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MORTGAGE BANKERS ASSOCIATION

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David Benson  
President and Interim Chief Executive Officer  
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## **MBA Request for Consideration of Revisions to CrossMod™ Manufactured Housing Appraisal Guidelines**

Dear Messrs. DeVito and Benson:

The Mortgage Bankers Association (MBA)<sup>1</sup> thanks Fannie Mae and Freddie Mac (the Enterprises) for their continued partnership and work to facilitate liquidity that supports affordable housing. In response to industry feedback, MBA requests consideration of the following proposed revisions to the appraisal requirements related to CrossMod™ manufactured housing found in the Enterprises' respective Selling Guides (Guides). We believe simple adjustments to the Guides will encourage greater use of this new approach to building high-quality, affordable manufactured housing.

As you know, CrossMod™ homes are factory-built housing that closely resemble site-built homes and include many features previously not common in manufactured housing.<sup>2</sup> CrossMod™ homes are unique in offering the cost efficiencies of factory-built homes, with little to no sacrifice in appearance and build quality. Greater use of CrossMod™ homes has the potential to increase housing supply and provide affordable options for first-time and low- to moderate-income borrowers. MBA acknowledges and appreciates the Enterprises' development of specific financing options (MH Advantage, CHOICEHome) for CrossMod™ homes. Industry feedback, however, suggests the current appraisal requirements specific to the MH Advantage and CHOICEHome offerings are preventing

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<sup>1</sup> The Mortgage Bankers Association (MBA) is the national association representing the real estate finance industry, an industry that employs more than 390,000 people in virtually every community in the country. Headquartered in Washington, D.C., the association works to ensure the continued strength of the nation's residential and commercial real estate markets, to expand homeownership, and to extend access to affordable housing to all Americans. MBA promotes fair and ethical lending practices and fosters professional excellence among real estate finance employees through a wide range of educational programs and a variety of publications. Its membership of more than 2,200 companies includes all elements of real estate finance: independent mortgage banks, mortgage brokers, commercial banks, thrifts, REITs, Wall Street conduits, life insurance companies, credit unions, and others in the mortgage lending field. For additional information, visit MBA's website: [www.mba.org](http://www.mba.org).

<sup>2</sup> Manufactured Housing Institute, "CrossMod™; A New Class of Manufactured Home," 2019. Available at: <https://www.manufacturedhousing.org/wp-content/uploads/2019/12/CROSS-MOD-ONE-PAGE.pdf>.

CrossMod™ construction from gaining greater traction among investors and developers in the marketplace.

While the Enterprises' current appraisal requirements appear sufficiently flexible to allow for the selection of site-built homes as comparable sales (comparables) to CrossMod™ homes, feedback from industry stakeholders overwhelmingly suggests that, in practice, appraisers avoid doing so based on the phrasing of these requirements. MBA and its members have engaged with the appraiser community on issues related to appraisals of CrossMod™ homes to better understand any concerns in this space. Appraisers have reported that they often default to the most conservative approach within the applicable requirements to minimize the risk of overvaluation of subject properties.

In the case of CrossMod™ homes, as is explained in greater detail below, this would imply the use of manufactured homes as comparables rather than site-built homes. MBA believes simple revisions to the Guides would give appraisers greater comfort in selecting site-built comparables, which in turn would facilitate growth in the CrossMod™ market. MBA recommends the Enterprises update these requirements to encourage use of site-built homes as comparable sales for CrossMod™ homes when other CrossMod™ homes are not available.

Below we present information on the potential benefits of CrossMod™ homes on U.S. housing supply, industry feedback on the market impact of existing appraisal requirements, and MBA's recommended revisions to those requirements.

### **Market Opportunities for Development of CrossMod™ Homes**

Proliferation of high-quality, factory-built housing could offset some of the supply constraints in the U.S. housing market, which in turn would improve affordability for many borrowers. Manufactured housing has long been an affordable option, but until recently these products have lacked many features commonly found in site-built homes. Advancements in the available features provided by CrossMod™ homes, however, make manufactured housing more attractive to more borrowers, while preserving the cost advantages of factory-built options.

CrossMod™ homes are built with many features that traditional manufactured housing lacks, such as pitched roofs, drywall interior, permanent foundations, and garages. MBA members report that inspectors often do not realize the home is factory-built until it is revealed to them. There also have been significant improvements to the exterior appearance of CrossMod™ homes, and the "curb appeal" often is indistinguishable from that of site-built homes.

Even with these additional features, CrossMod™ home manufacturing maintains the advantages of streamlined production and standardization of the build, resulting in significant cost savings. Manufacturers can use fewer building materials than with respect

to site-built homes, as materials can be purchased in bulk, and excess building materials can be used on the next build. As with traditional manufactured housing, this process allows CrossMod™ homes to remain relatively inexpensive from a construction perspective.

### **Industry Feedback on Current CrossMod™ Appraisal Requirements**

CrossMod™ homes have struggled to gain traction, in part because developers and investors are concerned about the elevated risk of low valuations. CrossMod™ homes are not site-built homes, but are higher in price (and quality) than traditional manufactured homes, so they pose a unique challenge for appraisers. There are relatively few CrossMod™ homes as a share of the broader U.S. housing stock, which means appraisers often do not have CrossMod™ homes available as comparables. They then must choose between manufactured housing and site-built comparables. Citing language from the Enterprises' Guides, many appraisers have reported that they feel more comfortable choosing the more conservative course of action, and therefore select manufactured housing comparables, even when these homes have inferior features compared to CrossMod™ homes or are not in comparable communities.

