



March 10, 2017

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

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

Dear Mr. Gray:

The Manufactured Housing Institute (MHI) is pleased to submit comments in response to FHFA's January 2017 Request for Input (RFI) on Enterprise purchases of chattel manufactured home loans. The manufactured housing market today, both for real property and for chattel loans, is characterized by sound lending practices and high quality homes built to a robust federal standard. Yet, relative to the site built market, consumers do not share the same financing options. 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. These attributes are the essence of an underserved market.

MHI is the only national trade organization representing all segments of the factory-built housing industry. MHI members include manufactured home builders, lenders, home retailers, community owners and managers, suppliers and others serving or affiliated with the industry. MHI's membership includes 50 affiliated state organizations. In 2016, the industry produced nearly 80,000 homes, approximately nine percent of new single family home starts.

Manufactured homes are a critical source of affordable housing for more than 22 million working Americans. 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. The median income for manufactured homeowners is about \$26,000 per year, which is almost half of all homeowners in the nation.

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, and we are pleased that the final Duty to Serve rule authorizes chattel manufactured home loans as a "regulatory activity." Importantly, the final Rule also provides that FHFA may, at its discretion, designate one "statutory activity" or "regulatory activity" in each underserved market that FHFA will significantly consider in determining whether to provide a Non-Objection to that underserved market in a proposed Plan. For the first Plan cycle, FHFA has not made such a designation in this Guidance.

MHI strongly recommends that FHFA significantly consider the chattel loans pilot as the Enterprises develop their Underserved Markets Plans.

Specifically, we believe that FHFA and the Enterprises should consider the following as the Plans are developed and evaluated:

- In the initial phase of DTS manufactured housing implementation, an Enterprise should not be able to receive a minimally passing performance rating unless it carries out a pilot program to purchase a substantive amount of chattel loans by each Enterprise, and
- The pilot program should be designed to incorporate a representative sample of the market by including a cross section of loans varied by new home purchases, refinances, pre-owned home resales, seasoned loans held on portfolio, and loans varied by geography and socio-economic diversity.
- While the program will be evaluated over time, the goal is to structure the chattel pilot program so the Enterprises have a strong comfort level that the proper protections are in place and the program is sustainable. In later phases, once performance of the loans in the pilot phase demonstrates that chattel loans can be safe and profitable, such purchases should be expanded significantly.

The central questions raised by the RFI are about the appropriate role that chattel loan purchases should have in the Enterprises' Underserved Markets Plans and to help quantify the risks to the safety and soundness of the Enterprises, in keeping with the directive provided by HERA to serve the manufactured housing market. MHI is pleased to offer responses to this request, and we hope our submission helps provide greater detail regarding the critical importance of including a chattel pilot program in the Underserved Markets Plans and helps FHFA and the Enterprises better understand and more fully participate in the manufactured housing market.

MHI has encouraged the Enterprises to meet with our members to gather information about the purchase and finance process, the management of land lease communities, and the quality of construction. These discussions will help the Enterprises understand the health and strength of the manufactured housing market. Such outreach should continue as the Enterprises develop their Underserved Markets Plans. This dialogue, combined with further research and the actual commencement of a program to purchase chattel loans, will contribute to continued progress in standardizing loan origination and fostering securitization.

We look forward to our continued engagement with the Enterprises and FHFA on this important initiative.

Sincerely,

A handwritten signature in black ink that reads "Lesli Gooch". The signature is fluid and cursive, with the first name "Lesli" and last name "Gooch" clearly distinguishable.

Lesli Gooch, Ph.D.
Senior Vice President, Government Affairs & Chief Lobbyist

Background

MHI Recommendations for the Development and Assessment of the Underserved Markets Plans

The Enterprises cannot fulfill their statutory Duty to Serve Manufactured Housing without a meaningful commitment to chattel loan purchases, specifically:

- FHFA should significantly consider including a chattel program as it reviews the initial phases of the Enterprises' Duty to Serve plans. Currently, according to the final rule, FHFA does not have this designation for the initial phases of the plan.
- In the initial phase of DTS manufactured housing implementation, the Enterprises should not be able to receive a minimally passing performance rating unless they carry out a pilot program to purchase a substantive amount of chattel loans, and
- The pilot program is representative of the whole market, and includes:
 - a. New home and older home financing, as well as refinancing.
 - b. Loans from a variety of geographic locations.
 - c. Loans across the FICO and income spectrum.
 - d. Seasoned loans that have been held in portfolio.
- In later phases, assuming performance of the loans in the pilot phase demonstrates that chattel loans can be safe and profitable, such purchases should be expanded significantly.

FHFA itself acknowledges in the RFI that *"Eighty percent of new manufactured homes placed in 2015 were titled as chattel."* As noted in the introduction, chattel loans clearly are an underserved market, the lack of which adversely affects very low, low and moderate income families. HERA explicitly identifies chattel lending as one of the markets that the Enterprises should consider, and the DTS rule explicitly makes chattel loans an eligible activity in receiving DTS Credit. For all these reasons, it is both appropriate and essential for the Enterprises to make a meaningful commitment to chattel loan purchases.

Risk Analysis Shows that Financial Impact of Pilot Program Will Be Minimal

While MHI appreciates that the Enterprises do not have much experience with chattel loans and that they should carefully assess all financial and operational risks of purchasing such loans, at some point the Enterprises simply have to start purchasing chattel loans in order to confirm what we believe is true - that such loans can be safely and profitably purchased.

As evidence of that fact, the manufactured home loan industry is active, and, since the 2008 housing crisis, has been consistently profitable.

Given the small relative size of the manufactured housing market, a pilot program would pose a very limited financial exposure to the Enterprises. With an average loan size of \$60,000, purchasing a substantive amount of loans would enable each Enterprise to structure a viable and scalable pilot program. Fannie Mae's overall mortgage purchase business in 2016 was over \$300 billion; at a minimum, a substantive pilot program would amount to a minuscule fraction of their total business.

Moreover, while we expect these purchases to be profitable, even in the unlikely event of a severe downturn, we expect losses to be a miniscule amount, compared to each Enterprise's financial results and net annual profit. Thus, any concerns about this exposure do not justify either Enterprise failing to participate in 80 percent of the market for one of their three Underserved Markets.

Information for Establishing Direction and Parameters of the Pilot Program

The RFI poses important questions about the direction of a pilot program – such as the mix of loans (purchase, refinance, or combination), valuation/appraisal questions, and whether counseling should be required. The RFI also includes several detailed questions that do not seem directly related to the Underserved Markets Plan and what it should contain – but rather seek to elicit more information in helping the Enterprises and FHFA assess and minimize risk of chattel loan purchases, and operationalize and standardize their purchase, servicing and management of such loans going forward.

MHI is pleased to provide detailed answers to the questions raised in this RFI, to assist the Enterprises and FHFA in moving forward with this important priority. To date, MHI has endeavored to be a resource to the Enterprises and FHFA and we hope to continue this engagement as the pilot programs are formulated. Additionally, MHI has provided answers to many of the same questions posed in this RFI in our comment letter submitted for the Duty to Serve Rule. Finally, as we have previously communicated, some of the loan performance data may be subject to confidentiality or privacy concerns, and we will continue to work through these concerns while being as responsive as possible to these requests.

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?*

The manufactured housing chattel lending market includes a limited number of national lenders (serving all markets) and a limited number of regional lenders serving two or more states. There are also numerous credit unions and smaller lending institutions that offer chattel lending. Because of the lack of a secondary market, these financial institutions retain chattel loans in portfolio, thereby making it difficult to assess relative size, market share, and geographic dispersion.

HMDA data currently combines manufactured home and land loan data and chattel loan data thereby making it extremely difficult to identify and rank market participants or report on market share.

Through extensive conversations with our members, MHI has determined a significant number of banks and non-banks are actively originating chattel loans, and we would be happy to share this list on a confidential basis. We also believe that many community banks and credit unions make chattel loans on a local or regional basis. And, many manufactured housing communities have affiliates that purchase loans made by third party lenders to consumers for the purchase of homes to be placed in the communities.

By statute and by the DTS rule, one of the major components of DTS compliance that FHFA is required to evaluate is “*the extent of the Enterprises’ outreach to qualified loan sellers and other market participants.*” Therefore, we urge the Enterprises to reach out to manufactured housing lenders directly to better understand market dynamics and performance. MHI would be happy to assist FHFA and the Enterprises with this endeavor.

