



Fannie Mae®

Manufactured Housing Titled as Real Property

Duty to Serve Public Summary of Learning | December 2021

Introduction

Consistent with our Mission and Duty to Serve Plan (DTS), we have committed to “Increase liquidity for manufactured housing titled as real property through industry outreach and increasing purchases,” under objective #2 of the Manufactured Housing Plan. Under this Objective, the Plan calls for Fannie Mae to “publish to the public a summary of learnings about outreach and variances or policy changes issued along with loan purchase targets over the years.”

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 Manufactured Housing (MH) titled as real property through its Duty to Serve (DTS) efforts.

Finding an affordable home is challenging when supply is low, prices are high, or listed properties need renovations. We believe MH can help address the country’s affordable housing supply challenges. Today’s manufactured homes are an option offering significant cost savings over site-built homes. There are a variety of modern, attractive models built to high standards with today’s sought-after amenities, offering value and making them an affordable option to site-built homes. The main difference between site-built and manufactured homes is they are built indoors in efficient state-of-the-art facilities, then delivered and installed on a home site.

Loan Production for Fannie Mae’s MH loan portfolio

Loan purchase growth is the most direct measure of Fannie Mae’s commitment to this underserved market and is evidence of a successful DTS plan execution. The table below reflects Fannie Mae’s loan purchases for MH homes that either would have met the statutory criteria for Duty to Serve (before 2018) or qualified for Duty to Serve (2018 or after). The figures below include both refinance and purchases but moving to our upcoming 2022-2024 DTS plan, we will count purchase-only transactions.

Year	Loans Purchased
2017*	9,965
2018*	12,593
2019*	12,034
2020*	16,963
2021*	19,061

*Note: The Fannie Mae Single Family Analytics team uses data from trusted sources, however, there are slight discrepancies with the above numbers compared to the numbers reported in our annual report. In short, a few factors have changed since our annual reporting including income levels needed to qualify for DTS .

MH Advantage

MH Advantage® is a manufactured housing loan product that offers flexible underwriting standards and reduced pricing for manufactured homes that are built to meet specific construction, architectural design, and energy efficiency standards. Properties that are eligible for MH Advantage financing are designated as such by the manufacturer and affixed with an eligibility sticker to identify eligible properties for consumer and lender awareness of eligibility. MH Advantage offers higher loan-to-value ratios (up to 97 percent), and reduced pricing in the form of waived standard manufactured housing loan level price adjustments (0.50 percent) and reduced mortgage insurance coverage requirements for fixed-rate terms. MH Advantage is an initiative from Fannie Mae® that offers manufactured homes with certain features as an affordable alternative to site-built homes, expanding access to homeownership.



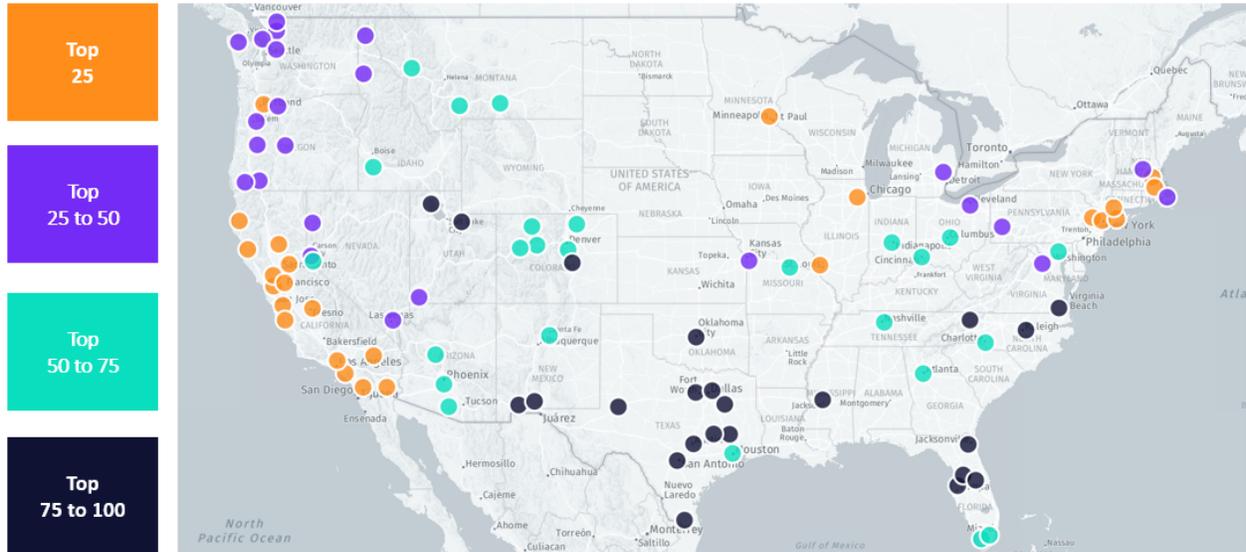
While lenders continue to express an interest in adopting MH Advantage, the general lack of inventory for this program in many markets has made it difficult to sustain lender engagement when they have plenty of other business to choose from in the current rate environment. Since we took the first loan deliveries under this program in 2019, eleven unique lenders have delivered an MH Advantage loan to Fannie Mae. Year-to-date through October, lenders have delivered 19 MH Advantage loans, of which 7 qualified for Duty to Serve. Since purchasing our first loans in 2019, MH Advantage deliveries have met the Duty to Serve area median income (AMI) limits roughly 35% of the time. While we'll work to improve the LMI share of MH Advantage over time as more manufacturers and retailers adopt the product, we've also expanded product offerings that more directly meet the needs of low-income borrowers such as our single-wide offering, described in greater detail later in this document.

