United States House of Representatives
Committee on Financial Services
Subcommittee on Insurance, Housing and Community Opportunity
"The State of Manufactured Housing"
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Danville Municipal Building
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Dear Committee Members:

Thank you for inviting me to testify before your panel today.

I am the Research Director for the Community Reinvestment Association of North Carolina. We are a 501 © 3 organization with a mission to help underserved communities gain access to capital. I am the author of "This is My Home: The Challenges and Opportunities of Manufactured Housing." The book highlights recent means applied across the country to address systemic problems facing residents of manufactured housing communities. Since 2010, I have served as a general member of HUD's Manufactured Housing Consensus Committee.

Today there is no better example of a redlined community than the local manufactured housing park. Inside most parks, there are systemic obstructions to accessing credit. This applies not just to individual homeowners but also to the owners of the park itself.

This neglect should provoke the attention of more people. Manufactured housing makes up two-thirds of new affordable housing produced in the United States. In North Carolina, these homes provide housing to almost one in six households. Absent the needed presence of builders capable of creating an adequate supply of new site built housing, manufactured housing constitutes more than one-third of new housing starts in many of our rural counties.

I appreciate the interest held by the House Committee on Financial Services to the plight of people living in manufactured housing. I hope that my comments can put some light on the issues faced by this sector.

"What has caused the manufactured housing industry to go from 300,000 units produced in 1999 to approximately 50,000 units in 2010?"

The manufactured housing industry finds it hard to ship more units because fewer people can get the financing that they need to buy these homes.

In an ideal system, the secondary market should create liquidity for lenders and thus encourage the availability of more money for the purchase of homes. Yet the secondary market for manufactured housing, both for mortgage-backed securities ("MBS") and for asset-backed securities ("ABS"),

continues to stumble.

It is no coincidence that the peak year for shipments – 1999 – was followed shortly by the year when there was more outstanding manufactured housing ABS on the market. Between 1996 and 2000, the sum of manufactured housing ABS issuance increased from $6 billion per year to more than $13.6 billion (Bond Market Association, 2000). Outstanding issuances reached a peak of $51.3 billion in 2001. Since then, the sum of outstanding debt has shrunk every year. In 2010, only $16 billion in manufactured housing ABS remained outstanding (Securities Industry and Financial Markets Association, 2010).

Lenders made those loans because there were people waiting to buy them.

Who buys an ABS or an MBS? Traditionally, a few large private corporations bought debt side-by-side with the Government Sponsored Enterprises ("GSEs"). Conseco and its subsidiary GreenTree securitized billions in ABS. Conseco filed for bankruptcy in 2002. Today, private investors still buy manufactured housing securitizations but the dominant players are essentially only the GSEs.

If demand for manufactured housing is to be resurrected, any solution begins with addressing the functionality of the secondary market. The first place is to begin is with the GSEs. The GSEs redline the manufactured housing market. In 2005, less than one-half of one-percent of Fannie and Freddie's portfolio is invested in manufactured housing ABS (Wirtz, 2005).

The general principle that people have a hard time getting a loan for a manufactured home is true right here on the ground in Danville, Virginia. The difficulty with Danville homes starts with a lack of interest by private investors on the secondary market and extends to troubles for individual families. In Danville, eighty mortgages were made for manufactured homes in 2010. About half (42) were securitized. Fannie Mae purchased one loan. Freddie Mac did not buy a manufactured home loan in Danville in 2010.

Thankfully, Ginnie Mae did guarantee 27 loans.

Access to credit is difficult. In Danville, a person applying to buy a manufactured home is three times more likely to be turned down by a lender than is a person applying for a loan to buy a single-family site-built residence.

In 2010, the Federal Housing Finance Administration initiated a proposed rule-making that set back the prospects for the industry. The proposed rule clarified how the GSEs would realize their longstanding duty-to-serve (Section 1335 (a) (1) (b) of the Safety and Soundness Act) under new expectations for service to manufactured housing as required by the 2008 Housing and Economic Recovery Act.

The FHFA determined that the duty to serve would only apply to homes titled as real property. Given that sixty percent of manufactured homes are never titled as real property, this interpretation thwarted the ability of HERA to resuscitate the manufactured housing finance markets.

I understand the concern of the FHFA. Almost one in five chattel loans ends up in default. Buying chattel debt presents a legitimate challenge to safety and soundness. Nonetheless, that performance is really a product of how loans are made. Chattel loans use most of the unsound features (interest-only adjustable –rate mortgages, balloon payments) that brought down our mainstream mortgage financing system.

The better approach is to use GSE participation as a lever to reform loans on homes titled as personal property. If the GSEs only bought 'high-quality" loans with fixed-rate fully-amortizing features and with strong consumer protections, than they would have the effect of cleaning up lending. Fewer borrowers would default. Most likely there would be less depreciation in the value of manufactured homes.

Walking through a "waterfall" of GSE neglect, the next step is to consider the poor policy approaches that apply to how the GSE buys homes titled as real property.

