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THE PROPERTY REPORT

Prebuilt Loan Predicament

BY ALAN ZIBEL

WASHINGTON—The manufactured-housing industry is pressing lawmakers to roll back an obscure part of the Dodd-Frank law, arguing it will crimp demand for prebuilt homes, hurting lenders, builders and owners.

The industry effort has rare bipartisan support in Congress, with both Democrats and Republicans expressing concern that the law could trigger a decline in lending for manufactured homes.

At issue is a provision of Dodd-Frank that aims to combat predatory lending. Loans with rates and fees above certain thresholds are supposed to be designated "high cost" by the Consumer Financial Protection Bureau and thus subject to fewer legal protections.

The bureau earlier this year decided to call loans high-cost if they have an annual percentage rate of more than 6.5 percentage points above a national average and 8.5 percentage points for many loans under $50,000.

Lenders to manufactured-home buyers say many of their loans would fall into the high-cost category with this regulation, which goes into effect in January. They warn that they won't make such loans because they carry increased legal risk.

Mortgage rates for traditional homes average below 3.5%, but rates for manufactured homes are above 10% in some cases, including fees. Lenders say they need to charge higher rates partly because buyers of manufactured homes often have low incomes, imperfect credit and carry a higher risk of default.

House lawmakers this week plan to introduce legislation that would designate fewer loans as high-cost, and a key Democrat on the Senate Banking Committee, Sen. Sherrod Brown of Ohio, is working on similar legislation to be introduced in coming weeks.

Mr. Brown said in a statement that manufactured homes "represent a different product, with a different consumer base" than loans for traditional homes, and that his legislation would "bring regulations for manufactured housing in line with their place in the market."

Consumer advocates dispute the industry's case, arguing that lenders will be able to fall within the new triggers by reducing fees and interest charged to meet the high-cost thresholds.

"I'm skeptical that this is going to suddenly result in a huge downturn of lending in this area," said John Van Alst, staff attorney with the National Consumer Law Center in Boston.

Stocks of manufactured-housing companies have soared this year as investors bet that consumers priced out of the apartment market and those looking to retire will opt for manufactured housing. Shares of **Sun Communities** Inc. have climbed more than 20% since January, while **Equity LifeStyle Properties** Inc. is up nearly 20%.

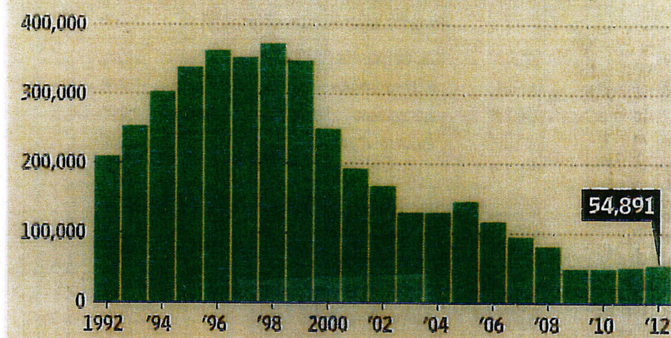
But proponents of the legislation point out that mortgage buyers **Fannie Mae** or **Freddie Mac** buy few loans for manufactured homes, causing lenders to the industry to obtain funding at a higher cost.

Manufactured homes also tend to lose value over time, and lenders can recover less money if there is a foreclosure. Lenders shy away from such high-cost mortgages—only about 2,400 such loans were made in 2011, a fraction of the lending market.

Tim Williams, chief executive of 21st Mortgage, the largest lender to builders of manufactured homes, says roughly a third of his company's loans from 2010 and 2011—about 6,100 mortgages—would have fallen outside the Consumer Financial Protection Bureau's thresholds.

Manufactured Downturn

The number of manufactured homes made each year has declined since the 1990s, amid high financing costs and a weak economy.



Source: IBTS Inc.

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The bureau's restrictions will curb demand for homes, harming low-income buyers in rural areas and leaving them with few other options, says Mr. Williams, whose company is owned by the largest seller of manufactured homes, **Berkshire Hathaway** Inc.-owned **Clayton Homes.** In addition, existing homeowners will be harmed, as well, because "they will not be able to sell these houses," Mr. Williams says.

"If we see that financing dwindle...it certainly will mean closure of a number of plants," says Joe Stegmayer, chief executive of **Cavco Industries** Inc., the industry's second-biggest manufacturer. "Plants are already struggling now."

In publishing its rule in January, the consumer bureau said it didn't have enough information on why it the industry wouldn't be able to make loans under the current thresholds and "not certain" that lending would slow.

Before Dodd-Frank, the high-cost designation only applied to loans for refinancing, but the financial law expanded it to apply to loans for purchases as well.

For all 2012, nearly 55,000 new manufactured homes were sold, up from about 52,000 in 2011 but a far cry from a peak of more than 370,000 in 1998, according to the Manufactured Housing Institute, an industry trade group.

—Dawn Wotapka contributed to this article.