Manufactured Housing Institute

Written Testimony of:

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Thank you Chairman Luetkemeyer, Ranking Member Clay, and Members of the Subcommittee for the opportunity to testify this afternoon about legislative proposals for a more efficient federal financial regulatory regime.

My name is Edward J. Gleim and I am the Executive Vice President and Chief Operating Officer of Triad Financial Services, Inc. Headquartered in Jacksonville, Florida, with branch offices in Illinois, California, Wisconsin and Kansas, Triad Financial Services, Inc., currently provides financing for manufactured home buyers and owners in 43 states. Established in 1959, Triad Financial Services, Inc., is the oldest manufactured housing finance company in the United States.

I am appearing before you today on behalf of the Manufactured Housing Institute (MHI) where I serve on the Board of Directors and as the Chairman of MHI's Financial Services Division. I am also the Chairman of MHI's Lender Best Practices Committee. MHI is the only national trade organization that represents all segments of the factory-built housing industry. MHI members include home builders, lenders, home retailers, community owners and managers, suppliers and others affiliated with the industry. MHI's membership also includes 50 affiliated state organizations.

More than 85 percent of the manufactured homes produced each year come from MHI member companies. New manufactured homes make up approximately nine percent of new single-family home starts. For 2017, MHI projects HUD Code shipments will be close to 91,000 homes. These homes are produced in 121 manufacturing facilities located throughout the United States by 34 U.S. corporations. The manufacturing sector of the manufactured housing industry contributes almost $3 billion dollars each year to the Gross National Product and provides approximately 40,000 jobs to American workers.[1]

Manufactured housing is the largest form of unsubsidized affordable housing in the country. The affordability of manufactured homes enables first-time homebuyers, retirees and growing families to obtain housing that is cheaper than purchasing a site-built home and much of the time even more cost effective than renting an oftentimes much smaller or much older home or apartment unit. The average price of a new manufactured home is $70,600. Manufactured homes currently house more than 22 million people across the country. The median household income for manufactured homeowners is $30,000 per year, which is less than half of all homeowners in the nation. About two-thirds of all occupied manufactured homes in the U.S. are in rural or non-Metropolitan Statistical Areas.

Manufactured homes are the most affordable homeownership option in the market today and MHI appreciates the opportunity to offer our ideas to the Subcommittee about how to improve access to credit for these homes. MHI is eager to work with the Subcommittee to reduce the regulatory burdens limiting credit for consumers seeking to achieve homeownership by purchasing a manufactured home. The manufactured housing industry is fully committed to protecting consumers throughout the home buying process. MHI recognizes the importance of responsible lending and improving the consumer experience. However, current regulations have inadvertently limited financing for this affordable homeownership option.

Thank you for the opportunity to present our views on the five important bills before the Subcommittee today. I commend the Subcommittee for seeking to address regulations that interfere with the ability of lenders to provide affordable credit for consumers. While none of this legislation is specifically targeted to manufactured housing, the regulations that the legislation seeks to correct will impact the availability of credit for manufactured housing. Many lenders stopped or significantly curtailed

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[1] Dr. Steven Cook, Alward Institute for Collaborative Science

their lending for manufactured housing as a result of the Dodd-Frank Act regulations, as evidenced in the latest Home Mortgage Disclosure Act (HMDA) data. This limited financing harms both those seeking to purchase manufactured housing and those currently residing in manufactured homes. Reasonable modifications to the regulations that result in limited access to financing is a critically important element to restoring a robust market of manufactured housing financing. As such, MHI urges the Committee to ensure the changes made in the legislation before you today also apply to those lending institutions that make manufactured housing loans.

MHI appreciates the Committee's efforts to constrain the authority of the CFPB and to fix CFPB rules and regulations that are overly broad or inappropriate. The best example of this is H.R. 10, the Financial Choice Act, which the Committee and House approved last year to comprehensively eliminate the CFPB's redundant exam authority, make changes to its overall structure, and make specific changes to rules and regulations. All small lending institutions are disproportionately impacted by onerous CFPB rules. To the maximum extent possible, the provisions of the legislation before you today should apply equally for those small lenders that are depository institutions and those that are non-depository institutions. MHI would caution the Committee from setting up the potential for uneven requirements.

H.R. 1264, Community Financial Institution Exemption Act

H.R. 1264, sponsored by Rep. Williams (TX- 25) and cosponsored by many Committee members, would exempt all depository institutions with consolidated assets of less than $50 billion from all rules and regulations issued by the CFPB. The bill additionally provides the authority for the CFPB to revoke this exemption for any rule or regulation and a specific class of financial institutions if it makes a written finding that such class of financial institutions has engaged in a pattern or practice of activities that have been detrimental to the interests of consumers and are of a type that the specific rule or regulation is intended to address.