However, we continue to believe that the MH Advantage product can create value for LMI borrowers. Our thesis with MH Advantage, and with the subdivision work described later in this document, is that these offerings can bring new participants into the market. New market participants are needed because consumers who want to purchase MH currently have few lenders who will offer them a 30-year fixed rate real property mortgage on their home. When they do secure real property financing, they often have difficulties finding appraisers who understand how to properly estimate the value of manufactured homes. Our work on MH Advantage is bringing new participants to the sector and educating existing participants. Our expectation is that this expansion of the MH ecosystem brings value to a broad variety of MH consumers, not just those who purchase MH Advantage units.

As described later in this document, we grew the number of lenders offering manufactured homes and product diversity was key to growing lender interest. Including an MH Advantage product among our offerings piqued the interest of lenders who had previously not considered prioritizing MH because most of their customers seek mortgages for site-built homes. Indeed, among lenders who adopted MH Advantage, we also saw an increase in their overall MH lending during the first cycle of DTS.

MH Advantage Subdivisions Initiative

The MH Advantage subdivision distribution model presents a significant opportunity to generate new affordable housing supply in markets where it is desperately needed, make manufactured homes a standard option for homebuyers, and to bring new market participants into the manufactured housing space. As described in the previous section, to date there has been a lack of lenders, appraisers, developers, and realtors positioned to serve MH consumers. Installing and selling manufactured homes in an entire development in the same way as site-built homes can help MH achieve economies of scale unattainable in today's "one-off" MH purchase model and placement of manufactured homes on site. A report from Zonda (formerly Metro Study) referenced below also suggests that the market for this product is largely in suburban and exurban areas—areas not commonly served by the MH retail distribution model. Pivoting to the subdivision model aligns our DTS mandate with the addressable market for these homes while inviting new players into the market. Additionally, as economies of scale are developed, MH subdivisions will provide a viable affordable housing solution that broadens the availability of conventionally financed manufactured homes. To further promote the MH subdivision concept, during 2021, Fannie Mae engaged with traditional homebuilders and developers looking for more cost-effective options to work with manufacturers to accommodate MH Advantage-eligible homes in community settings. While builders and developers are interested in the concept, they have questions about execution and whether MH could be a viable alternative to site-built construction. To answer these questions and promote the MH subdivision concept, we provided developers and builders with market research tailored for their markets to help them determine whether MH should be considered for any of their developments. We collaborated with Zonda to develop and market the value proposition for using MH Advantage homes in new construction subdivisions and master-planned communities. After more than 1,000 Metropolitan Statistical Areas (MSAs) were studied, our research (shown in map below) identified 100 markets where the costs of producing and installing a new MH Advantage home were significantly lower than a new site-built home, generating significant savings for consumers. In July 2020, we presented these findings to 665 developers from 45 different US (United States) and 3 Canadian markets.