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?*

As we noted above, one of the characteristics of manufactured housing finance is that most lenders tend to hold loans in portfolio. Because the lender retains the credit and interest rate risk, interest rates tend to be higher than conventional single family loans.

Chattel lending, like traditional mortgage lending, carries fixed costs. These are often built into the interest rate. For example, the Enterprises allow up to .375% annually for loan servicing. The average mortgage loan is around \$225,000, while the average manufactured housing chattel loan is approximately 1/4th of that. Just to obtain comparable servicing revenue, lenders need to receive approximately 150 bps for servicing.

We are not aware of institutional investors purchasing these loans, aside from what is described in Question 1 and in Question 3. This lack of a secondary market to disperse risk is one of the key reasons why the Enterprises must develop a chattel lending program.

We encourage the Enterprises to reach out to chattel lenders to get a better sense of their relative size, market share, and geographic reach.

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 manufactured housing communities have affiliates that purchase loans made by third party lenders to consumers for the purchase from affiliated retailers of homes to be placed in the communities. Many of these loans are table funded. Anecdotally, we are aware that a major investor is building a secondary market business.

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?*

With the exception of one major credit union known to us, regional and national depository institutions do not originate chattel loans in significant volume. MHI believes that one of the reasons for this absence from the primary market is the lack of a secondary market.

Therefore, the Enterprises could expand that market by offering to purchase chattel loans from such institutions and by paying servicing fees commensurate with the high-touch servicing typically required for these loans. The risk for new market entrants, beyond those facing current market participants, is a lack of familiarity with the dynamics of relationships between community operators and chattel lenders, titling and lien perfection laws, and default servicing laws that differ from mortgage lending laws, described as follows:

Titling and lien perfection laws:

A manufactured home can be personal property, a fixture or real property. When a manufactured home leaves the factory, or sits for sale on a retailer's sales lot, it is personal property. Moreover, the majority of homes are sold and financed as personal property. Many are installed on leased sites in manufactured home communities, readily removable. Every state has laws that govern conveying and encumbering manufactured homes as personal property. No two are the same.

The Uniform Commercial Code ("UCC") governs perfecting a security interest in a manufactured home that is characterized as personal property. Under the UCC, a manufactured home occupied by its owners as a residence is "consumer goods." Generally, a purchase money security interest ("PMSI") in consumer goods is automatically perfected without filing a financing statement. The UCC, however, excludes from automatic PMSI perfection a security interest in consumer goods subject to a certificate of title act ("COTA"). If a COTA governs perfection of a security interest in a manufactured home, the UCC defers to the COTA to determine whether perfection occurred. In those states, the filing of a financing statement is not necessary or effective to perfect a security interest in property

subject to a COTA. Perfection under the COTA is the equivalent of perfection by filing for UCC Article 9 purposes, except for lien duration and renewal requirements (which are governed by the COTA).

Currently, in forty-four states, a certificate of title determines ownership of and perfection of a security interest in a manufactured home ("Title States"). The remaining states do not issue a certificate of title for manufactured homes. In seven states (including the District of Columbia), filing a UCC-1 financing statement together with a UCC-1Ad perfects a security interest in a manufactured home ("UCC States"). Two states require both a certificate of title and a UCC filing. In three states in transition from "UCC" to "Title", the method of conveyance and encumbrance depends on the home's year of manufacture.

Community operators and chattel lenders:

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. The sample Lender Community Agreement (Attachment 1) has such a provision: "If your Manufactured Home is on rented property, you authorize us, our servicer and your landlord to exchange information about our security interest in your Manufactured Home and past due payments on this Note or your lease." Manufactured home communities typically do not perform collection services for lenders because of debt collector licensing requirements. However, lenders and communities frequently enter into "Park Agreements" whereby lenders may sell repossessed homes in place, responsibility for rehabilitation and maintenance of the home is apportioned, payment of leasehold rent pending resale of the home is addressed, and sales commissions set. Lenders also will consign repossessed homes to the communities or affiliated retailers for resale.

Default servicing laws

The process for repossessing and reselling a manufactured home ("Home") securing a chattel loan ("Loan") requires:

- sending the borrower ("Borrower") a notice of default and right to cure ("Notice of Default");
- gaining possession of the Home either by voluntary surrender or court order;
- sending the borrower a notice of repossession, notice of right to reinstate, notice of right to redeem and notice of private or public sale;
- re-marketing the Home;
- conducting the sale;
- documenting the sale;
- retitling the Home; and
- sending the borrower an Explanation of Calculation of Surplus or Deficiency or a waiver of deficiency.

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?*

As a general rule, manufactured home dealers currently do not have a role in financing purchases of manufactured homes. A retailer employee that takes a credit application, offers or negotiates loan

terms or discusses a consumer's credit standing must be licensed as a mortgage loan originator under the SAFE Act and the retailer entity must be licensed or registered in order to "sponsor" the employee, as required by the SAFE Act. As a result, dealer financing is very rare and typically is limited to sales persons licensed as loan originators discussing credit terms with potential customers.

We are not aware of any manufacturers that participate directly in financing purchases of manufactured homes. However, three of the largest manufacturers have captive lenders.

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.*

The vast majority of chattel loans are fixed rate, closed-end, level payment, fully amortizing, with terms ranging from eight to thirty years. A few lenders offer step rate chattel loans. We are not aware of any chattel lenders that offer variable rate loans. Chattel loans are either 365/365 daily simple interest or 360/360 simple interest scheduled payment. Down payment and credit score requirements vary from lender to lender. Loan pricing often is built on a confluence of factors including LTV, credit score, term to maturity, age of the home, whether the home is single or multi-section and whether discount points are charged. Many lenders use proprietary score cards. We are privy to little proprietary performance history and, to the extent we have such data, we would need the permission of the lenders to share it.

We encourage the Enterprises to reach out to chattel lenders to discuss the performance characteristics of their portfolio.

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)?*

Historically lenders determine the maximum amount to purchase a money chattel loan as a percentage of the manufacturer's invoice. Costs associated with sale of the home such as transportation, set-up, optional equipment like A/C, skirting, decks, etc., are also included. More and more municipalities are also charging "impact fees" on a per site basis that must be incorporated into not only the costs, but the value. The extent to which they are financed varies from lender to lender. Similarly, parameters for financing appurtenances (e.g., garage, patio) and other dealer-added options, such as central air conditioning and on site installed design elements, vary from lender to lender.

Most chattel loans are higher priced mortgage loans in that the APR exceeds 1.5% over APOR. Under the Truth in Lending Act a creditor cannot extend a higher-priced mortgage loan without obtaining, prior to consummation, a written appraisal of the home. The appraisal must be performed

by a certified or licensed appraiser who conducts a physical visit of the interior of the property that will secure the transaction. Exemptions available to manufactured home lenders include:

- Appraisals are not required for Higher Priced Qualified Mortgages.
- Transactions secured by a mobile home or trailer (pre-HUD Code Home, *i.e.* manufactured before June 15, 1976).
- Transactions equal to or below a specified threshold, set at \$25,500 for 2016.
- A manufactured home and not land, for which the creditor obtains one of the following and provides a copy to the consumer no later than three business days prior to consummation of the transaction:
 1. For a new manufactured home, the manufacturer's invoice for the manufactured home securing the transaction, provided that the date of manufacture is no earlier than 18 months prior to the creditor's receipt of the consumer's application for credit.
 2. A cost estimate of the value of the manufactured home securing the transaction obtained from an independent cost service provider.
 3. A valuation of the manufactured home performed by a person who has no direct or indirect interest, financial or otherwise, in the property or transaction for which the valuation is performed and has training in valuing manufactured homes.

NADA provides cost based appraisals for new and used homes. DataComp provides appraisals and valuations based on comparable sales of new and pre-owned homes and includes a NADA cost based value. Currently, there are no other market participants, although we believe another company may be considering entering the market. Many lenders rely on the exemption described in bullet 3 above.

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?*

Methods of determining how much a lender would loan on a used home have dramatically changed with the new appraisal and valuation requirements. Much of it is determined by whether it is a QM Loan or Non-QM Loan. DataComp provides the NADA value in its appraisals as the cost approach value, but uses market comparables to determine true market value of the home much like a residential real estate appraisal¹. Industry lenders may use one or the other depending on the home's location and other underwriting criteria.

