CFPB Finds Majority of Manufactured-Housing Borrowers Have Expensive Loans

Bureau Finds that Manufactured-Home Owners are More Likely to be Older or to Have Lower Net Worth

WASHINGTON, D.C. - The Consumer Financial Protection Bureau (CFPB) released a report which found that manufactured-home owners typically pay higher interest rates for their loans than borrowers whose homes were built onsite. The report also found that manufactured-home owners are more likely to be older, live in a rural area, or have lower net worth.

"Manufactured housing is a critical source of affordable housing for some consumers, particularly those who are older, live in a rural area, or have less income and wealth," said CFPB Director Richard Cordray. "These consumers may be more financially vulnerable and benefit from strong consumer protections. The Bureau is committed to ensuring that consumers have access to responsible credit in the manufactured housing market."

Manufactured homes are commonly referred to as "mobile homes" or "trailers." They are a specific type of factory-built housing. After the homes are built in a factory, they are then transported on their framework to a retail center or the placement site if they have been purchased. Manufactured homes are required to be built and installed in accordance with standards set by the Department of Housing and Urban Development.

One of the main differences between a manufactured home and a home built onsite is that manufactured homes may be titled as either real estate property or personal property. A home built onsite is almost always titled as real estate property. For a manufactured home to be titled as real estate property, the home generally must be set on a permanent foundation on land that is owned by the home's owner. If a manufactured home is titled as personal property, it generally must be financed through a personal property loan, also known as a chattel loan.

In the 1990s credit standards and underwriting practices for manufactured-housing loans became more lax, and the market boomed with expensive loans. The market collapsed in the early 2000s, however, as consumers struggled to pay back their loans and the market significantly shrank. Currently, more than a decade after this collapse, production and sales remain at historically low levels. Because manufactured-housing lending may be considered by some lenders to be a specialty niche, many mortgage lenders do not originate chattel loans. The national lending market for chattel loans is concentrated among five lenders.

Today's report details several findings the Bureau made on the financing of manufactured housing loans, including:

- **Majority of manufactured housing loans considered higher priced:** In 2012, about 68 percent of all manufactured-housing purchase loans were considered "higher-priced mortgage loans," compared with only 3 percent of site-built home loans. Mortgages are considered higher-priced under certain consumer protection laws if they have an annual percentage rate higher than a benchmark rate that is based on average interest rates, fees, and other terms on mortgages offered to highly qualified borrowers. Many of these higher-priced mortgage loans financing manufactured housing were chattel loans.

- **Two out of three manufactured-home owners eligible for mortgages finance with more expensive personal property loans instead:** Manufactured-home owners that own the land their home sits on are eligible to take out mortgages to finance the purchase of their manufactured home. Of those homeowners, the Bureau estimates about two-thirds financed their homes with chattel loans, which are more likely than mortgages to have high interest rates.
- **Personal property loan borrowers have fewer consumer protections than mortgage borrowers:** While chattel loans have lower origination costs and quick closing timelines, they also have significantly fewer consumer protections than mortgage loans. For example, only mortgage borrowers are protected by provisions of the Real Estate Settlement Procedures Act that give borrowers the right to certain disclosures when applying for and closing on a loan.

In addition to providing a more comprehensive understanding of manufactured housing financing, the report also examines the consumers in this market. The report found that the manufactured-housing sector plays a critical role in the affordable housing market. Other key findings of this report include:

- **One out of seven homes outside of a metropolitan area is a manufactured home:** Manufactured homes account for only about 6 percent of all occupied U.S. housing. Outside metropolitan areas, however, one out of every seven homes is a manufactured home. These homes are more prevalent in the southeastern and western states. South Carolina has the highest prevalence of manufactured housing in the country, followed by New Mexico.
- **Manufactured-home owners are more likely to be older:** Nearly one out of five families that live in manufactured homes do not have children in the home and are headed by someone aged 55 or older —compared with less than 15 percent of families that live in site-built homes.
- **Manufactured-home owners are more likely to have lower net worth:** Bureau research has found that manufactured home residents tend to have lower net worth than other families. The 2004–2010 Surveys of Consumer Finances indicate that the median net worth among households that lived in manufactured housing was just about one-quarter the median net worth of families living in all other types of housing. ##

(***MHProNews Editor's Note*** – the entire CFPB report, along with industry commentary, are linked here).