The GSE "MH Select" program is designed to provide demand for loans with an LTV as high as 97 percent, provided that they come with private mortgage insurance. Unfortunately, in all but a few instances, PMI companies do not write insurance for manufactured housing. In 2009, only five PMI contracts were written in the Commonwealth of Virginia on a manufactured home. One was in Danville.

Only fifteen PMI contracts were written in North Carolina in 2009. The Federal Reserve reports that only 172 were written for all purchases of owner-occupied manufactured housing in the entire country in 2010. More than 10,400 were written in 2004 (Avery, 2011).

Absent a supply of private mortgage insurance for manufactured housing, low-income households are unable to take advantage of the willingness by the GSEs to buy mortgages with LTVs as high as 97 percent. The GSEs require PMI for loans when the LTV is greater than 85 percent. Since there is virtually no availability of the PMI product, the result is that when people seek a loan, they must put up a high down payment.

2010 Home Mortgage Disclosure Act: Federal Financial Institutions Examination Council

2009 PMI Database. Federal Financial Institutions Examination Council.

I have to agree with the comment made by the Manufactured Housing Institute: "The requirement to have PMI on any loan greater than 80% LTV places a reliance on a private insurance product that is generally unavailable and has had a tremendously negative impact on the GSEs financing of the industry's product. (Manufactured Housing Institute, 2009)."

The result is that the GSEs are only buying the safest of all manufactured housing loans – those on real property with more than twenty percent down.

Were the GSEs to remove the PMI requirement, a greater portion of manufactured housing residents would be able to get better financing. Ideally, this would change not just the availability of loans but also the pricing for those loans. Home purchase loan applications for manufactured housing are denied three times more frequently than are loans for site-built properties. The loans that are originated were 7.5 times more likely to have a high-cost [subprime] interest rate.

Suggested actions:

Eliminate the requirement for PMI in the MH Select Program

Revise the GSE duty-to-serve standard to include purchase of loans on homes titled as personal

property.

A better solution is to use the carrot of GSE securitization to encourage a host of improvements in the quality of financing. We know that many features of chattel loans contribute to their high default rates (almost twenty percent). Were the GSEs to only buy fixed-rate loans with no prepayment penalties and no balloon payments, it would be a great victory.

Create a new facility to enhance credit on second position loans for the acquisition of manufactured housing parks by co-operatives and non-profit owned resident groups. When vacancies are low, mobile home parks produce a substantial cash flow. Given their historical familiarity with mobile home parks, many banks in the South are ready to make loans for park acquisition. However, their appetite stops at 70 or 80 LTV. Many community groups (co-ops or non-profits) can offer low vacancy rates but fewer will have hundreds of thousands of dollars to cover a twenty percent down-payment. By creating an insurance against seconds, the GSEs could stimulate reinvestment in the supply of spaces in well-managed manufactured home parks.

Make the acquisition of land a valid use of federal funding that is routed through State Housing Finance Agencies. In our conversations with state housing finance agencies, some of their board members have told us that they cannot support investment in a property that will depreciate in value. Historically, land has held its value over the long-term horizon. It is not a risky proposition. Buying land for parks would create a low-cost and relatively simple way to foster the development of high-quality manufactured housing communities. It would be appropriate to use these funds for the redevelopment of existing communities as well. In New Hampshire, state agencies have created a financing vehicle for acquisition of parks. Vermont buys entire parks and then contracts with non-profits to do the property management.

"How have underwriting standards changed in the last decade?"

Underwriting remains very stringent, particularly for refinance lending and for the purchase of a used home titled as personal property.

In 2010, 54.9 percent of applications made to buy a manufactured home were rejected (Avery, 2011). More than 80 percent had a subprime interest rate. By comparison, only 3.3 percent of conventional first lien home purchase loans made for site-built homes had a subprime rate of interest in 2010 (Avery, 2011).

When homes depreciate in value it becomes very difficult to refinance. The Loan Level Pricing Adjustments ("LLPA") instituted in 2008 by Fannie and Freddie lay out a system of additional fees paid by lenders upon delivery of a loan. The costs are passed on to borrowers through higher interest rates and higher closing costs. In instances when a loan bears too many risk factors, the loan is ruled ineligible for delivery. Conventional refinance loans on site-built properties generally must have an LTV that is no greater than 80 percent.

In the LLPA, there is a provision that triggers a higher delivery fee for any manufactured housing loan delivered to one of the GSEs. This has the effect of raising borrowing costs, as the fees paid by lenders are passed on to borrowers in the form of higher interest rates and or higher closing costs.

"The Dodd-Frank Wall Street Reform and Consumer Protection Act has instituted several changes which affected lending and appraisal standards for all classes of loans.

What effect will these changes have on lending in the manufactured housing industry?"

The language of the Dodd-Frank Act contemplates that the CFPB will have supervisory authority over non-bank financial institutions that offer or provide any "consumer financial product." There are narrow exclusions.