Based on the research and commitments made by developer partners, we identified five showcase pilots that could serve as an example and provide a roadmap for other developers who may want to use MH instead of site-built homes. The showcase pilots involve high-touch engagement by Fannie Mae leaders with existing partners and customers, community leaders, and anchor institutions to facilitate new construction housing developments using MH Advantage-eligible homes. The markets selected for the showcase pilots included Chico and Riverside, California; Columbus, OH; and District of Columbia (DC) Metro Area. These are all markets where the savings to the consumer of MH Advantage would be significant and where there is significant demand for affordable supply. These markets are also distinct from one another, which may allow for additional insights. Separate from these showcase pilots, we are also working with development companies outside of Denver, Colorado; Orville, California; and Seguin, Texas, to create subdivisions filled with MH Advantage-eligible homes and site-built homes.

An Overview of several MH subdivision case studies

To raise awareness of the model and to offer a roadmap, we published case studies for several of the MH Advantage subdivisions underway. While not all these subdivisions will have units that are eligible for Duty to Serve, we believe that this approach will fuel wider adoption of MH across key market participants that will benefit LMI consumers. It is also our goal to decrease costs to consumers as we help the industry build subdivisions using MH Advantage more efficiently. In addition to high-touch partnership on the showcase pilots, we also launched a [landing page](#) on our website with resources for builders and developers interested in leveraging MH Advantage homes for their subdivisions.

Please note there are many builders and developers researching the MH subdivision concept in specific areas throughout the country to determine if it is a workable solution to address affordable housing needs. However, we only address three of the showcase markets in this update.



Maryland, (DC metro)

For the DC area showcase pilot, we focused on a development in **Hagerstown, a city in Maryland** with significant job growth in the warehouse and distribution sectors whose workforce is being shut out of the housing market. We connected the developer with a Fannie Mae seller servicer with the intent of supporting the development of an MH Advantage community. The planned subdivision will be a subdivision of 241 MH Advantage homes within the city limits of Hagerstown, Maryland. The pricing for these homes will range between \$181,000 (2BR) and \$223,000 (4BR), and the homes will be marketed to first-time homebuyers with incomes at 80-120% of the Area Median Income. Kilpatrick Woods will fill that gap with quality affordable manufactured homes for moderate-income individuals and families. This subdivision is in the planning stages; however, the developer is still seeking funding to construct.



Site Location and Aerial View

California

The Housing Land Trust (HLT) of **Sonoma County**, California, was looking for innovative solutions to address the shortage of affordable housing in disaster recovery and high-cost areas. They found that an MH Advantage unit could address their affordability and construction needs in several ways. Through a project called Jamie Lane, the HLT leveraged MH Advantage homes and the community land trust (CLT) model to create new affordable homeownership units in this high-cost area¹. Local, state, and national partners have also come together to make this innovative strategy a reality in Cotati, California, a CLT that targets borrowers with 80-120% AMI. The HLT is currently exploring the potential to replicate this model to create an additional 22 affordable homeownership units in the City of Petaluma, California, a community in the North Bay sub-region of the San Francisco Bay Area, 37 miles north of San Francisco. HLT has chosen the MH Advantage-eligible homes for three main reasons. First, the prefabricated product brings decreased costs of construction. Second, the homes are designed with features comparable to site-built homes, thereby minimizing neighbors' concerns about stylistic fit within the neighborhood and on-site disruption during construction. Third, the manufacturing process reduces the overall time needed for construction.

¹ Dev Goetschius, Cali Slepín, and Julian Tucker, "A New Approach for the Rapid Production of Affordable Homeownership Opportunities: Manufactured Homes + Infill Sites," Housing Land Trust of Sonoma County, accessed July 6, 2021, <https://www.fanniemae.com/media/38676/display>.



