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Office of the Director
Federal Housing Finance Agency
Tenth Floor, 400 Seventh Street, S.W.
Washington, D.C. 20219

Re: Input on Draft FHFA Strategic Plan: Fiscal Years 2022-2026

Director Thompson:

Thank you for the opportunity to comment on the Federal Housing Finance Agency's (FHFA) 2022-2026 Strategic Plan. We write on behalf of The Pew Charitable Trusts, a global, non-governmental research and public policy organization dedicated to serving the public. In July 2020, The Pew Charitable Trusts launched its Home Financing project to study the dearth of small mortgages relative to the availability of low-cost site-built and manufactured homes, and the alternative arrangements Americans use to purchase homes when mortgages are not accessible.[1]

As Pew noted in its comment letter to the FHFA on the Equitable Housing Finance Plans Request for Input, small mortgages have been declining in recent years.[2] Even though homeownership has slightly increased in the last couple of years, the impact of this overall decline in small mortgages is felt most acutely by Black and Hispanic borrowers who have experienced a disproportionately large decline in small mortgage access over the last 15 years. Difficulties in accessing mortgages will likely have long-term impacts on the ability of these households to build intergenerational wealth.

These challenges are further exacerbated for families that want to finance the purchases of manufactured homes. As the largest source of unsubsidized affordable homes in the U.S., manufactured homes are a key source of housing for low- and moderate-income Americans.[3] However, manufactured

[1] The Pew Charitable Trusts, "Home Financing," https://www.pewtrusts.org/en/projects/home-financing.
[2] The Pew Charitable Trusts, Re: Enterprise Equitable Housing Finance Plans Request for Input, September 2021, letter to Federal Housing Finance Agency, "Equitable Housing Finance Plans," Oct. 25, 2021, https://www.fhfa.gov//AboutUs/Contact/Pages/input-submission-detail.aspx?RFIId=1555.
[3] Consumer Financial Protection Bureau, "Manufactured Housing Finance: New Insights from the Home Mortgage Disclosure Act Data" (2021), 3, https://files.consumerfinance.gov/f/documents/cfpb_manufactured-housing-finance-new-insights-hmda_report_2021-05.pdf.

home buyers face obstacles to obtaining safe, affordable financing, which can undermine the potential of this housing stock.

Pew's responses will focus on Strategic Goal 2: Foster housing finance markets that promote equitable access to affordable and sustainable housing. Though we are limiting our responses to topics we have examined, we continue to research a host of related housing issues. We look forward to engaging with the FHFA, the Enterprises, lenders, advocates, and other stakeholders on these issues as they work toward a more equitable housing finance market in the coming months and years.[4]

In summary, we encourage the FHFA to:

1. Continue moving forward with its Equitable Housing Finance Plans with particular focus on data that examines disparities in loan access and denials for Black, Hispanic, and Indigenous borrowers, and those in rural communities, as well as pilot programs that can identify opportunities to improve equity in home financing.

2. Implement pilot programs and conduct analyses on loan purchases and underwriting that examine issues related to lender challenges, such as origination costs and liquidity, and loan access for underserved communities, especially small mortgages on site-built homes and mortgages and personal property loans on manufactured homes.

3. As the FHFA develops its plans, we would encourage the agency to bear in mind the myriad ways people pay for their housing, not only rents and mortgages, but also alternative financing arrangements, such as land contracts, lease-purchase agreements, seller-financed mortgages, and personal property (chattel) loans.

4. Consider the relative risk of small versus large mortgages and how to best balance access, equity, and risk. These loans are particularly important for historically underserved markets and are increasingly important in a rising home price environment where lenders compete on large-balance loans and are less incentivized to offer small mortgages despite the availability of lower-cost homes across the U.S.

[4] The Pew Charitable Trusts, letter to Federal Housing Finance Agency, "Pew Suggests Ways to Improve the Manufactured Housing Market," July 15, 2021, https://www.pewtrusts.org/en/research-and-analysis/speeches-and-testimony/2021/07/16/pew-suggests-ways-to-improve-the-manufactured-housing-market.