Resales of chattel-financed homes should not be excluded from a chattel loan pilot. We believe that the resale market is larger than the purchase market. A secondary market that supported lower interest rates for resales would benefit both the seller and the purchaser. The seller could obtain a higher sales price and the buyer could have an affordable home at a reasonable cost. As a result of this added market dynamic, older homes are more likely to retain value longer due to increased financing options for these homes.

¹ Regulation Z allows a "cost estimate of the manufactured home securing the transaction from an independent cost service provider." 12 C.F.R. § 1026.35(c)(2)(viii)(B)(2). An NADA value derived from through their methodology satisfies this requirement.

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?*

A chattel loans pilot should allow for the refinancing of existing chattel-financed homes. Manufactured homeowners have the same need for refinancing as site-built homeowners. The Enterprises should value these homes based on appraisals as described in our answer to Question 8.

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. At least one company sells these forms. Several lenders have proprietary forms. Many use a form developed by McGlinchey Stafford (Attachment 2). We see few challenges to standardizing loan and collateral documentation. The Enterprises have been eminently successful doing so for the residential mortgage market. The process for chattel loan documentation would be no different. In addition, these forms could include consumer protection provisions as discussed in our answer to Question 13, thus simplifying regulatory oversight.

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. Some states have laws giving consumers privity with the retailers. The warranties are backed by dispute resolution mechanisms established by HUD. See 24 C.F.R. Part 3288.

Several companies sell warranties or "service contracts." Some states treat these products as insurance and require a licensed agent. Texas, for example, defines a "service contract" as an agreement (1) that is entered into for a separately stated consideration and for a specified term; and (2) under which a provider agrees to repair, replace, or maintain a product, or provide indemnification for the repair, replacement, or maintenance of a product, for operational or structural failure caused by a defect in materials or workmanship or by normal wear. Typically, the protection covers the structure of the home; systems originally supplied by the manufacturer (such as plumbing, electrical system, water heater, and central heat and air conditioning); as well as appliances included in the home at the time of delivery. The amount of the deductible is typically nominal. Most of these plans are transferable. When an item has been repaired or replaced, coverage automatically continues for the item. The costs range from \$800.00 to \$1,200.00.

The federal Magnuson-Moss Consumer Warranty Protection Act² establishes standards for written warranties, implied warranties, and service contracts offered to consumers on consumer products, including manufactured homes.

² 15 U.S.C. §§ 2301-2312; 16 C.F.R. Parts 700, 701, 702 and 703.

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 believe housing counseling should be readily available, but not required.

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?

Whether or not the Real Estate Settlement Procedures Act (“RESPA”) applies to a particular loan, FHFA should require compliance with Regulation X’s consumer protections for chattel loans to be eligible for DTS credit. Those protections are:

- (1) RESPA Section 8 Prohibition Against Kickbacks and Other Unearned Fees [Section 1024.14];
- (2) Mortgage Servicing Transfer Provisions [Section 1024.33];
- (3) Escrow Account Requirement [Sections 1024.17 and 1024.34];
- (4) Error Resolution Procedures [Section 1024.35];
- (5) Requests for Information [Section 1024.36];
- (6) Forced Placed Insurance Protections [Section 1024.37];
- (7) General Servicing Policies, Procedures and Requirements [Section 1024.38];
- (8) Early Intervention Requirements [Section 1024.39];
- (9) Single Point of Contact [Section 1024.40]; and
- (10) Loss Mitigation Procedures [Section 1024.41 other than the foreclosure sale provisions in 41(g), the loss mitigation appeals in section 41(h) and the 120-day enforcement moratorium in 41(f) and (j)].

An “itemization of amount financed” as prescribed by the Truth in Lending Act (“TILA”) would be provided to the borrower, unless the new integrated TILA-RESPA disclosures are provided. (All other TILA requirements would remain as-is.) The MLO Compensation Rule³ insures that consumers will be offered the best loan terms available. TILA also contains many other protections put in place after the 2008 housing crisis, such as the Ability to Repay standards and the ban on pre-dispute arbitration agreements.

Requiring a Notice of Default and Right to Cure, both before and after repossession, together with the Regulation X protections described above, will result in chattel loans servicing in compliance with the same protections as real estate loans.

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.

³ 12 C.F.R. § 1026.36(d).

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 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?

We know of no third party credit enhancements available for chattel loans or securities backed by chattel loans at this time. We believe that credit enhancements could be developed for loans in excess of 80% LTV should the Enterprises move forward with a chattel pilot.

We look forward to working with the Enterprises and developing a program that is structured in such a way that the safety and soundness is predicated on having insurance or reserves that cover more than the anticipated frequency of default and historical losses.

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

Lender recourse could entail lender liability for a percentage of the loss when a repossessed home is resold. The percentage could diminish across the term of the loan, and also could be calibrated to the risk profile of the applicable underwriting guidelines.

- 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?*

A good first step would be for the Enterprises to initiate chattel loan pilots and share performance data. We addressed standardization of loan documents in our answer to Question 10. HMDA reporting that separates Land-Home Loans from Chattel Loans will be very helpful in studying the demographics of the market and the characteristics of each type of loan. Promoting existing data aggregators such as DataComp (which has extensive sale and resale data, both compiled and granular) would promote standardization and enhance consumer capacity to resell used manufactured homes. The Enterprises could enhance the marketability of manufactured home chattel loans through standardization of loans documents, robust participation in the market and recourse arrangements as described in our answer to Question 16, and bringing more lenders to the market.

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. Letters, emails and phone calls are employed. If a loan remains delinquent after the late charge grace period expires (typically 15 days), most lenders will send a notice of default and right to cure. Cure periods are typically thirty days. Default servicing practices are described in more detail in the August 3, 2016, McGlinchey Stafford Memo (Attachment 3).

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. The sample Note attached hereto has such a provision. Manufactured home communities typically do not perform collection services for lenders because of debt collector licensing requirements. However, lenders and communities frequently enter into “Park Agreements” whereby lenders may sell repossessed homes in place, responsibility for rehabilitation and maintenance of the home is apportioned, payment of leasehold rent pending resale of the home is addressed and sales commissions set (see Attachment 1). Lenders also will consign repossessed homes to the communities or affiliated retailers for resale.

We are not aware of any regional variations in these practices other than California, which has both rent control and a very robust resale market.

- 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?*

Short sale, deed-in-lieu, and modification are all useful loss mitigation tools. Loan assumptions are not uncommon. We do not foresee these requirements affecting pricing of the loans. Most if not all chattel loan servicers use them now. We think lender recourse as described in our answer to Question 16 subsumes these requirements.

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 typically are sold in place and remain in the community. Homes repossessed from private land are typically taken to the lot of a retailer for resale, under either repurchase agreements or consignment agreements. Homes also are listed on MHVillage, which is very similar to the real estate listing services used by REALTORS® and is run by DataComp. Homes are often listed and marketed by brokers and posted on social media sites. We are not aware of any lender that tracks recovery rates based on these distinctions. Anecdotally, we hear that recovery rates are around 55%.

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:

- a. 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;*

We encourage the Enterprises to work with MHI and its retailer members who facilitate the placement of homes during the sales transactions.

- b. Describing chattel loan borrower credit and income characteristics (beyond Home Mortgage Disclosure Act data), including trended borrower data;*

We encourage the Enterprises to work with chattel lenders on borrower characteristics. MHI believes that it is incredibly important that the Enterprises develop a pilot program that captures a representative and scalable slice of the market.

- c. Tracking the borrower's experience with chattel financing and servicing;*

We encourage the Enterprises to work directly with chattel lenders to obtain this information.

- d. 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 and can be as energy efficient as site-built homes which rely on prescriptive standards that may not be cost effective for the consumer. Careful attention to construction methods and robust quality assurance and compliance, result in the construction of energy efficient homes. Manufactured home energy standards meet HUD's mandate to establish standards that "minimize the sum of construction and operating costs" over the life of the home. This emphasis

on "lifecycle" energy cost effectively balances energy efficiency with the need to minimize the cost of manufactured homes.