Community Images



Aerial Image of the Site

Texas

The Cordell Oaks subdivision is in **Guadalupe County**, in the San Antonio metropolitan area, is the final MH subdivision we address. As its population continues to grow, home prices continue to increase. The metro area population of San Antonio in 2021 is 2,368,000, which is a 2.07% increase from 2020². During the 12-month period ending July 2020, the average sales prices for new and existing homes increased 5%³. The city of New Braunfels is the second largest city in the area and 30 miles northeast of the city of San Antonio. The military has a large presence in the area, and its effect on the local economy is significant. The homebuilder who developed this community has extensive retail sales experience in manufactured homes. This builder chose MH Advantage-eligible homes to offer affordable housing with prices substantially below comparable homes in the area. The Cordell Oaks MH subdivision features 21 one-acre lots and serves as the first full MH Advantage-eligible community in Texas. A November 21, 2021, [Wall Street Journal article](#) cited information about affordability of the homes in the Cordell Oaks subdivision, “A new single-family home built on-site sold for an average of about \$392,000 in 2020, or about \$309,000 excluding the cost of the underlying land, according to government data. New manufactured homes in this subdivision will be selling for \$238,000.”



**Model
Option 3**

We published a [detailed resource](#) for developers interested in pursuing MH Advantage. We collaborated with a non-profit organization, the National Institute of Building Sciences (NIBS), to produce the content. This guide will offer a starting point and provide important resources for developers, builders, lenders, and other stakeholders interested in pursuing the construction of MH Advantage eligible homes. We published this resource in November 2021 and will distribute it to the builder/developer community in 2022.

The cost savings potential for incorporating MH into the builder model can be demonstrated by the cost savings comparison below.

² “San Antonio Metro Area Population 1950-2021,” Macrotrends, accessed July 6,

2021, <https://www.macrotrends.net/cities/23128/san-antonio/population#:~:text=The%20current%20metro%20area>

³ “Comprehensive Housing Market Analysis, San Antonio–New Braunfels, Texas,” U.S. Department of Housing and Urban Development, Office of Policy Development and Research, accessed July 6,

2021, <https://www.huduser.gov/portal/publications/pdf/SanAntonioNewBraunfelsTX-CHMA-20.pdf>



Cost savings comparison

(as a percentage of income at 80% of the area median income [AMI])

Low- and moderate-income borrowers can save months of their income by choosing a factory-built home over a site-built house in many U.S. markets.

In the Chico metropolitan service area (MSA), an MH Advantage eligible home can be built for \$75,381* less than a site-built home, which is equivalent to more than 17 months of income for homebuyers at 80% AMI.

CHICO MSA, CA

MHA build price per sq. ft.	\$76
Build price difference	\$75,381*
Income equivalent	> 17 months

2021 Product development efforts to support manufactured housing

This year Fannie Mae focused on product development efforts that would make conventional financing available for the lowest cost manufactured homes and support the nationwide effort to expand the supply of affordable housing.

The importance of proper appraisals for MH

Since the inception of Duty to Serve in 2018 to the end of the first plan cycle in 2020, we saw a 27% increase in the number of Single Family customers who delivered an MH loan to Fannie Mae. Additionally, we commit to growing our loan purchases in future years of the Duty to Serve plan. As more customers are become familiar with our MH offerings, they will need tools to educate their broader network — including residential appraisers. Appraisers unfamiliar with MH may appraise a home lower solely because of its property type or may charge a consumer more for the appraisal because they are unfamiliar with Fannie Mae’s appraisal policies. Building on our partnership with McKissock Learning, we launched a 7-hour continuing education course for appraisers focusing on manufactured home valuation. The training covers Fannie Mae’s appraisal policies for manufactured housing, including the ability to use a cost basis approach, and teaches appraisers how to apply these policies in the field. In 2020; 1,723 appraisers completed the course. Year-to-date through October 2021; 2,669 appraisers completed the course—a 56% increase. In qualitative feedback, appraisers have generally noted that they understand the relevance of the course and that it has potential to assist with affordable housing. Many comments suggest that the course material helped mitigate pre-existing notions of the quality of manufactured housing. However, additional education is necessary to counter the longstanding belief that manufactured homes are of inferior quality. This course is a solid foundation for understanding Fannie Mae's appraisal policies for MH while also responding to industry feedback that appraisers still harbor some bias towards manufactured homes as being of inferior quality.

Launching Single-Wide Manufactured Housing (SWMH)

Single-wide manufactured homes (SWMH) are the most affordable type of manufactured housing, not previously offered with conventional financing options for buyers of SWMH. To remedy this problem, we implemented a policy change in 2021 that expanded our MH financing product to allow SWMH deliveries. This policy change, announced in December 2020 for loans delivered beginning in February 2021, expands the current MH policy to allow the purchase of loans secured by new and existing



real-property, SWMH units. Through September 2021, 95 SWMH loans have been delivered, 71 of which qualified as Duty to Serve loans.