Thank you again for the opportunity to comment on the FHFA's Strategic Plan.

Sincerely,

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OBJECTIVE 2.1: PROMOTE SUSTAINABLE ACCESS TO MORTGAGE CREDIT

Small mortgages are difficult for lenders to make and for borrowers to access. The availability of small mortgages—those below $150,000—has been on the decline in recent years. Between 2009 and 2019, originations between $10,000 and $69,999 fell by 38% and originations between $70,000 and $150,000 fell by 26%.[5] In contrast, originations above $150,000 rose by 65%.[6] The decline in small mortgage originations is not exclusively due to a reduction in the number of low-cost homes available for purchase. Instead, research indicates that borrowers struggle to obtain small mortgages for their low-cost properties. For example, a recent Urban Institute analysis found that among low-cost counties in the United States, only 21% of home sales below $70,000 were financed with a mortgage, compared with 70% of home sales between $70,000 and $150,000.[7]

One factor contributing to the low supply of small mortgages is the disproportionately high denial rate for these loans. An Urban Institute analysis indicates that small mortgages are denied more frequently than large mortgages in both the conventional and government channels.[8] In 2017, the real denial rate for loans between $10,000 and $70,000 was 52%, compared to 35% for loans between $70,000 and $150,000 and 29% for loans worth more than $150,000.[9] Differences in the real denial rates by loan size were not due to applicants' incomes or credit scores, which indicates that these loans are likely being denied due to their sizes.[10]

One explanation for the higher denial rates is that small mortgages have comparatively high origination and servicing costs relative to larger mortgages. These higher costs may make it difficult for lenders to profitably originate these loans. Loan production expenses were $8,243 per loan in 2020, while the average per-loan servicing cost has tripled since the pre-Great Recession period.[11]

Denials are even higher in the manufactured housing market. In a 2021 report on manufactured housing, the Consumer Financial Protection Bureau (CFPB) found strong evidence of disparities, including higher denial rates and higher interest rates for borrowers seeking to finance a manufactured

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[5] B. Eisen, "Small Mortgages Are Getting Harder to Come By," *The Wall Street Journal*, May 9, 2019, https://www.wsj.com/articles/small-mortgages-are-getting-harder-to-come-by-11557394201.

[6] Ibid.

[7] Alanna McCargo et al., "Small-Dollar Mortgages for Single-Family Residential Properties" (Urban Institute, 2018), 10, https://www.urban.org/research/publication/small-dollar-mortgages-single-family-residential-properties. According to an Urban Institute analysis, in counties with the highest concentration of low-cost homes, nearly 34 percent of households are renters, therefore potential homeowners have the lowest median income ($29,000) and highest minority share (35 percent) compared with other households.

[8] L. Goodman, B. Bai, and W. Li, "Real Denial Rates: A Better Way to Look at Who Is Receiving Mortgage Credit" (working paper, Urban Institute, 2018), 19-20, https://www.urban.org/sites/default/files/publication/98823/real_denial_rates_1.pdf.

[9] Ibid., 20. The real denial rate is calculated by excluding from the calculation high-credit-profile borrowers, whose credit profiles are strong enough that their mortgage applications are unlikely to be denied by lenders–in other words they have a zero-denial rate. Instead, the observed denial rate is calculated by comparing only the number of loans denied versus mortgages received by low-credit-profile borrowers–those whose applications might be denied.

[10] Ibid., 2-4.

[11] Mortgage Bankers Association, "Retail Production Channel: Cost to Originate," Mortgage Bankers Association, July 23, 2021, https://www.mba.org/news-research-and-resources/research-and-economics/chart-of-the-week/chart-of-the-week-archive; J. Kan and M. Walsh, Mortgage Bankers Association, "M.B.A. Economic and Mortgage Finance Outlook" (presentation, MBA's National Servicing Conference and Expo 2019, Orlando, FL), https://www.mba.org/Documents/Market%20Outlook(2).pdf; Mortgage Bankers Association, "In-House Servicer Direct Servicing Costs by Function in 2020," Mortgage Bankers Association, June 4, 2021, https://www.mba.org/news-research-and-resources/research-and-economics/chart-of-the-week/chart-of-the-week-archive.