In addition to supporting HUD-mandated standards, the industry works to ensure that all new manufactured homes are built to Energy Star standards, working with energy providers such as the Tennessee Valley Authority, Kentucky Power and West Virginia Electric Power to retrofit older manufactured homes. In 2016, approximately 11 percent of all homes sold were built to energy star standards.

e. Describing the decommissioning or breakdown of outdated manufactured homes;

There are approximately 8.5 million manufactured homes in the market today. Generally speaking, there is no meaningful difference in the demolition of manufactured homes compared to site-built homes. The following table provides an overview of the age of manufactured homes in the country⁴:

Years	Manufactured Homes in 000s
2010 to 2015	260
2000 to 2009⁺	1,349
1990 to 1999	2,363
1980 to 1989	1,992
1970 to 1979[*]	1,870
1960 to 1969	595
1950 to 1959	171
1940 to 1949	27
1939 or earlier	57

⁺ Manufactured Housing Improvement Act passed in 2000.

^{*} Manufactured Housing Construction Safety Standards Act passed in 1974, HUD Code effective 1976.

f. Identifying the 20 largest servicers of chattel loans secured by manufactured homes; and

See Question 1. We encourage the Enterprises to work directly with chattel lenders to obtain this information.

g. Describing chattel loan performance and model results (e.g., prepayment, delinquency, default).

We encourage the Enterprises to work directly with chattel lenders to obtain this information.

⁴ 2015 American Housing Survey Data

[LENDER]

COMMUNITY AGREEMENT

THIS COMMUNITY AGREEMENT ("Agreement"), made as of the sixth day of December, 2016 ("Effective Date"), by and between **[LENDER]**, organized and existing under the laws of the State of Arizona, and **COMMUNITY OWNER** ("**Community Owner**"), organized and existing under the laws of the state of [STATE].

Whereas, Community Owner owns the manufactured home communities known as _____, located at _____ ("Community"); and

Whereas, [LENDER] from time to time will finance one or more manufactured homes, (each a "Home", collectively, "Homes") documented by promissory notes and security agreements ("Security Agreements") with Borrowers under the terms of which [LENDER] shall have a security interest in one or more Homes which are or will be placed in the Community.

Now, therefore, in consideration of these premises, and other good and valuable consideration, the receipt and sufficiency of which is acknowledged by the parties hereto, and with the intent to be legally bound hereby, [LENDER] and Community Owner agree as follows:

1. Notice of Placement By [LENDER]. From time to time [LENDER] may (but is not obligated to) notify the Community of the placement ("Notice of Placement") in the Community of Homes which are subject to security interests in favor of [LENDER]. In each case, [LENDER] shall identify the Home by year, make, model, serial number, and the name of the person(s) obligated on the Security Agreement ("Borrower").

2. [LENDER] May Preserve the Home. Any right or interest in any Home which the Community now has or may have in the future by reason of its location in the Community, or otherwise, is and shall be subject and subordinate to the rights of [LENDER] under the Security Agreements. The Community will make no claim whatsoever on any Home. [LENDER], or its agents, shall have the right to enter the Community to inspect, maintain, repair, repossess, remove, or dispose of the Homes, should it be entitled to do so under the Security Agreements. [LENDER] may change the terms of the Security Agreements or the obligations which they secure in any respect from time to time without the consent of or notice to the Community.

3. Notice of Tenant's Default by Community. The Community agrees that if [LENDER] gives it Notice of Placement of a Home, it thereafter will notify [LENDER] in writing of any delinquency in payment of Community rent by the Borrower or of any other violation of the Borrower's occupancy agreement with the Community which would constitute grounds for eviction.

4. [LENDER]'s Right to Become a Community Tenant. The Community agrees that if [LENDER] gives it Notice of Placement, should [LENDER] take possession of the related Home under the terms of a Security Agreement, [LENDER] may elect that the Home be sold and remain after the resale on the lot where the Home then is placed ("Lot"). In such event, [LENDER] shall pay the Community the then existing monthly Lot rent, at the rate then in effect without regard to the Borrower's default, commencing thirty days from the date of the notice described in paragraph 4 of this Agreement, and ending on the date of resale. In such event, [LENDER] also agrees to pay up to _____ months of past due Lot rent, provided that the Community has notified [LENDER] in writing by the end of the first month of delinquency by the Borrower. Upon taking possession, [LENDER] will maintain the Home and the Lot in compliance with current Community standards. [LENDER] shall be deemed to be a "Tenant" of the Community. [LENDER], nonetheless, may notify the Community in writing that it is waiving its rights under this Agreement with respect to any such Home, and with respect to any such Home, it shall have no further obligation to the Community.

5. Right of Purchaser of Repossessed Home to Become a Community Tenant. The Community agrees to offer any purchaser of any Home which has been repossessed by [LENDER] a lease of the Lot for at least one year, provided the purchaser meets Community standards. The rent required to be paid by the purchaser shall be equal to the amount of rent then in effect for a comparable lease of comparable. The age of the Home shall not be a factor in determining whether a lease of the Lot will be offered, or in determining the amount of rent.

6. Other Parties Bound by This Agreement. The Community will give notice of this Agreement to any transferee of the Community and to any person who may have any right of access to the Community or the Home. This Agreement shall be binding upon the Community, its successors and assigns, and, if an individual or individuals, his or their executors, administrators, heirs and assigns, and shall remain in full force and effect. [LENDER] may assign or otherwise hypothecate its rights under this Agreement.

7. Notices. Except as otherwise specifically provided in this Agreement, any notice or other communication required or which may be given hereunder shall be in writing and either delivered personally to the addressee, or delivered by a nationally recognized overnight courier, or sent by facsimile transmission or email to the addressee (with a copy sent by personal delivery or nationally recognized overnight courier), and shall be deemed given when so delivered personally, or sent by confirmed facsimile transmission prior to 5 p.m. in the recipient's time zone, or upon receipt of confirmation of delivery by email, or upon receipt if delivered by a nationally recognized overnight courier, as follows:

If to [LENDER]:

If to Community:

or to such other address as [LENDER] or Retailer shall have specified in writing to the other from time to time.

8. Entire Agreement. This Agreement is the entire agreement between the Community and [LENDER]. No agreement shall be effective to change, modify or discharge this Agreement unless the same is in writing and signed by an authorized officer of [LENDER]. Any provision of this Agreement prohibited by the law of any state shall, as to said state, be ineffective to the extent of such prohibition without invalidating the remaining provisions hereof.

[COMMUNITY OWNER]

a ☐ corporation ☐ partnership
☐ limited liability company
☐ sole proprietorship
☐ other: _____

Organized and existing under the laws of

By: _____

Printed or Typed Name

Its: _____
Title

[LENDER]

By: _____

Printed or Typed Name

Its: _____
Title

PROMISSORY NOTE and SECURITY AGREEMENT - MANUFACTURED HOME

«M_315»

MEANING OF SOME WORDS. In this Promissory Note and Security Agreement (this "Note"), "you" and "your" mean anyone who signs this Note as "Borrower." The words "we," "us" and "our" mean «M_315»; "Manufactured Home" or "Home" mean the manufactured home, including the appliances in it (see Description of the Manufactured Home below), and "Loan" means the loan we made to you in the principal amount of \$ «M_CXdotACdotFINANCED».

If there is more than one Borrower, each will be obligated, separately and together, to pay all sums due and to keep all promises made to us in this Note.

Borrower # 1:

«M_36» «M_37»

«M_11»

«M_12», «M_14» «M_15»

Borrower # 2:

«68» «_69»

«M_CXdotDCdotCBA»

«M_CXdotDCdotCBC»

ANNUAL PERCENTAGE RATE The cost of your credit as a yearly rate. «M_799»%	FINANCE CHARGE The dollar amount the credit will cost you. \$«M_1206»	Amount Financed The amount of credit provided to you or on your behalf. \$«M_948»	Total of Payments The amount you will have paid after you have made all scheduled payments. \$«M_1207»	Date of this Promissory Note and Security Agreement «M_CXdotCONTdotDATE»
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Interest Rate and Payment Summary

	Rate & Monthly Payment
Interest Rate	«M_3» %
Principal + Interest Payment	\$ «M_3290»
Estimated Taxes + Insurance (Escrow) ☐ Includes Private Mortgage Insurance ☐ Includes Mortgage Insurance	\$ «M_CXdotACdotEPMT»
Total Estimated Monthly Payment	\$ «M_CXdotACdotEPMTTOT»

No Guarantee to Refinance. There is no guarantee that you will be able to refinance to lower your rate and payments.