One of the lessons of the HUD Code is that minimum standards protect well-intentioned businesses from a "race to the bottom." The HUD Code has been the locus for dramatic improvements in the quality of housing. The Dodd-Frank Act will hopefully eliminate some of the abusive lending practices that have given these products a bad name.

Manufacturers are victimized by unscrupulous sales persons that sully the image of the industry. Industry members on the Manufactured Housing Consensus Committee tell me that they would like to see retailers clean up their practices.

If chattel lenders are singled out for supervision by the CFPB, then we can expect to see a major impact on how loans are negotiated and originated. Chattel loans are frequently made by subsidiaries or affiliates of manufacturers. These non-bank entities offer terms with higher interest rates, shorter terms, and fewer consumer protections.

I expect that the CFPB will enhance disclosure requirements under RESPA. Currently, loan originators are not required to disclose the amount paid for closing costs on a home titled as personal property. Given that many finance companies are subsidiaries of either retailers or of manufacturers, this gap in RESPA puts borrowers at substantial risk for being taken advantage of by some lenders. This rule will help the good guys and hurt the bad guys.

Other statements

ABANDONED MOBILE HOMES

One hard truth to admit about manufactured housing is that we have no solution for removing nuisance properties. The power of condemnation gives municipalities the ability to eliminate blighted property. This power does not extend to a manufactured home sited on land with a separate owner. If ownership of a home cannot be traced, as is often the case when the HUD tag has been removed or when a home was built prior to the HUD code, then there is nothing that can be done provided that the land owner is unwilling to pay for the removal of the unit.

We have heard from many rural legislators upset by these homes. They believe that an abandoned home, let alone an entire mobile home park, hinders efforts to protect public safety. They say that these homes undermine efforts to attract business to relocate in their communities.

CRA-NC championed legislation to give our counties the power and the budget to remove these homes. Many counties have begun programs to remove those homes.

Everyone wins when these homes are removed. Communities are rid of houses that become the location for meth labs and prostitution. New land is suddenly available for re-development. Small towns have a better chance of landing job-producing industry. The removal of an eyesore removes one more strike against the image of manufactured housing.

DESIGN FEATURES FOR HANDICAPPED ACCESSIBILITY

One of the current discussions among the membership of the Manufactured Housing Consensus Committee is the response that should be taken by the HUD Code to prepare the sector for the aging of America. If people are going to "age in place," then they need to have a home that can come to accommodate their future infirmities.

Although this could be an opportunity to gain a foothold in a new consumer segment, the industry is dragging its feet.

Currently the minimum width of a hallway is only 28 inches. This is too narrow for a wheelchair to turn around. For a person bound to a wheelchair, the lack of space becomes an impediment to daily life and a threat to surviving a fire. The industry's argument is that a person should have the choice to buy a floor plan with the wider hallways. Unfortunately, this means that there will be many people will have to move out of their homes. No one can know if they will be bound to a wheelchair. A wide hallway is something you only know you need when you actually need it.

I am going to reference an excerpt from a letter submitted by the Paralyzed Veterans of America to the Manufactured Housing Consensus Committee on October 18th, 2011:

We are pleased that our committee recognizes the need to improve accessibility of manufactured homes. However, many individuals with disabilities who use wheelchairs or other mobility devices need more than a 30-inch clearance in order to navigate easily within their homes. A 36-inch minimum width for interior hallways would offer the greatest flexibility for so many people in need of the type of affordable housing that manufactured homes provide. We ask that the committee support the proposed change to require a minimum of 36 inches for interior hallways in multi-section homes.

I am also going to excerpt a section of a letter sent to the Manufactured Housing Consensus Committee on October 19th, 2011 by the American Association of People with Disabilities:

"We applaud the recommendation for a 32" minimum clear opening in an entry door. But a 30' inch clear hallway width will not provide access. And widening a hallway seems structurally infeasible. AAPD believes adopting the minimum standard of 36" in homes wider than 14' is the only option for access, whether it is double or singlewide….accessibility standards have been around for decades and have proven necessary. A single passageway requires a minimum 36 inch clearance."

I generally agree with industry about all issues related to financing. However, I believe that when it comes to accessibility, the industry is missing an opportunity to sell more homes. The hallway issue is not the only example of an opportunity for the HUD Code to catalyze a change in how manufactured housing is perceived by the public. There are others – door widths and bathroom dimensions are others. The HUD Code is not the specific interest of a committee commanded to address financial services, but it is an issue that will have an impact on the issue at hand - the sales of manufactured housing.

CONCLUSION

Financing is the greatest impediment to the restoration of our manufactured housing industry. Federal

legislation could make changes that help industry and consumers. Both groups need a way for more homes to be financed at reasonable costs. We are talking about a sector of the housing market that has been systematically excluded from national efforts to expand home ownership. This is a sector where getting a loan is difficult, where interest rates are too high, and where consumer protections are scant.

Thank you for inviting me