Prior to the policy change, research revealed that 25 lenders could likely increase loan deliveries of SWMH. Through lender outreach, we learned that 20 lenders shared similar thinking about their ability to increase loan production because of this policy change. Lenders shared the following comments:

- Most of them do not view or analyze real-property SWMH separately from multi-width, nor did they have enough data to determine whether single-width performs differently than multi-width.
- Retailers are not motivated to offer SWMH as real property due to the additional effort and lower profit.
- The overall cost of ownership must be less than personal property (chattel) ownership to motivate borrowers to purchase SWMH as real property.

The last observation confirmed that Fannie Mae was correct in making this policy change because conventional mortgage lending offers much lower interest rates than personal property financing (chattel). Given the appealing design and materials now available in SWMH, accessible to consumers at lower price points than multi-width MH and site-built housing, SWMH offers a compelling affordable housing option when coupled with conventional mortgage financing. When compared with SWMH titled as personal property, SWMH titled as real estate offers favorable interest rates, though consumers must also consider potential costs associated with title conversion and real estate taxes.

Fannie Mae implemented SWMH Variance to better serve consumers

SWMH deliveries began in February 2021. We reengaged with lenders in March 2021 to confirm the program was working as intended and to solicit additional feedback. As a result, we determined that a requirement in our policy about the age of SWMH was having a negative impact on lenders' ability to serve their customers. The Fannie Mae Collateral policy states "a single-width manufactured home must have a manufacture date of 10 years or less measured from the effective date of the appraisal." This limited lenders' ability to participate in resale or refinance lending on SWMH, which in turn affected their ability to provide access to this affordable housing type. The impact was evident from both loan-level data and customer feedback, prompting us to create a variance for lenders to deliver SWMH loans that were greater than 10 years old available as of November 2021 for all lenders to request.

We took this action for two reasons:

- 1) Without the additional flexibility on property age, consumers with SWMH would have limited options to refinance or resell.
- 2) Lenders reported difficulty complying with the age limit and expressed frustration about not meeting the financing needs of their consumers.



Accessory Dwelling Unit (ADU) Variance

There is growing interest in certain geographical markets to install MH as an ADU, or conversely, to build an ADU on a site with an existing MH unit to address gaps in affordable housing supply. These options offer homeowners the opportunity to create a secondary living space and/or accommodate extended family members, which subsequently frees housing supply that would otherwise be unavailable. In January 2020, California passed new legislation to promote the development of ADUs, allowing



construction in all zoning districts for single-family and multifamily use. With regions in the Pacific Northwest following suit, some cities have begun to offer incentives or rebates on ADUs to combat current shortages in housing supply.

Fannie Mae has purchased more than 150,000 loans secured by homes with ADUs since 2012, including more than 21,000 in 2019 and more than 41,000 in 2020. We expect this activity to continue to increase as zoning laws continue to become more ADU-friendly.

Fannie Mae executed a variance with nine lenders in November 2021 to allow financing of MH as an ADU for site-built homes and construction of a separate ADU on a site with an existing MH. We anticipate greater lender participation in 2022. Prior to this variance, Fannie Mae MH financing was restricted to one-unit properties.

The ADU Variance contains two flexibilities related to MH and ADUs:

Flexibility 1: MH Advantage with ADU

- Accept loans secured by one-unit primary residence MH Advantage with a Selling Guide permissible site-built, modular, or manufactured home (including single-wide) ADU.

Flexibility 2: Manufactured Home with ADU

- Accept loans secured by one-unit primary residence MH with a Selling Guide permissible site-built or modular ADU. MH ADU are not permissible.

We realized the importance of efforts to create affordable housing supply to allow Fannie Mae lenders the ability to provide conventional financing in direct response to market demand for ADUs for a broader population of low- to moderate-income borrowers.

Multi-year Manufactured Housing Market Engagement Yields Positive Results

Engagement with our lenders and stakeholders has provided us the opportunity to introduce the benefits of all forms of MH, with a focus on Fannie Mae’s products for standard MH, MH Advantage, and single-width MH.