Late Charge: If your payment is more than 15 days late, you will pay a late charge equal to 5% of the unpaid amount of the payment.

Security: You are giving a security interest in the Manufactured Home and related household goods.

Prepayment: You may prepay all or any portion of your debt under this Note at any time without penalty.

Assumption: Someone buying your Manufactured Home cannot assume the remainder of the Note on the original terms.

Property Insurance: You may purchase required property insurance from any person of your choice that is acceptable to us. If you choose to purchase property insurance through us, the cost will be \$ «HOAMT» for a term of «HS».

Other Information: Refer to the rest of this Note for any additional information about security interests, nonpayment, default, any required repayment in full before the scheduled date, and prepayment refunds and penalties.

1. PROMISE TO PAY AND PAYMENT TERMS. You promise to pay us \$ «FINANCED» ("Principal") plus simple interest as provided below.

When you sign this Note, you will also pay us any "Prepaid Finance Charge" shown in the "Itemization of Amount Financed." ☒ If the box is checked, the Principal includes any Prepaid Finance Charges that we advanced to you. We will compute and charge interest as provided below at the yearly rate of «M_3» % (the "Note Rate"). Interest begins to accrue on «DATE».

When we calculate interest, every year shall have 360 days.

You promise to pay interest at the Note Rate on the unpaid Principal balance of this Note until it is paid in full; however, interest after the final scheduled payment date on this Note shall not exceed the maximum rate allowed by state law.

You promise to pay the principal and interest by paying to us monthly payments in the number and amounts of payments shown in the following **Payment Schedule:**

Number of Payments	Amount of Payments	When Payments are Due
«M_GLOBALdotS1»	\$ «M_GLOBALdotS2»	«M_CXdotPMTDUE»
«M_GLOBALdotS4»	\$ «M_GLOBALdotS5»	

Your first payment will be due on the first date shown in the **Payment Schedule**, and subsequent payments will be due on the same day of each month after that. You will make each scheduled payment on or before its due date until you have paid in full the Total of Payments and any other charges that you may owe under this Note. If on «M_GLOBALdotS6», you still owe amounts under this Note, you will pay those amounts in full on that date (the "Maturity Date").

Each payment will be applied as of its scheduled due date. Unless we agree differently in writing, or the law requires otherwise, payments will be applied in the following order: (1) any "Escrow Items" as provided in Section 9.F of this Note, (2) accrued unpaid interest, (3) Principal, (4) "Advances to Protect the Collateral" as provided in Section 12.B of this Note, (5) unpaid collection costs, (6) dishonored check charges, (7) late charges.

You will make all payments to «M_315», «STREET», «CITY», «STATE» «ZIP», or any other address to which we later tell you (in writing) to send your payments.

We do not intend to charge or collect any interest, charge, or fee that is more than the law allows. If we charge or collect any amount over what the law allows, we will apply the excess first to the unpaid scheduled monthly payments, and we will refund any excess if you have paid in full all amounts you owe under this Note. Any amount applied to unpaid scheduled monthly payments will be treated as a partial prepayment.

ITEMIZATION OF AMOUNT FINANCED**1. AMOUNTS PAID TO YOU**

a. Amount of Credit Provided to You \$ N/A

b. Amount Credited to Your Account \$ N/A

c. Total Amount Paid to You \$ «UNPAIDBAL»

2. AMOUNTS PAID TO SELLER («M_1822»):

a. Cash Price of Manufactured Home (including sales tax of \$«M_372»): \$ _____

b. Down payment \$ _____

c. Total Paid to «M_1822» (2.a. minus 2.b.): \$ «UNPAIDBAL»

3. FEES PAID TO US

a. Buydown Points \$ «tBUYDOWN»

b. Origination Fee \$ _____

c. Processing Fee \$ «M_1621»

d. Flood Fee \$ «X400»

e. Tax Service \$ «M_336»

f. Total Amount of Fees Paid to Us \$ «TLFEETR1»

4. AMOUNTS PAID TO PUBLIC OFFICIALS

a. Filing Fees Only \$ «M_1641»

b. Other Amounts Paid to Public Officials \$ «NOTFILEFEE2»

c. \$ «ADDTFINAD»

d. Total Amount Paid to Public Officials \$ «DCdotSECT3»

5. AMOUNTS PAID TO OTHERS*

a. To: «M_CXdotBRKRdotNAME»
For: Broker Fee \$ «BOFEE» *

b. To: «M_CXdotACdotMHdotINSCO»
For: Insurance Premium* \$ «M_642» *

c. To: «M_1792»
For: Annual Taxes (If Financed) \$ «ACdotTAX1» *

d. To: _____
For: _____ \$ _____ *

e. To: _____
For: _____ \$ _____ *

f. Total Amounts Paid to Others \$ «LFEEdotOTH»

6. PRINCIPAL BALANCE (1c+2c+3f+4d+5f) \$ «FINANCED»

7. LESS: PREPAID FINANCE CHARGES \$ «M_949»

8. AMOUNT FINANCED (line 6 minus line 7) \$ «M_948»

*A substantial portion of these amounts may be paid to or retained by us.

Title & Filing Fees (if not financed) \$ N/A

If a check, item, paper or electronic payment, or other payment device you give us for payment on your account is not paid or is dishonored by your financial institution, you will pay us a dishonored check charge of \$30.00, or the maximum amount allowed by law, if less.

3. YOUR RIGHT TO PREPAY: YOU MAY PREPAY ANY AMOUNTS DUE UNDER THIS NOTE AT ANY TIME WITHOUT PENALTY. You have the right to make payments at any time before they are due. Unless we agree otherwise in writing, we will apply your prepayments to reduce your Principal balance. If you (1) prepay this Note in full, or (2) default and fail to cure your default and we demand payment of the entire balance due on this Note, no portion of any Prepaid Finance Charge will be rebated unless required by law. We earn all Prepaid Finance Charges at the time the Note is made.

4. ASSUMPTION. Someone buying your Manufactured Home cannot assume the remainder of the Note on the original terms.

5. DESCRIPTION OF THE MANUFACTURED HOME

«STATUS»	«MEDotYEAR»	«HOMEdotMAKE»
New/Used	Year	Manufacturer's Name
«M_CXd»	«H» X «»	«EdotVINdotAB»
Model Name or Model No.	Length/Width	Manufacturer's Serial No.
The Manufactured Home includes the additional Appliances, Accessories and Furnishings:		
[] Tires and Wheels	[] A/C Units	
[] Refrigerator	[] Axles	
[] Oven/Range	[] Accessory Shed	
[] Washer	[] Skirting	
[] Dryer	[] Other	

6. LOCATION OF THE MANUFACTURED HOME. Until all amounts owed under this Note are paid in full, you promise that the Manufactured Home will be located at the following address ("Your Address"):

«M_11»
«M_12», «M_14» «M_15»
County: «M_13»

You promise not to remove your Home from Your Address unless you get our permission in writing first.

We will send all notices concerning your Home to Your Address unless you provide a different mailing address below.

Street or Route _____ City _____
County _____ State _____ Zip Code _____

7. OUR SECURITY INTEREST. To secure payment of all sums due or which become due under this Note, and your performance of all other terms of this Note, you grant us a first priority security interest in (1) the Manufactured Home, and all current and future accessions, attachments, accessories, and additions to the Home, (2) your rights to refunds of premiums for and payments under, and proceeds of any insurance purchased using proceeds of this Note, (3) any substitutions or replacements of the foregoing, and (4) proceeds and products of all of the foregoing (collectively, the "Collateral"). Our security interest shall remain in effect until you have paid in full all amounts due under this Note. Despite any other provision of this Note, however, we are not granted, and will not have, a non-purchase money security interest in household goods, to the extent such a security interest would be prohibited by applicable law. You will pay any filing or recording fees necessary for us to get and keep in force our security interest, and any release, discharge or termination fees, after the Note is paid in full. You authorize us to sign and file financing statements covering the Collateral without your signature. You authorize us to sign and file a copy of this Note as a financing statement.

