



## Chattel Lending - Learning and Analysis from 2018 Outreach Activities

As part of our commitment to promote transparency in the industry and to encourage collaborative engagement, Fannie Mae is sharing this document that summarizes chattel-related outreach, analyses, and learning in 2018. In subsequent years, as our efforts in this space mature, we will update and expand on this document, as described in Fannie Mae's [Duty to Serve Underserved Markets Plan for the Manufactured Housing Market](#) (the Plan).

### MH Advisory Council and Roundtable Meetings

Over the course of 2018, we engaged in several formal meetings with stakeholders in the chattel market, including loan originators, loan servicers, and MH community operators, among others. These included two gatherings of Fannie Mae's MH Advisory Council (MHAC), a manufactured housing roundtable comprised of a diverse group of participants, and an informal gathering of members of the MHAC, scheduled to coincide with a key industry event.

### Other Events and Outreach Activities

In addition to these Fannie Mae-led interactions, over the course of 2018, staff attended several conferences, meetings, and other events that informed our analysis of the chattel loan market. These included:

- Manufactured Housing Institute Winter Meeting in New Orleans, Louisiana
- Manufactured Housing Institute Conference in Las Vegas, Nevada
- Multi-State Convention [for members of Alabama, Louisiana, Mississippi, and Tennessee Manufactured Housing State Associations] in Perdido Beach, Alabama
- The Mortgage Collaborative Summer Conference in Chicago, Illinois
- International Networking Roundtable in Indianapolis, Indiana
- Manufactured Housing Institute Annual Meeting in Huntington Beach, California
- Community Development Bankers Association Mississippi Delta Roundtable Discussion in Indianola, Mississippi
- Prosperity Now's I'm Home Conference in Nashville, Tennessee

At each of these events, Fannie Mae shared information on the proposed chattel pilot described in the Plan and engaged in discussions with industry stakeholders to help inform these efforts. For example, at one of these events, a cross-functional team from Fannie Mae had five formal meetings with chattel noteholders to gather feedback and assess interest in participation in the pilot. In part, informed by connections made at these events, we developed relationships with industry participants, which extended to follow-up meetings conducted both remotely and on-site.

### Information Gathered through Outreach

As noted in our Duty to Serve Plan, "there is no loan level market data source that is comprehensive enough to allow for a breakout of manufactured housing loans by chattel and non-chattel loans." However, partially as a result of the aforementioned outreach activities, Fannie Mae gathered loan-level data from several sources. This information will be critical in informing quantitative models of this market, a prerequisite for any potential loan purchase. In each case, the loan level data contains valuable origination information as well as loan performance data, in some cases. Additionally, some noteholders unwilling or unable to share loan-level data shared aggregate-level information on chattel loans that they originate, service, or own.

Some noteholders have also shared policies and procedures related to origination, underwriting, and servicing of chattel loans.

### Themes Observed from 2018 Chattel Outreach Activities

Based on our 2018 outreach activities and subsequent information gathered, Fannie Mae has observed several key themes. These themes will influence our analysis of the chattel market and Fannie Mae's potential role in it.



## **GSE Liquidity is Sought Widely, but not Unanimously**

Generally speaking, the potential for Fannie Mae to provide liquidity to the chattel lending market, first through a limited pilot and then through an ongoing program, found support from industry participants. They noted the benefits of an additional source of funds at a time when many expect chattel loan volumes to increase substantially to meet unmet demand. However, this perception, while common, was not universal. Some industry participants warned of the potential for destabilization of the chattel lending market if Fannie Mae entered it without sufficient knowledge of the risks and opportunities.

## **There are Early Indications of Investor Interest in Chattel Loans**

As noted in an October 2018 proposed [Duty to Serve Plan Modification](#), “multiple lenders expressed unwillingness to sell loans because they perceived that chattel assets perform well and provide strong returns when kept on portfolio. Another potential seller indicated that it has sufficient outlets for chattel assets, including large institutional investors. Finally, in two unrelated cases, holders of chattel assets stated that they intend to issue a private label security in 2019.”

While not ideal for the purposes of identifying potential partners for a pilot, these insights are reassuring, as Fannie Mae is accustomed to selling loans or securities to investors, and this constitutes initial evidence that an investor base may already exist.

## **Loan Originators’ Business Models Differ**

While the chattel industry is somewhat consolidated amongst a small group of prominent chattel lenders, business models can vary substantially. For example, several originators we spoke with described an “originate to sell” model, with loans being sold to various buyers such as banks, MH communities, and institutional investors. On the other hand, several originators described their preference to hold chattel loans on portfolio due to their strong returns and reliable performance. Other originators blend these two strategies. Clearly, different business models influence the types of deals Fannie Mae could entertain with potential noteholders.

## **Servicing is Key**

Chattel loan servicers, including those that also service MH real property mortgages, frequently noted that servicing practices fundamentally differ for chattel borrowers. For example, high-touch models are common and delinquent borrowers are said to be responsive to frequent communication and proactive support.

## **Data is not Standardized**

Loan-level data obtained by Fannie Mae to date reveals substantial variation in what information lenders collect at origination and during servicing. In some cases, that data can be lacking in detail. For example, while data from one lender can tell us whether a loan is currently delinquent and how many times it has been delinquent over the life of the loan, the available data cannot tell us when those delinquencies occurred and how severe each event was. As hypothesized in the Plan, there is an opportunity for Fannie Mae to establish chattel loan data standards to increase homogeneity across industry participants.

## **Collateral Valuation Practices Vary**

We observed that there is no single broadly accepted industry-wide standard for collateral valuation. USPAP standards, for example, may apply to chattel loan valuations but are not required. A pilot would represent an opportunity for testing various options to gain knowledge and develop best practices for personal property valuation. Options include cost-based valuations, comparable-based valuations, or a combination of the two. Fannie Mae has interacted with providers of both cost-based and comparable-based valuation services in preparation for a potential pilot.



## **Loan Performance Appears to Have Improved in Recent Years**

As expected, industrywide estimates of chattel loan performance are unavailable. Credit risk, according to data voluntarily shared with Fannie Mae, generally appears to have declined since a period of elevated risk in the mid-to-late 2000s. Ultimately, credit risk for chattel loans appears to be higher than MH real property mortgage loans with similar borrower profiles but substantially lower than at the time of Fannie Mae's most recent chattel loan purchase in 2006.

Each of these learnings have and will continue to influence Fannie Mae's strategy for its potential chattel loan pilot and any other subsequent activity in this space. The purpose of summarizing this information is provide transparency about progress made in 2018, especially given the fact that there are no loan purchase goals for this year, according to the Plan. In the same spirit of transparency, earlier this year, we shared another chattel-related document publicly, an analysis titled [Key Legal Distinctions between Manufactured Home Chattel Lending and Real Property Lending](#).