteria of Duty to Serve, which require that the borrower's income be at or below the area median income and that the home be the borrower's primary residence. Fannie Mae also purchases a significant number of MH loans that do not meet these criteria. Since the Plan went into effect in 2018, roughly forty percent of MH loans purchased did not qualify for Duty to Serve but still contributed liquidity to the MH market.



According to the most recent twelve months of data available at the time of this writing[1], we observe the following characteristics in our Duty to Serve eligible MH business:

- **29.2 percent** of loans had an initial balance of less than $100,000
- **61.1 percent** of loans had an initial balance of less than $150,000
- **81.2 percent** of loans had an initial balance of less than $200,000
- **29.5 percent** of loans were made to first-time homebuyers
- **5.9 percent** of loans were secured by homes located in high-needs rural regions, as defined by the Duty to Serve regulation

[1] Loans purchased between October 1, 2019 and September 30, 2020

Performance data about variances or policy changes issued

One of the drivers of the increased loan purchases has been the expanded eligibility of loans that lenders can deliver to Fannie Mae. Fannie Mae has enacted a series of variances to existing policy for some lenders and has published several outright policy changes.

In total, motivated by the Duty to Serve Plan, Fannie Mae has made six major policy changes related to MH:

- HomeStyle® Renovation loans secured by an MH property
- HomeStyle Energy loans secured by an MH property
- Loans on certain MH properties that have an addition or have had structural changes
- MH Advantage® loan product
- Loans on MH located in certain PUD, Condo, Coop, or Community Land Trust arrangements
- Construction-to-permanent financing structures on MH

In addition, Fannie Mae adopted three significant variances related to MH:

- Construction-to-permanent financing structures on MH (prior to the aforementioned policy change)
- Extended age of credit document requirements on certain construction loans
- Combined LTV greater than 95% for certain HFA Preferred™ loans

Because these features can be combined (a construction-to-permanent loan might, for example, include a variance permitting extended age of credit documents), it is misleading to report on the total number of loans generated by each of the respective policy changes and variances. Instead, Fannie Mae can report that, between January 2018 and September 2020, there were 1,566 MH Duty to Serve loans acquired[2] that would not have been possible without at least one of these policy enhancements.

[2] This count includes 1,105 verified loans and an additional 461 two-close construction-to-permanent loans that Fannie Mae estimates were made during this time. Currently, Fannie Mae does not specifically track two-close construction-to-permanent loans; rather, they are captured as refinance loans. This count does not include loans for homes that had an addition or structural change, as these cannot be tracked reliably.

Additional quantitative and qualitative market information

In addition to the quantitative metrics provided above, Fannie Mae also tracks the number of distinct MH lenders doing business with us. As compared to calendar year 2017, the year preceding the Duty to Serve initiative, there were 27.4 percent more lenders delivering Duty to Serve-eligible MH loans to Fannie Mae over the most recent 12-month period[3]. For reference, the total number of active Fannie Mae lenders was stable during the same period, increasing by less than 0.1 percent.

Qualitatively, there are several reasons to be encouraged by the progress Fannie Mae has made under Duty to Serve to date and to be optimistic for the future. First, Fannie Mae has several promising policy changes and variances planned for the coming months, some of which focus squarely on the most affordable segments of this housing market. Second, in 2019 and 2020, Fannie Mae began crafting messaging and building networks to promote MH adoption in subdivision settings; we expect this to accelerate in 2021 and beyond, which we believe will increase the scope of the market. Third, Fannie Mae continues to engage thoughtfully with industry stakeholders through participation in conferences, roundtables, podcast interviews, and meetings, which have provided and will continue to provide us with actionable feedback informing our MH activities. Fourth, Fannie Mae's broader corporate focus on increasing affordable housing supply aligns closely with its MH goals and has provided additional momentum for several initiatives, including the major policy changes mentioned earlier.

[3] Period beginning October 1, 2019 and ending September 30, 2020

On the other hand, qualitative analysis of the landscape also provides a few legitimate reasons to be cautious about sustained growth. First, it is possible that the types of efforts that supported growth over 2018 through 2020, such as MH-focused lender outreach and MH policy modernization, will provide diminishing returns in future years. For example, if Fannie Mae has already educated the lenders most likely to begin or expand lending on MH, it might be more difficult to drive incremental loan deliveries from remaining lenders. If Fannie Mae has addressed some of the more pressing issues with its MH lending products in previous updates of its Selling Guide, there may be less opportunity to drive innovation through policy moving forward. Second, for much of the Duty to Serve period, but especially in 2020, historically low interest rates have benefited Fannie Mae's loan purchase business. If interest rates rise in future years or other macroeconomic impacts slow lending generally, MH DTS loan purchase growth could be inhibited. Finally, the ongoing pandemic brings uncertainty to the economy in 2021 that applies to this market.

Conclusion

By objective measures, such as increases in loan purchase performance, high-impact policy modifications, and the recruitment of new or more active MH lenders, Fannie Mae has made significant progress under the Duty to Serve in providing liquidity to the MH mortgage market. Qualitatively, Fannie Mae has learned a great deal about this market and has improved its ability to serve MH borrowers. Moving forward, there is plenty of reason to be optimistic about continued growth and deeper engagement with the MH industry, though there are risks that Fannie Mae will need to manage as well.