8. REQUIRED HAZARD INSURANCE. You must insure the Manufactured Home against loss by fire, and other hazards included within the term "extended coverage." Whenever the Manufactured Home is transported on the highway, you must have trip insurance. Whenever the Manufactured Home is located in an area that has been identified by the Federal Emergency Management Agency as an area

2. LATE CHARGE; DISHONORED CHECK CHARGE. Each time you fail to make a payment in full within 15 days of the date it is due, you will pay a late charge of five percent (5%) of the unpaid amount of such payment. Only one late charge may be collected on any installment no matter how long it remains in default.

having special flood hazards, you must get flood insurance. This "Required Insurance" must be in an amount equal to the lesser of the actual cash value of the Manufactured Home or the remaining unpaid balance owing under this Note, with deductibles not to exceed \$500 (the "Minimum Coverage"). The Required Insurance must (1) be issued by an insurer and have terms and conditions satisfactory to us, (2) name "M_315" and its successors and assigns, as their interests may appear," as loss payee, (3) not permit the addition of any other loss payee to the insurance policy, unless we consent in writing, (4) provide that such insurance will not be canceled or modified without at least 30 days prior written notice to the loss payee, and (5) not include any disclaimer of the Insurer's liability for failure to give such notice.

You have the right to purchase insurance or provide existing coverage through any insurance company or agent of your choice that is reasonably acceptable to us.

You agree to keep the Required Insurance in force until all amounts you owe us under this Note are paid in full. You will provide us with the original insurance policy, or other proof satisfactory to us of the Required Insurance. You will provide us with proof of renewal of the Required Insurance at least 30 days prior to any scheduled termination. You grant and assign to us the proceeds of any and all insurance coverage on the Manufactured Home, including any optional coverage, such as earthquake insurance, which in type or amount is beyond the Minimum Coverage.

In the event of a loss to the Manufactured Home, you shall give prompt notice to us and the insurance carrier. If you fail to promptly notify or make proof of loss to the insurance carrier, we may do so on your behalf. In the event of loss or damage to the Manufactured Home, we may require additional security or assurances of payment before we allow insurance proceeds to be used to repair or replace the Manufactured Home. We may, if we want, use any insurance proceeds to reduce any amounts owing under this Note. You authorize us to adjust your losses, and sign your name to any check, draft or other papers necessary to obtain such insurance payments. You authorize any insurer to pay us directly. If insurance proceeds paid to us do not pay off all amounts you owe us under this Note in full, you are responsible for the balance.

If at any time you fail to buy or keep in force the Required Insurance, we may (but are not required to) get it for you, at your expense. To the extent permitted by applicable law, you agree that any insurance we purchase may be for the protection of only our interest in the Manufactured Home, may not fully protect you in the event of a loss, and may be for such reasonable period as we determine. If we decide, in our sole discretion, to obtain insurance, we will notify you of that fact. You understand that the insurance premiums may be higher if we must purchase the insurance than might be the case if you had purchased the insurance.

You agree that we or one of our affiliates may earn a fee or commission in connection with placement of any insurance sold in connection with this Note to the extent permitted by law. You authorize us to release to third parties any information necessary to monitor the status of insurance on your Manufactured Home, and to get the insurance described in this Note.

If we have purchased any insurance on your behalf, at your expense, and if you prepay in full all amounts you owe under this Note, (1) we will provide you with any notice required by applicable law, and (2) you have the right to cancel the insurance and receive a refund or credit of unearned premiums or to continue the insurance, but unless you specifically request cancellation in writing, the insurance will remain in effect until the scheduled expiration date.

9. CARE OF THE COLLATERAL. You agree that:

A. Our Lien. You will do whatever is necessary for us to have a first priority security interest in the Collateral. You will not grant or permit any lien on the Collateral other than ours. You will sign any additional documents or provide us with any additional information we may require in connection with our security interest in the Collateral.

B. Use of the Home. You will keep the Manufactured Home in your possession and in good condition and repair. You will not use the Manufactured Home for business or rent it to someone else without getting our permission in writing first. You will use the Manufactured Home only for its intended and lawful purposes. The Manufactured Home is personal property. You will not allow the Manufactured Home to become part of the real estate without getting our permission in writing first. You will not violate any restrictive covenants, rules or regulations.

relating to the real property and/or facility where the Manufactured Home is located

C. No Sale. You will not sell or transfer any rights in the Collateral without getting our permission in writing first.

D. Taxes and Assessments. You will pay when due rental payments and other charges and assessments, relating to the real property and/or facility on which the Manufactured Home is located. You will pay when due all taxes, fees, expenses, and assessments on or against the Manufactured Home.

E. Our Right to Information. You will notify us promptly of any loss or damage to, or confiscation or theft of the Manufactured Home. When we ask for it, you promptly will provide us with proof that (1) you have the Required Insurance, (2) all taxes assessed against the Manufactured Home have been paid, (3) all park or lot rent (and any other related charges) due have been paid, (4) our lien is the only lien against the Collateral, and (5) the Manufactured Home is in good condition and repair. You will provide us reasonable access to inspect the Manufactured Home. If your Manufactured Home is on rented property, you authorize us and your landlord to exchange information about our security interest in your Manufactured Home and past due payments on this Note or your lease.

F. Escrow Items. To the extent permitted by law, during the term of this Note, at our option, we may require you to make monthly payments ("Escrow Payments") for (1) premiums for Required Insurance, (2) taxes and assessments, and (3) other items which might attain priority over our security interest (each, an "Escrow Item"). We may also require you to pay amounts for Escrow Items at closing. We will use your Escrow Payments and amounts we collect at closing for Escrow Items to pay Escrow Items as they come due.

G. Limited Power of Attorney. You grant us and any corporate officer designated by us a limited power of attorney, which cannot be cancelled, to sign any documents reasonably necessary to register or perfect our security interest in the Manufactured Home, or to insure, protect, sell or otherwise deal with the Manufactured Home in the event of your default. This power of attorney may not be used for a confession of judgment. You authorize us to sign your name to any document as necessary to collect proceeds of Required Insurance due us.

10. DEFAULT. You will be in default on this Note if: (1) you fail to make when due any payment under this Note; or (2) you fail to keep any other promise you have made in the Note; or (3) you file a petition in bankruptcy; or (4) you die or become legally unable to manage your affairs; or (5) any statement of fact, representation or warranty you make to us in your application for credit or in this Note is false, misleading, inaccurate, or incomplete.

11. NOTICE OF DEFAULT. If you are in default, we will send you a Notice of Default and Right to Cure Default (the "Notice"), when required by law. The Notice will explain why you are in default and how you can cure the default. If we are required to send you a Notice, we will not accelerate the unpaid balance of the Note, or repossess any Collateral until after we send you the Notice, and any cure period it describes expires. We may not be required to send you a Notice if (1) you have abandoned or surrendered the Collateral, (2) you received two Notices in the prior one-year period, or (3) other extreme circumstances exist.

12. REMEDIES. If you are in default on this Note, we have all of the remedies provided by law and this Note. Before using a remedy, we will send you any notice and wait for any cure period that the law may require for that remedy. Our remedies include the following:

A. Entire Balance Due Immediately. We may require you to immediately pay us in full all amounts you owe under this Note.

B. Advances to Protect the Collateral. We may, but are not required to, (1) pay taxes, insurance premiums, fees, expenses, charges or assessments relating to the Manufactured Home, (2) satisfy liens on, or (3) make repairs to the Manufactured Home if you have not done so as required in this Note. Any amounts we pay may be added to the balance you owe us and will be secured by the Collateral. At our sole option, we may (1) demand that you repay these amounts immediately, (2) add these amounts to your regularly scheduled payments, (3) add these amounts as additional installments due, (4) add these amounts to the final installment due on this Note, or (5) demand that you repay these amounts in any other manner we request that complies with applicable law. You will pay us interest at the Note Rate on any such amounts not repaid immediately by you.

C. Attorney's Fees. You will pay our costs for collecting amounts you owe us, including, without limitation, court costs, reasonable attorneys' fees (after default if we refer your Note for collection to an attorney who is not our salaried employee) and all other costs we incur, to the extent permitted by applicable law.

D. Repossession. We may repossess the Manufactured Home if: (1) you are in default, and (2) you do not use any right to cure your default that you may have. After we follow these steps, we may repossess without giving you any further notice. We may repossess peacefully from the place where the Manufactured Home is located without your permission. We also may require you to make the Manufactured Home available to us at a place we designate that is reasonably convenient to you and us. At our option, to the extent permitted by law, we may detach and remove the Manufactured Home from the real property on which it is located, or we may take possession of it and leave it on the real property. You agree to cooperate with us if we exercise these rights.