home compared to a site-built home.[12] Pew has built on this research with the University of North Carolina, Chapel Hill (UNC), and recently published a paper exploring the extremely high denial rates that exist for manufactured housing loans. The research shows that, in 2018 and 2019, manufactured home loans were denied nearly 8 times more often than loans for site-built homes (54% compared with 7%, respectively). Further, Black (71%), Hispanic (42%), and Indigenous (46%) applicants are more likely to be denied for manufactured housing mortgages than their White (34%) counterparts. A similar pattern holds for personal property loans.[13] When applicant characteristics such as income, loan-to-value ratios, debt-to-income ratios, and geography are controlled for, this difference is reduced but persists. Credit scores may also contribute to some of this difference; however, the research also finds credit history likely plays a larger role in underwriting for manufactured home loans than it does for site-built mortgages.[14]

Another area that mortgage experts and consumer advocates have identified as in need of further study is the role the secondary market plays in providing consumers access to loans.[15] More than three-quarters of manufactured homes placed since 2014 are titled as personal property and therefore not eligible for a mortgage without retitling.[16] Based on 2019 Home Mortgage Disclosure Act data, over 40% of manufactured home loans were personal property loans specifically.[17]

It is especially difficult for manufactured home buyers to get conventional financing, regardless of whether they are applying for a mortgage or personal property loan. For example, on conventional loans, 54% of manufactured home mortgage applications and 64% of personal property loan applications are denied. In comparison, just 6% of conventional loan applications for single-family site-built homes are denied. Further, manufactured home buyers who apply for loans backed by the Federal Housing Administration (FHA) or Veterans Affairs (VA) had far lower denial rates (14%) compared with conventional loans. And this is comparable to denials for site-built home applications for FHA (11%) and VA loans (6%).[18]

Conventional manufactured home loans, unlike those for site-built mortgages, lack a robust secondary market which limits lenders' abilities to make new loans. When controlling for applicant demographics, conventional site-built mortgages were just 1 percentage point more likely to be denied compared with FHA mortgages. In contrast, manufactured housing conventional mortgages were 16 percentage points more likely to be denied compared with FHA loans. This reinforces how much more difficult

[12] Consumer Financial Protection Bureau, "Manufactured Housing Finance: New Insights from the Home Mortgage Disclosure Act Data" (2021), 4, 25, https://files.consumerfinance.gov/f/documents/cfpb_manufactured-housing-finance-new-insights-hmda_report_2021-05.pdf.
[13] S. Riley, A. Freeman, and J. Dorrance, "Is Manufactured Home Financing Hard to Get?; an Exploratory Analysis of Home Purchase Loan Applications" (The University of North Carolina at Chapel Hill; Center for Community Capital, 2021), 46, https://www.pewtrusts.org/en/research-and-analysis/white-papers/2022/02/lenders-deny-more-than-half-of-loan-applications-for-the-purchase-of-manufactured-homes.
[14] Ibid., 66.
[15] S.A. O'Connor, senior vice president, public policy and industry relations, Mortgage Bankers Association, letter to Federal Housing Finance Authority, "Re: Chattel Financing of Manufactured Homes Request for Input," March 20, 2017, https://www.fhfa.gov/forms/Lists/DTSChattelList/Attachments/26/MBA%20Response%20to%20FHFA%20Chattel%20RFI%20FINAL.pdf; J. Gray and G.W. McCarthy, "Duty to Serve; Early Lessons Learned in Underserved Housing Markets" (Lincoln Institute of Land Policy, 2021), 1, https://www.lincolninst.edu/publications/policy-briefs/duty-serve.
[16] United States Census Bureau, "Cost & Size Comparison: New Manufactured Homes and New Single-Family Site-Built Homes (2014-2020)," accessed March, 9 2022, https://www2.census.gov/programs-surveys/mhs/tables/time-series/sitebuiltvsmh.xlsx.
[17] Consumer Financial Protection Bureau, "Manufactured Housing Finance," 4.