The lack of CrossMod™ homes available to provide comparable sales creates a cycle that chills development of a more robust market for CrossMod™ homes. Developers are less comfortable investing in CrossMod™ homes until there are CrossMod™ comparables. Those that do build CrossMod™ homes find, upon completion, that appraisers often insist on using manufactured housing comparables that are not built to the same standards and specifications as CrossMod™ homes. MBA members report that this pattern of appraisers overwhelmingly defaulting to the selection of manufactured housing comparables is leading to systemic undervaluation of CrossMod™ homes and discouraging investment in this product.

### **MBA Recommendations**

MBA suggests the following revisions be made to the Enterprises' Guides to facilitate development in the market for CrossMod™ homes.

Fannie Mae currently offers the MH Advantage program to support financing of CrossMod™ homes. The requirements for selecting comparable sales within the MH Advantage program are as follows:

For MH Advantage properties, appraisers must use other MH Advantage homes, when available, for the comparable sales. If fewer than three MH Advantage

sales are available, then the appraiser must supplement with the best and most appropriate sales available, which may include site-built homes.<sup>3</sup>

While the guidance clearly provides appraisers with the flexibility to select site-built homes, appraisers rarely utilize this flexibility in practice. Lenders report that appraisers often cite the language that requires, “the best and most appropriate sales,” stating that in their experience and expertise the best and most appropriate sales for purposes of comparisons are those of other manufactured housing.

MBA recommends Fannie Mae update this requirement to read:

For MH Advantage properties, appraisers must use other MH Advantage homes, when available, for the comparable sales. If fewer than three MH Advantage sales are available, then the appraiser must supplement with ~~the best and most appropriate sales available, which may include sales of~~ site-built homes, ~~unless the appraiser provides a written explanation as to why sales for non-site-built homes were more appropriate.~~

Freddie Mac, similarly, offers its CHOICEHome offering for CrossMod™ homes. The requirements for comparable sales for CHOICEHome appraisals are as follows:

The appraisal report for a CHOICEHome should contain at least one comparable CHOICEHome sale. However, if there are no comparable CHOICEHome sales available, the appraiser may use site-built housing, or other Manufactured Homes of similar quality, as comparable sales.<sup>4</sup>

Using the same reasoning as above, MBA recommends Freddie Mac revise the Guide to read as follows:

The appraisal report for a CHOICEHome should contain at least one comparable CHOICEHome sale. However, if there are no comparable CHOICEHome sales available, the appraiser ~~may must~~ use site-built housing, ~~or other Manufactured Homes of similar quality,~~ as comparable sales, ~~unless the appraiser provides a written explanation as to why sales of non-site-built homes were more appropriate.~~

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<sup>3</sup> Fannie Mae, Selling Guide Section B4-1.4-01, Factory Built Housing: Manufactured Housing, December 16, 2020. Available at: <https://selling-guide.fanniemae.com/Selling-Guide/Origination-thru-Closing/Subpart-B4-Underwriting-Property/Chapter-B4-1-Appraisal-Requirements/Section-B4-1-4-Special-Appraisal-and-Other-Valuation/1032994991/B4-1-4-01-Factory-Built-Housing-Manufactured-Housing-12-16-2020.htm#Newly.20Constructed.20Manufactured.20Housing.20Appraisal.20Requirements>.

<sup>4</sup> Freddie Mac, Seller Guide Section 5703.9: Mortgages Secured by a CHOICEHome, March 31, 2022. Available at: <https://guide.freddiemac.com/app/guide/section/5703.9>.

MBA understands that the current requirements allow appraisers to select site-built housing as comparable sales. From the perspectives of practitioners, however, the use of site-built comparables must be encouraged more strongly to avoid the selection of traditional manufactured housing comparables and the subsequent undervaluation of CrossMod™ homes.

These revisions to the Guides are essential to encourage development of a robust market for CrossMod™ homes. If these revisions are made, investors and developers will have greater comfort in assuming the risks associated with a CrossMod™ development project. As more CrossMod™ homes are built, more will be available to serve as comparable sales in the future, producing a virtuous cycle in which appraisers will face fewer situations in which they must use properties other than CrossMod™ homes as comparables.

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MBA thanks Fannie Mae and Freddie Mac for considering these suggested revisions to the Guides. We appreciate the challenges associated with developing appraisal requirements, which must address safety and soundness concerns. We believe, however, that the practical (albeit unintended) impact of the existing requirements is the creation of unnecessary obstacles to the development of more affordable homes. The recommendations provided above, if adopted, will remove these obstacles and allow for greater use of CrossMod™ homes to increase the national housing stock.

We look forward to continuing our partnership as we work towards affordable housing solutions that promote increased housing supply throughout the country.

Sincerely,



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Senior Vice President  
Residential Policy and Strategic Industry Engagement  
Mortgage Bankers Association

cc: The Honorable Sandra L. Thompson  
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