If we repossess the Manufactured Home, and you do not exercise any right to cure or redeem the Manufactured Home that you may have, we may dispose of it as required by applicable law. We will give you written notice before any repossession sale. The notice shall be sent to Your Address or to any other address which you later give us in writing.

Before the sale you still may get back the Manufactured Home if you (1) pay us all installments due or past due at the time of delivery of the Manufactured Home back to you, (2) pay us all unpaid late, dishonored check or deferred charges, (3) pay us our costs of suit, including but not limited to attorneys' fees to which we have a right under this Note, (4) cure any other defaults which may have occurred, and (5) pay us the expenses of retaking, repairing and storing the Manufactured Home allowed by law. We will apply the proceeds of any repossession sale (1) first, to our expenses in selling the Manufactured Home, then (2) to our costs of retaking, repairing and storing the Manufactured Home, then (3) to our reasonable and actual court costs and any attorneys' fees, collection costs and disbursements to which we have a right under the terms of this Note, then (4) to late charges, and then (5) to the balance still due.

If there is any surplus money from the repossession sale, it will be refunded to you. If there is still a balance due us, you must pay it to us.

If we repossess, we also may take possession of any other property anywhere in or attached to the Manufactured Home. We agree to return all such property to you upon your request. We may hold the property for you at your risk without liability on our part. If we take possession of any such property, we will notify you in writing. If you do not then promptly claim and take possession of this property, we have your permission to dispose of it in a reasonable manner. You will pay any reasonable charges that we may incur for storing or shipping such property.

E. Cancel Financed Insurance. We may cancel any insurance we financed for you, obtain a refund of unearned premiums, and apply it against amounts owing under this Note.

F. Suit for Deficiency. Except when prohibited by law, if the repossession sale proceeds do not pay in full all of the amounts you owe under this Note, we may sue you for the remaining balance.

G. Cumulative Remedies. By choosing any one or more of these remedies, we do not lose our right to later use one or more other remedies, except as limited by applicable law. Exercise of any one or more remedies against one or more of you will not prevent us from pursuing any other remedy or remedies against any one or more of you in the future. If we do not act on any default, we do not give up our right to later treat that type of event as a default.

13. OTHER TERMS AND CONDITIONS. You agree (A) that if you are married, and residing in a community property state, both your community property and separate property will be liable for all payments due under this Note; (B) that you waive all marital rights, homestead exemption and other exemptions relating to any property in which you granted us a security interest; (C) that to correct clerical errors, or to facilitate our sale of any interest in this Note to an investor, or to further the intent of the transaction as contemplated, within fifteen (15) days of our request, to the extent permitted by law, you will (i) execute, or initial, and deliver to us any documents we require, and (ii) cooperate and take any actions we reasonably request.

14. OBLIGATIONS INDEPENDENT. Each of you who signs this Note, including any guarantor, is responsible independently to pay all amounts which are due or become due under it and to keep the other promises made in this Note. Each of you has this responsibility even if: (1) someone else also has signed it; or (2) we release

Note; or (3) we release any security or do not try to take back any Collateral; or (4) we give up any other rights we may have; or (5) we extend new credit, or renew or modify this Note.

15. WAIVER. Unless the law or this Note provides otherwise, we are not required to: (1) demand payment of amounts due; (2) give notice that amounts due have not been paid, or have not been paid in the appropriate amount, time, or manner; or (3) give notice that we intend to make, or are making, this Note immediately due.

16. CREDIT INFORMATION. We may investigate your credit history and credit capacity in connection with opening, updating, modifying, extending, and/or collecting your account, and share information about you and your account with credit reporting agencies. We also may verify your employment, income, assets, and debts; and anyone receiving a copy of this Note is hereby authorized to release such information to us.

17. LAW THAT APPLIES TO THIS NOTE. This Note is governed by the applicable laws and regulations of the United States and of the state where the Home is to be located.

18. ENTIRE AGREEMENT. This Note states the entire agreement between you and us, and may be changed only by a writing signed by you and us.

19. VALIDITY. Wherever possible each provision of this Note shall be interpreted in such a manner as to be effective and valid under applicable law. If a court decides that any part of the Note is not valid, the rest of the Note still will be binding and effective.

[This area intentionally left blank]

or do not try to collect amounts due from another who is also responsible to pay this

NOTICE: ANY HOLDER OF THIS CONSUMER CREDIT CONTRACT IS SUBJECT TO ALL CLAIMS AND DEFENSES WHICH THE DEBTOR COULD ASSERT AGAINST THE SELLER OF GOODS OR SERVICES OBTAINED WITH THE PROCEEDS HEREOF. RECOVERY HEREUNDER BY THE DEBTOR SHALL NOT EXCEED AMOUNTS PAID BY THE DEBTOR HEREUNDER.

YOU ACKNOWLEDGE THAT ON THE DATE YOU SIGN BELOW, YOU READ, SIGNED AND RECEIVED A COPY OF THIS NOTE WITH ALL BLANKS COMPLETED.

Borrower 1 _____ Date _____

«M_36» «M_37»

Printed Name

Borrower 2 _____ Date _____

«M_68» «M_69»

Printed Name

GUARANTEE OF BORROWER'S PROMISES. The undersigned, jointly and severally, agree(s) to pay amounts due on this Note as of today's date and until all amounts due on this Note are paid in full. The undersigned also agree(s) to all the terms and conditions of this Note.

On _____ I (we) read, signed, and received a completely filled in copy of this Note.

Cosigner: X _____ Cosigner: X _____

For Persons with No Personal Liability on the Note

You are signing this Note only to give us a security interest in the Collateral. You agree to all of the terms and conditions of this Note. You also are waiving any homestead rights to the extent permitted by law. However, you have no personal obligation to pay this Note.

X _____ X _____

Loan Origination Organization:
NMLS #:

Loan Originator:
NMLS #:

Marc J. Lifset
mlifset@mcglinchey.com
(518) 432-8335 (direct voice)
(518) 432-7290 (direct fax)

ALABAMA CALIFORNIA FLORIDA LOUISIANA MISSISSIPPI NEW YORK OHIO TEXAS WASHINGTON, D.C.

MEMORANDUM

To: Manufactured Housing Institute

From: Marc Lifset
McGlinchey Stafford, PLLC

Date: August 3, 2016

Re: Manufactured Home Chattel Loan Default Servicing

1 Overview

The process for repossessing and reselling manufactured home (“Home”) securing a chattel loan (“Loan”) requires:

- sending the borrower (“Borrower”) a notice of default and right to cure (“Notice of Default”);
- gaining possession of the Home either by voluntary surrender or court order;
- sending the borrower a notice of repossession, notice of right to reinstate, notice of right to redeem and notice of private or public sale;
- re-marketing the Home;
- conducting the sale;
- documenting the sale;
- retitling the Home; and
- sending the borrower an Explanation of Calculation of Surplus or Deficiency or a waiver of deficiency.

2 Notice of Default

A Notice of Default is required by state law in thirty (30) states and by federal law for loans made under the authority of Section 501(a) of the Depository Institutions Deregulation and Monetary Control Act, 12 U.S.C. § 1735f-7a and 12 C.F.R. Part 190 (“DIDA”). (DIDA preempts state law usury ceilings and, subject to conditions, limits on any fees that would be classified as finance charges under the Truth in Lending Act.) DIDA is available in thirty six states and the District of Columbia. Fourteen states exercised the right to opt out. Virtually all chattel lenders lend under DIDA where it is available. As a result, every state except Hawaii, Idaho, Nevada, North Carolina and South Dakota requires a Notice of Default before repossession.

Virtually all chattel lenders send a Notice of Default in every state. It is a collection tool and a uniform procedure reduces the risk of error. Typically, a lender will send the Notice of Default following the expiration of the late charge grace period. If the Borrower fails to cure, and will not agree to a voluntary surrender of the Home, the lender must obtain possession by court order executed by the local sheriff. Some Borrowers abandon their Homes.

3 Notices to the Borrower

Once in possession of a Home securing a defaulted Loan, in twenty (20) states the lender must send the borrower a notice of repossession, in twelve states a notice of right to reinstate and in every state a Notice of Disposition (notice of sale) and right to redeem the repossessed Home in accordance with the Uniform Commercial Code (“UCC”). These four notices can be combined into one document, so long it is timely sent. Virtually all chattel lenders afford Borrowers in every state the right to reinstate, preferring to avoid a repossession sale.