MHI is sympathetic to the intent of this legislation, which is to constrain the ability of the CFPB to adopt rules and regulations that have the effect of limiting the ability of small financial institutions to provide affordable mortgage credit to consumers. In the area of manufactured housing, for instance, CFPB's implementation of HOEPA thresholds has inadvertently cut off lending for manufactured home loans, as evidenced by HMDA data. In addition, its unduly broad definition of "loan originator" inappropriately draws in manufactured housing retailers that simply do not engage in mortgage loan origination.

MHI is very appreciative that the Committee and full House have acted to address these specific issues, through passage of H.R. 1699, authored by Rep. Barr (KY-6) and cosponsored by many members of this Committee. This legislation is crucial because CFPB regulations are unfairly penalizing retirees, veterans, rural residents and working families who otherwise would not have access to affordable homeownership. As evidenced in Home Mortgage Disclosure Act data, consumers have been shut out of the market for quality, non-subsidized, affordable housing because the CFPB rules have caused financing to be less available for manufactured homes. Existing owners are harmed since their home values are suffering due to the inability of potential buyers to obtain financing, forcing owners to sell to cash buyers at prices that are only a fraction of the home's market value.

The bottom line is that onerous one-size-fits-all CFPB regulations are causing small lenders to curtail financing for small dollar loans since compliance costs are increasing and challenging the profitability of such loans. This has been quite acute with respect to loans for manufactured housing. In many cases depository and non-depository lenders are turning down large numbers of qualified manufactured home buyers due to certain CFPB rules and regulations. In fact, some non-depository lenders are turning down almost three-quarters of the applications they receive, and in the majority of cases it is due to CFPB rules and regulations. Reasonable modifications to these rules and regulations would lead to higher approval rates.

MHI would note that H.R. 1264 only applies to depository institutions, and therefore does not provide any regulatory relief from the host of burdensome compliance requirements for non-depository manufactured home lenders. Exemptions for only depository institutions from certain mortgage rules could have the impact of creating an unlevel playing field with regard to depository and non-depository mortgage lenders.

MHI encourages the Committee to study the impact of the disparate compliance requirements this bill might create before moving to its adoption. More broadly, MHI further encourages the Committee to balance the regulatory relief it provides to ensure that non-depository institutions that finance manufactured housing are treated like other small depository institutions. Otherwise, the consequence will be an even more complicated regulatory situation for the very lenders that are willing to provide consumers with the financing they need to become homeowners through manufactured housing financing.

H.R. 2683, Protecting Veterans Credit Act of 2017

MHI strongly supports H.R. 2683, which would protect veterans from adverse credit reporting for certain items that impact credit scores. MHI urges the Committee to move expeditiously to correct the unfairness caused by the slow medical payment system currently in place for veterans. While the recent system of allowing veterans to seek medical care from non-VA providers is critically important to ensuring our veterans have access to the health care they need and deserve, this has created a new challenge for veterans in the form of slow payments from the VA to those non-VA providers. This has resulted in negative information on veterans' credit reports, even though the veteran did not owe the payment. No veteran should have to think twice about obtaining the medical care they need because of worry about impact on their credit score.

H.R. 2683 would amend the Fair Credit Reporting Act to exclude from consumer reporting information on a veteran's medical debt if the hospital care or medical services relating to the debt antedates the credit report by less than one year. This delay in credit reporting of medical debt for veterans allows ample time for the VA to submit payment for medical services.

Under the bill, veterans will also be allowed to dispute adverse VA medical debt information on their credit reports. A dispute process for veterans' medical debt is established whereby a veteran may submit a notice, along with proof of VA liability for the debt or documentation, that the VA is in the process of paying for authorized medical services to a consumer reporting agency or a reseller in order to dispute such debt's inclusion in the credit report. The VA is required to submit to a veteran a notice it has assumed liability for part or all of the veteran's medical debt, and if such notice and proof of liability or documentation is received, the credit reporting agency shall delete all information relating to the veteran's medical debt from the file of the consumer and notify the furnisher and the consumer of such deletion.

MHI's lenders believe that the credit report should accurately reflect the repayment history of individuals seeking credit to purchase a manufactured home. H.R. 2683 is a balanced way to address the erroneous reporting of adverse credit information due to an inefficient VA repayment system. We strongly support this legislation because it protects veterans and upholds the integrity of the credit reporting system.

<u>H.R. 4648, Home Mortgage Reporting Relief Act of 2017</u>

The new reporting requirements of the Home Mortgage Disclosure Act (HMDA) are one area where the intent might be laudable, but the result is that more lenders will stop making smaller loans because the cost of compliance is too high to justify remaining in the manufactured housing lending space. This is harmful for consumers seeking an affordable form of homeownership.