conventional manufactured home mortgages are to obtain compared with those for site-built for applicants.[19]

The FHFA and the Enterprises have already taken several steps to improve access to credit for manufactured and site-build home buyers by streamlining underwriting and requiring that the GSEs expand their 2022-2024 goals for Duty to Serve.[20] For example, Fannie Mae's decision to allow the inclusion of positive rent payment history in its risk assessment processes will help expand access to credit to a wider pool of borrowers.[21] And Freddie Mac's recent announcement that lenders can use the asset and income modeler (AIM) solution to assess an applicant's income through direct deposit will result in cost reductions, according to their internal research.[22]

Further, the FHFA's decision to expand the use of desktop appraisals may reduce turnover times and the overall cost of originating small loans.[23] We encourage the FHFA and the Enterprises to study the outcomes of these changes and share findings publicly. Further, we encourage the FHFA to create more pilot programs that explore ways to streamline the small mortgage underwriting processes to help lower costs and make these loans more viable for lenders.

Our findings indicate that personal property loans for manufactured housing play an important role in financing, but most applications are denied, and credit is constrained. GSE pilot programs to purchase personal property loans with safe and affordable terms should be reconsidered. Since these loans tend to be quite small (under $100,000), the risks of such a pilot to the GSEs are minor but the benefit of increased access to credit for financially stable buyers trying to purchase an affordable home could be pronounced. Going forward, we would encourage the FHFA and the Enterprises to continue to examine how to provide small mortgage lending to financially capable borrowers. This is likely to reduce racial and ethnic disparities in homeownership and help borrowers avoid common risks and pitfalls with alternative financing.

OBJECTIVE 2.2: ADVANCE EQUITY IN HOUSING FINANCE, INCLUDING THROUGH COMPLIANCE WITH FAIR LENDING LAWS AND REGULATIONS

[19] Riley, Freeman, and Dorrance, "Is Manufactured Home Financing Hard to Get?; an Exploratory Analysis of Home Purchase Loan Applications," 64.

[20] G. Kromrei, "FHFA to GSEs: Back to the Drawing Board on Duty to Serve," *HousingWire*, Jan. 6, 2022, https://www.housingwire.com/articles/fhfa-to-gses-back-to-the-drawing-board-on-duty-to-serve/.

[21] Fannie Mae, "Fannie Mae Introduces New Underwriting Innovation to Help More Renters Become Homeowners," accessed Oct 21, 2021, Aug 11, 2021, https://www.fanniemae.com/newsroom/fannie-mae-news/fannie-mae-introduces-new-underwriting-innovation-help-more-renters-become-homeowners.

[22] Freddie Mac, "Freddie Mac Announces First Automated Assessment of Direct Deposit Income," Feb. 15, 2022, https://freddiemac.gcs-web.com/news-releases/news-release-details/freddie-mac-announces-first-automated-assessment-direct-deposit.

[23] Federal Housing Finance Agency, "FHFA Announces Two Measures Advancing Housing Sustainability and Affordability," news release, Oct 18, 2021, https://www.fhfa.gov/Media/PublicAffairs/Pages/FHFA-Announces-Two-Measures-Advancing-Housing-Sustainability-and-Affordability.aspx; M. Neal et al., "How Automated Valuation Models Can Disproportionately Affect Majority-Black Neighborhoods" (Urban Institute, 2020), https://www.urban.org/research/publication/how-automated-valuation-models-can-disproportionately-affect-majority-black-neighborhoods. FHFA should take care, however, not to worsen appraisal gaps often associated with the purchase of low-cost homes or exacerbate existing wealth gaps. Given that desktop appraisals rely on publicly available data, this may result in the property being undervalued if the information in public records is not current, if there is no comparable sales data (like in rural areas), or if the property is in a neighborhood with many foreclosures. Conversely, if the property is in disrepair, the buyer could end up paying a large sum in repair costs in addition to the mortgage charges. For example, see Urban Institute's report on the impact of automatic valuation models on majority-Black neighborhoods.