4 The Borrower’s Rights to Cure, Reinstate and Redeem

Borrower's Rights to Cure a Default	Arises	Must be Exercised	How	Ends
Cure	Before repossession	Before any legal action to repossess the Home or accelerate the balance due on the Loan; but the Notice of Default and the Right to Cure is excused in some circumstances.	By curing the default(s) described in the Notice of Default	31 days after the date of the postmark on the Notice of Default (varies by state).
Reinstate	After repossession	Any time after the Notice of Sale is sent	By curing the default(s) described in the Notice of Sale	Upon completion of the repossession sale
Redeem	After repossession	Any time after the Notice of Sale is sent	By paying entire balance due on the Loan	Upon completion of the repossession sale

5 Timing of a Sale

Some states establish a minimum period of time that must elapse between the date a Notice of Disposition (Notice of Sale) is given and the date the repossession sale may occur. In any event, the UCC “reasonableness” requirement and the time it may take for the notice to reach the

Borrower should be kept in mind when setting the sale date (*e.g.*, set the sale date for at least ten days after the date the lender mails the Notice of Disposition (Notice of Sale).

If the Borrower has paid at least sixty percent (60%) of the original cash price for the Home, the sale must be held within 90 days of the date of repossession. Alternatively, all persons potentially liable on the Loan must waive the right to a sale within 90 days and consent to extending time for sale by signing a written waiver of his or her rights.

6 Notice of Disposition

The UCC provides a safe harbor form of Notice of Disposition (Notice of Sale) for both private sales and public sales. Use of this form without significant variation affords a presumption of compliance with the notice of sale requirements of the UCC. This presumption is important because the penalty provisions for violating the UCC include payment to the Borrower of an amount equal to the originally scheduled finance charge and ten percent (10%) of the principal financed.

7 Re-Marketing the Home

The lender ("Secured Party") may remarket a repossessed Home in a variety of ways. If it has a remarketing department it may advertise and sell the Home itself. Thirty seven (37) states allow the Secured Party to act as retailer for the sale of the repossessed Homes without a retailer license. If the Home is in a community, a retailer affiliate of the community may assist with the resale. Typically the Secured Party and the community will enter into a "Park Agreement" whereby the Secured Party pays site rent, and refurbishes and maintains the Home until it is sold in place. If the Home is located on private land and the secured Party does not have a lien on the land, typically the Home is removed to the sales lot of the retailer that originally sold the home, and consigned for resale. A prudent lender will get a landlord lien waiver when installing a Home on private land. Finally, many Secured Parties list the Home for resale on www.mhvillage.com.

8 Repossession Sale

A repossessed Home may be resold either at a public sale or a private sale as long as the sale is conducted in a commercially reasonable manner.

A public sale is an auction open to the public, held at a specified date, time and place. The Secured Party may bid on the Home, but the price must be the fair market value of the Home. Public sales, conducted by a licensed auctioneer, are required in Ohio, and in Georgia, if requested by the Borrower.

A private sale is negotiated by the Secured Party using whatever means it reasonably believes will bring the highest net price for the Home. A private sale does not have to take place at any particular time or place; however, the law requires a reasonable period of time following repossession before the private sale can take place. The Secured Party may NOT purchase a repossessed Home at a private sale.

9 Transferring Title

After either a public sale or a private sale the Home a “Transfer Statement” and an affidavit of private sale or affidavit of public sale should be completed, and delivered to the buyer.

9.1 Home Subject to a UCC Financing Statement

If the Home is in Alabama (1989 Model Year and Older), Connecticut, District of Columbia, Hawaii, Massachusetts, Maine (multi-section homes), Mississippi (1998 Model Year and Older), New Hampshire, New York (1994 Model Year and Older), Rhode Island, Louisiana, Vermont, or Wyoming and subject to a UCC-1 Financing Statement, file a UCC-3 termination statement in the Secretary of State’s office. Homes in Louisiana and Wyoming are covered by both a certificate of title and a UCC-1 financing statement.

9.2 Home Subject to a Certificate of Title

The method of processing an application for title for a repossessed Home depends on three factors, which vary by state.

1. Who has the original certificate of title, the Borrower or the lender Secured Party?
 - The Secured Party has possession of the original certificate of title in twenty eight (28) states.
 - The Borrower has possession of the original certificate of title in nine (9) states. However, in Michigan and in Minnesota, the Secured Party may require the Borrower to elect, when applying for a title, to give the Secured Party possession of the original certificate of title.
 - In seven (7) states titles are kept in electronic format in a database maintained by the state – the state does not issue paper titles.
 - Seven (7) states do not title manufactured Homes
 - ☛ If the Borrower holds the original certificate of title the Secured Party probably won’t be able to get possession of it, but every state has a process for applying for a new title without it.
2. Was the Home sold at a private sale or a public sale?
 - ☛ The law provides that the lien holder can purchase a repossessed Home at a public sale, but NOT at a private sale.
3. Does the state issue repossession titles? If so, are they mandatory?

A repossession title, where available is issued to the Secured Party when it takes possession of the Home, and submits the paperwork required by the state to prove the regularity of the repossession.

 - Twenty one (21) states do not issue repossession titles.

- Fourteen (14) states require the lien holder to take title to the Home upon repossession.
- Sixteen (16) states allow but do not require the lien holder to take title to the Home upon repossession.
- In the fourteen (14) states where repossession title is mandatory the Secured Party must take title in its name. In the sixteen (16) states where repossession title is optional the Secured Party may take title in its name. However, if the repossession sale was a private sale, the Secured Party does not become the owner of the Home. Obtaining the repossession title is merely a step in conveying the Home to an eligible purchaser. Additional titling work is required.

4. Retailer Licensing Requirements

- Thirty seven (37) states allow the Secured Party to act as retailer for the sale of the repossessed Homes without a retailer license. Fourteen (14) states do not allow the Secured Party to act as retailer without a license.
- Repossession title is mandatory in three of the states (Indiana, Montana and Pennsylvania) that require a retailer license to sell a repossessed Home. In those states, the Secured Party must consign the repossessed Homes to a licensed retailer for resale and the retailer will retitle the Home in the name of the ultimate purchaser. In the other eleven (11) states where repossession title is mandatory, the Secured Party does not need a retailer license to sell a repossessed Home and may convey the Home directly to the ultimate purchaser.
- Repossession title is available (but not mandatory) in five of the states (Colorado, Kansas, Mississippi, Texas and West Virginia) that require a retailer license to sell a repossessed Home. In those states, the Secured Party must use a licensed retailer for resale of the repossessed Homes. The Secured Party may avoid paper work, expense and delay by not applying for repossession title.

10 Explanation of Calculation of Surplus or Deficiency

If the repossession sale brings more than enough money to pay the Secured Party's repossession and resale expenses and accelerated Loan balance, the Secured Party must send a check for the surplus and an explanation of the calculation of the surplus to the Borrower. If the repossession sale does not bring enough money to pay the Secured Party's repossession and resale expenses and the accelerated Loan balance, the Borrower is liable for a deficiency and the Secured Party is required to send an Explanation of Calculation of Surplus or Deficiency to the Borrower no later than when the Secured Party first makes written demand on the Borrower for payment of the deficiency. The Secured Party also must provide the Explanation of Calculation of Surplus or Deficiency within fourteen (14) days after receipt of a request from the Borrower, unless, in the case of a deficiency, the Secured Party sends the Borrower a letter waiving the deficiency within fourteen (14) days after receipt of a request.

If the Secured Party takes possession of a Home securing a defaulted Loan and the Borrower signs a form of Voluntary Surrender Agreement that includes a waiver of the deficiency, neither a Waiver of Deficiency Letter nor an Explanation of Calculation of Surplus or Deficiency is required.

If an Explanation is required, it must state the amount of the debt secured by the Home; the amount received from the repossession sale; the amount still due after applying the proceeds of the repossession sale; the amount of fees and charges involved in repossessing and selling the Home (including attorney's fees); any credit to which the Borrower is entitled, if not already reflected in the Explanation; the amount of the surplus or deficiency; and a telephone number or mailing address from which the Borrower can receive additional information. If the Secured Party fails to provide the Explanation, it is liable for any loss caused plus \$500.00.