MHI believes H.R. 4648 is an appropriate and measured response to the concerns that have been raised about onerous HMDA data reporting requirements, as well as the concerns about consumer data privacy. While the HMDA data provide helpful information about mortgage lending trends in the market for research and public policymakers, the compliance burden is stifling, especially for smaller lenders. The additional data requirements under the rule finalized by the CFPB in October 2015 and effective this month significantly exacerbates these concerns by more than doubling the number of data fields required to be reported on each loan. In adopting these new requirements, the CFPB did not use a formal Administrative Procedure Act process, which would have provided a better forum for receiving public input from lenders and consumers to ensure the benefits of the increased reporting requirements were balanced with the cost imposed on lenders. Instead, small lenders are now faced with the requirement that they must report over one hundred data fields to the CFPB for every application they receive regardless of whether the application is approved.

MHI appreciates the recent actions of CFPB Acting Director Mulvaney to provide a formal safe harbor for the new HMDA data reporting requirements for all lenders – both depository and non-depository. Specifically, Mr. Mulvaney has indicated that the CFPB will not assess penalties for any lender for new HMDA data requirements that are collected in 2018 and reported in 2019.

H.R. 4648 would (1) codify this CFPB safe harbor, (2) extend the CFPB safe harbor protection for one additional year, and (3) more broadly prohibit the CFPB both from expanding HMDA data requirements beyond those in place prior to the enactment of Dodd-Frank and also prohibit the CFPB from publishing, disclosing or making available any HMDA data not required to be collected and reported prior to enactment of Dodd-Frank. These provisions both address concerns about small lender compliance creep and the pervasive concerns that have been expressed by many parties about the new HMDA data requirements with respect to consumer privacy and identify theft.

Further, MHI shares the concerns of the authors of H.R. 4648 about the adequacy of consumer privacy protections given the expansive reporting requirements. With the additional data points required, there are significant risks to consumer privacy, ranging from the risk of identification of individual loans to identity theft and fraud.

MHI strongly supports the provisions of H.R. 4648. We encourage the Committee to ensure the provisions in H.R. 4648 apply to non-depository lenders. In particular, to avoid any confusion we encourage the Committee to clarify that the legislation applies to all lenders that are required to comply with HMDA's increased reporting requirements.

In sum, the additional reporting burdens imposed on small lenders by the new HMDA requirements will not do anything to help consumers achieve the American dream of homeownership. Instead, the new HMDA requirements merely serve as another incentive for lenders making small dollar loans to exit the manufactured housing lending space.

H.R. 4725, Community Bank Reporting Relief Act

H.R. 4725 would amend short form reporting requirements for depository institutions with less than $5 billion in assets by requiring banking regulators to issue regulations that allow for a reduced reporting requirement when the depository institution makes the first and third report of condition each year. This is a reasonable regulatory streamlining provision.

H.R. ___, to amend the Truth in Lending Act to clarify the exclusion for seller financers from the definition of mortgage originator, and for other purposes.

H.R. _, sponsored by Rep. Pearce (NM-2), would ensure that individuals that originate not more than five seller financed mortgage loans in a year are exempt from the mortgage originator definition of the Truth in Lending Act.

The ability to finance homes is an important issue for many manufactured home community owners who wish to ensure the manufactured homes within their communities are occupied. This legislation would increase the number of loans they could make per year before triggering the Truth in Lending Act from three loans to five loans.

The bill also provides more flexibility with regard to such loans, while retaining essential consumer protections, such as a requirement that the loan not be a "high cost mortgage," that the principal amount on the loan cannot increase because payments do not cover interest, and that generally the loan must either be fixed rate or, if adjustable, cannot adjust in less than five years and then only subject to reasonable annual and lifetime increases.

MHI believes that both the SAFE Act and Truth in Lending Act should have exemptions for individuals that originate de minimus numbers of loans each year, particularly for seller financed loans. SAFE Act licensing and registration requirements can be quite extensive and to apply them to individuals that do one or just a few such loans each year is disproportionate.

Conclusion

Manufactured homes are the most affordable homeownership option in the market today and MHI appreciates the opportunity to offer our ideas to the Subcommittee about how to improve access to credit for families buying these homes. MHI believes that manufactured housing can help address America's affordable and workforce housing challenges currently and into the future. MHI stands ready to work with the Subcommittee to ensure its work to make regulatory changes to support financing for homeownership also alleviates the challenges facing families, seniors, and young professionals seeking financing to achieve the American dream of homeownership through manufactured housing.