Disparities in mortgage access—particularly for small mortgage loans—limit the ability of Black and Hispanic households to accumulate intergenerational wealth.[24] From 2009 to 2016, Black borrowers received only 7% of all small mortgages originated, while Hispanic and Asian borrowers received 10% and 2% of small mortgages, respectively, even though they account for larger shares of the U.S. population overall.[25] Further, the Black-White homeownership gap has grown from 24.4 percentage points in 1970 to 29.5 percentage points in 2020.

A lack of access to small mortgages means some families instead turn to alternative financing and pending Pew research suggests that tens of millions of families have used these arrangements. These include lease-purchase agreements, land contracts, seller-financed mortgages, and personal property (chattel) loans for manufactured homes. Alternative financing arrangements have fewer protections than mortgages, and, while 23 states have a substantive law governing land contracts, most states do not regulate alternative financing broadly.[26]

Evidence shows that these arrangements often introduce risk for buyers, such as unclear ownership rights and responsibilities, hidden costs, threat of eviction, and a loss of equity, among others. For example, in land contracts, the deed, which specifies ownership, is typically not transferred to the borrower until final payment is made per the terms of the agreement. And in lease-purchase agreements, the borrower typically signs a rental agreement and a separate option contract that allows them to exercise the option to purchase the home for an agreed-upon price. But sometimes responsibilities can be unclear or undefined in the years in which the borrower is considered a renter. This can make it difficult for the buyer to understand their rights and responsibilities. It also makes it difficult for policymakers to identify these homeowners and provide them access to the benefits and protections afforded to mortgage holders and, in some instances, renters.

The pandemic and resulting recession have exacerbated existing problems in alternative financing and manufactured housing, but often these homeowners have been ignored in guidance or policy; for example, some federal and state housing assistance programs exclude buyers who did not use a mortgage to purchase their homes. But there has been an increasing focus on borrowers in alternative arrangements and manufactured housing from federal and state agencies. Guidance from the U.S. Department of the Treasury for its Homeowner Assistance Fund (HAF) included land contracts as well as loans secured by manufactured homes.[27] Similarly, we encourage the FHFA to think broadly about equity in home financing as alternative financing is often the only option many Americans have available to achieve their dream of homeownership.

Although more research is needed to understand the distributional impacts of the ongoing decline in small mortgages, it is likely that an affirmative expansion of small mortgage access will broadly benefit historically underserved and disinvested communities. We are pleased to see a refocus on the Equitable Housing Finance Plans, which Pew commented on, and encourage the FHFA to continue moving forward

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[24] A. McCargo and J.H. Choi, "Closing the Gaps; Building Black Wealth through Homeownership" (The Urban Institute; Housing Finance Policy Center, 2020), 1-3, https://www.urban.org/sites/default/files/publication/103267/closing-the-gaps-building-black-wealth-through-homeownership_1.pdf.

[25] A. McCargo et al., "Small-Dollar Mortgages for Single-Family Residential Properties" (Urban Institute, 2018), https://www.urban.org/research/publication/small-dollar-mortgages-single-family-residential-properties.

[26] National Consumer Law Center, "Summary of State Land Contract Statutes" (2021), https://www.pewtrusts.org/en/research-and-analysis/white-papers/2022/02/less-than-half-of-states-have-laws-governing-land-contracts.

[27] U.S. Department of the Treasury, "Homeowner Assistance Fund Guidance," Aug. 2, 2021, https://home.treasury.gov/system/files/136/HAF-Guidance.pdf.

with implementing those plans.[28] In addition, we would encourage the FHFA to consider the other ways that homeowners pay for their housing that is similar or on the pathway to a mortgage.