Accomplishments

During four years of Duty to Serve outreach, Fannie Mae has initiated MH-focused discussions with 25 different lenders per year. The outreach in total was 75 distinct lenders with the purpose of increasing MH loan deliveries. In aggregate, these efforts appear successful, as these lenders have collectively increased loan deliveries annually since 2017 by 23.85%. (Prior to 2017 the DTS initiative had not been implemented).

Year over Year	% Increase
2017-2018	1.87%
2018-2019	53.15%
2019-2020	68.22%
Cumulative Average	23.85%

In early 2021, we surveyed several of these lenders on their experience with MH outreach, welcoming constructive feedback. Lenders that responded shared that the opportunities to learn about product enhancements and business development resources were valuable and they welcomed continued engagement in future years.



In addition to one-on-one lender meetings, feedback from lenders motivated us to launch webinars about origination, product training, appraisal training, and about other topical issues. In recent months, we have seen encouraging results from our series of origination webinars, where we sought a more expansive audience than many other forums. With an expansive online seminar audience, we focused on traditional MH, single-width MH, and MH Advantage and demonstrated how each is related to our mission of helping to create affordable supply. These sessions attracted a diverse mix of stakeholders, including lenders, mortgage insurance companies, appraisers, HFAs (Housing Finance Agencies), non-profits, and real estate organizations. Overall, 93% of attendees rated the content Excellent or Very Good with 97% recommending colleagues to join the next presentation. During the first 3 months of outreach, we delivered information to 397 attendees. Each training opportunity provided us with the chance to better understand what our lenders need to make this product offering successful and have an impact on affordable housing.

Key Learnings from lender outreach

Since the start of Duty to Serve in 2018, outreach has been a core component of our manufactured housing plan. This industry engagement has increased the number of lenders selling MH loans to us and has equipped more stakeholders within the industry such as appraisers to better serve MH consumers. Below we've tried to distill what we've learned from this outreach, including which modes of engagement have been the most effective and specific pain points that we have not yet fully addressed.

- The webinar format is an engagement approach we began to leverage during the pandemic and has proved popular and effective within the industry. For instance, we have had over 1200 registrations and close to 700 attendees in the sessions we have offered this year on MH lender and appraiser education. We've engaged with far more participants through these sessions, for instance, than through roundtables or conference attendance.
- Engagement with individual lenders, including tailored resources to support their adoption of MH products, has been among the most effective uses of our outreach resources as it has directly led to more conventional lending to MH consumers.
- High touch engagement on new models, such as the MH subdivision or the MH CLT described above, adds critical resources to a new market that speed its development. This engagement also provides important market insights to Fannie Mae.
- Using our marketing materials to convey our MH products as a suite of options (MH Advantage, standard MH, and single-width MH) as opposed to one overarching collateral type has invited diverse lender feedback and alerted us to the fact that many of our lenders form their own impressions of marketability and risk that vary greatly by geography and level of familiarity with MH. Understanding the extent to which our customers manage their collateral risk through their own policies and procedures in this way has encouraged us to be more accommodating with our written policies, such as waiving the 10-year age restriction on our Single-Width Guide product on a variance basis.
- The success of MH Advantage remains dependent on the availability of these homes—we have found lenders to be interested in originating these loans but they become discouraged when few manufactured home retailers in their market are participating in the program. While we remain committed to working with industry participants to test new approaches for promoting the availability of these homes and our MH Advantage financing product, such as through our engagements with traditional builders and real estate developers, our lenders are unlikely to prioritize this program until the sale of MH Advantage-eligible homes increases significantly.
- Although we remain committed to new market endeavors such as our single-width product and MH Advantage, many of our lenders have requested that we consider removing or lessening certain restrictions on our MH business more generally, including our MH-specific loan level pricing adjustment and encouraging more loan purchases through relaxed DU underwriting standards.



Conclusion

Fannie Mae has made considerable progress in its approach to accomplish its MH Duty to Serve goals. This progress was possible by expanding our knowledge about the MH market, improving our ability to serve MH borrowers, and through increased loan purchases. Policy amendments, thinking creatively about how/where homes are purchased, and encouraging/adding new or more active MH lenders further allowed for this progress. This area of the market requires strong collaboration among key stakeholders and Fannie Mae is prepared to be the voice that brings multiple parties together to move the industry forward. Through our voice, we are committed to driving positive impact, building a stronger, safer, and more resilient housing finance system that creates affordable, sustainable housing opportunities for homebuyers and renters across the country.