OBJECTIVE 2.3: SERVE AS A RELIABLE SOURCE OF INFORMATION AND ANALYSIS ON THE STATE OF HOUSING FINANCE MARKETS AND RELATED ISSUES

While there are many datasets on renters and mortgage-holders, there is little data on those who use alternative financing, especially for rent-to-own/lease-purchase agreements. In some instances, aspiring homeowners may be pre-underwritten to FHA loan standards and some may be re-underwritten in 2-5 years when they opt to convert their rent or lease into homeownership.[29] However, more study is needed to better understand who these residents are, the hurdles preventing them from homeownership, their experiences in these arrangements, and their trajectories—whether into homeownership or something else. Previously, the Enterprises had considered exploring lease-purchase programs. We encourage the FHFA and the Enterprises to reexamine this market as there has been renewed attention to these business models from a variety of stakeholders, including advocates, industry, investors, nonprofits, etc.

In addition, there is little research on small mortgages specifically, including, but not limited to risk analyses, challenges lenders face originating these lower-balance loans, and outcomes from recent changes (positive rental payment history in underwriting and desktop appraisals) that affect low-cost housing and small mortgages. We encourage the FHFA to provide more publicly available information and data transparency on small mortgages.

OBJECTIVE 2.4: FACILITATE GREATER AVAILABILITY OF AFFORDABLE HOUSING SUPPLY, INCLUDING AFFORDABLE RENTAL HOUSING

The FHFA is well situated to make a significant impact on affordable housing supply through increased purchases of manufactured home loans. According to the U.S. Census Bureau, new manufactured homes cost, on average, less than half the price per square foot compared with a site-built home, excluding the cost of land. Because these homes are often smaller (averaging around 1,400 square feet) compared with new site-built homes (over 2,500 square feet), they are even more affordable for buyers.[30]

In addition, Pew's manufactured housing denial research with UNC indicates that consumer demand likely far outstrips the current supply of loans as more than half of completed loan applications are denied. Research both by Pew and the CFPB show that buyers are held to higher credit standards than those trying to purchase site-built homes and that this likely drives the differences between denial rates for manufactured compared with site-built housing.[31] The CFPB found that, "Sub-prime consumers who applied for financing on a site-built home were more likely to be approved for a loan than super-prime consumers with chattel applications or prime consumers with MH mortgage applications."[32] Yet, this

[28] The Pew Charitable Trusts, letter.
[29] Jamie Buell and Dedrick Asante-Muhammad, "Landis's Lease-to-Own Model & Black Homeownership" (National Community Reinvestment Coalition, 2021), https://www.ncrc.org/brief-landiss-lease-to-own-model-black-homeownership/.
[30] United States Census Bureau, "Cost & Size Comparison: New Manufactured Homes and New Single-Family Site-Built Homes (2014-2020)."
[31] Riley, Freeman, and Dorrance, "Is Manufactured Home Financing Hard to Get?; an Exploratory Analysis of Home Purchase Loan Applications," 9.
[32] Consumer Financial Protection Bureau, "Manufactured Housing Finance," 16, 17.

market is also still greatly underserved by Duty to Serve. And expansion of secondary market purchases could help encourage both increased lender competition, which may drive down consumer loan costs, as well as improved liquidity for lenders so that they can originate more loans.

OBJECTIVE 2.5: SUPPORT LEVERAGING OF TECHNOLOGY AND DATA TO FURTHER PROMOTE EFFICIENCY AND COST SAVINGS IN MORTGAGE PROCESSES

As the FHFA explores modernizing the appraisal process for single-family homes, we would encourage the agency to pay particular attention to appraisals for manufactured homes. Experts note that these homes face multiple hurdles to proper appraisals, which restricts buyers' abilities to obtain mortgages and may force many to choose another type of housing or finance with a personal property loan even if the land beneath the home is also owned and they could obtain a mortgage.

Another area we encourage the FHFA to continue exploring is underwriting, in particular, the opportunities for cashflow underwriting approaches or similar methods to responsibly expand mortgage access for those who could reasonably afford a mortgage but have thin credit files. This approach should be analyzed with respect to lowering the costs of underwriting to low- and moderate-income applicants to improve opportunities to access small mortgages.

Thank you again for the opportunity to comment on the FHFA's Strategic Plan and for undertaking this essential work. We look forward to continuing to engage on these issues in the months and years ahead.