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Challenges to Obtaining Manufactured Home Financing

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In the single-family housing market, most homeowners take out a real estate loan or mortgage to finance their home. But in the manufactured housing market, most consumers rely on chattel loans, or property loans, which typically have less favorable loan terms and fewer consumer protections than mortgages. The high costs of chattel financing can dissuade people from purchasing a manufactured home, contributing to the relatively small number of homes shipped. There were 240,000 homes shipped each year from 1977 to 1995, but only 93,000 homes shipped in 2017. This report examines the challenges to obtaining affordable financing for a new manufactured home.

Chattel Financing Is Typically More Expensive Than Real Estate Financing

From our analysis of Home Mortgage Disclosure Act (HMDA) data, we deduced that the average chattel loan for manufactured housing costs consumers 4.4 percentage points more per year than the average mortgage for manufactured housing. For example, on an $80,000, 20-year loan, this additional cost would be $2,600 a year, or 5.6 percent of the income of a family making $50,000. Throughout our analysis, “mortgage” refers to real estate loans.

To estimate the differences in rates between chattel loans and mortgages, we compared rates on manufactured housing loans made by lenders who operate exclusively in the manufactured housing market with rates on manufactured housing loans made by lenders who operate in both the single-family and manufactured housing markets.

We classified lenders into three categories:

1. Manufactured housing lenders, whose business is greater than 90 percent manufactured housing loans
2. Specialty lenders, whose business is 15 to 90 percent manufactured housing loans
3. General lenders, whose business is less than 15 percent manufactured housing loans

We assumed manufactured housing lenders make only chattel loans and general lenders make only mortgages.[1] For manufactured homes, the average loan size for manufactured housing lenders is $63,337, and the average loan size for general lenders is $105,470.

HMDA requires the rate spread—the spread between that loan and the primary mortgage rate—to be reported for loans where the rate spread is at least 2 percent. Manufactured housing lenders who reported this field had an average rate spread of 5.71 percent, more than twice the 2.67 percent spread for general lenders. Moreover, 98 percent of the loans made by manufactured housing lenders reported a rate spread, versus 23 percent of loans made by general lenders (table 1).

Accounting for manufactured housing lenders that do not report (by assuming a 0.75 percent spread, a level consistent with what the government-sponsored enterprises would charge on a manufactured housing loan to an average manufactured housing borrower), we get an average rate spread for all manufactured housing loans of 5.61 percent for manufactured housing lenders versus 1.20 percent for general lenders. At a minimum, we conclude the difference between chattel and nonchattel lending is 4.41 percentage points.

TABLE 1

Rate Spreads by Lender Type

Lender type	Lending type	Share of lenders reporting spreads (%)	Spread on reporting loans (%)	Assumed spread for nonreporting loans (%)	Total spread (%)
Manufactured housing	Chattel	98	5.71	0.75	5.61
Specialty	Mixed	59	3.71	0.75	2.50
General	Real estate	23	2.67	0.75	1.20

Source: Urban Institute calculations from 2017 Home Mortgage Disclosure Act data.
Note: Lenders are not required to report on loans where the rate spread is less than 2 percent.

But this does not mean everyone who takes out a chattel loan could save 4.41 percent in interest by switching to a mortgage. A borrower's mortgage interest rate depends on his or her credit profile, and the credit profile of the average chattel borrower is likely to be weaker than the profile of the average mortgage borrower. Although HMDA does not contain information on loan-to-value ratio or credit score, the median income for borrowers who take out a loan from a manufactured housing lender is $45,000, while the median income for borrowers who take out a loan from a general lender is $51,000.

Moreover, we have not accounted for differences in closing costs. The up-front costs of a chattel loan might be lower.

Even so, the cost differential between chattel and mortgage financing is significant. As noted earlier, switching from a chattel loan to a mortgage could save a family $2,600 a year on an $80,000, 20-year loan.

Many People Who Could Qualify for a Mortgage Choose More Expensive Chattel Financing

Data show that most manufactured homeowners taking out chattel loans might have been eligible for a mortgage. To qualify for a mortgage, a manufactured home must be titled as real property; in most states, this requires the owner to own both the structure and the land on which it is sited. Otherwise, the property is personal property and is eligible only for chattel financing.

To quantify how many manufactured homeowners who took out a chattel loan could have been eligible for a mortgage, we looked at several data sources.

First, we analyzed the breakout of manufactured homes titled as real versus personal property nationally as well as in Texas, where detailed data are available and more than 20 percent of new manufactured homes are shipped. Data from the national Manufactured Housing Survey show that in 2017, 81 percent of new manufactured homes were titled as personal property, and 19 percent of new homes shipped were titled as real property. Homeownership records from the Texas Manufactured Housing Division showed that 32 percent of new home purchases were completed through cash sales, and of the remaining 68 percent, only 11.2 percent of properties were titled as real property, while 88.8 percent were titled as personal property. In contrast, American Housing Survey data from 2013 suggest that 72 percent of those who received financing (either a chattel loan or a mortgage) owned both the land and structure.

Combining these data sources, table 2 shows our estimates for the share of manufactured homeowners who owned the land and the structure but still took out a chattel loan. Nationally, 53 percent of those who owned the land and received financing in a given year obtained a chattel loan when they might have been eligible for a mortgage, 19 percent took out a mortgage, and 28 percent would not have been eligible for a mortgage because they did not own the land.

In Texas, 60.5 percent of those who owned the land and took out a manufactured housing loan in a given year obtained a chattel loan when they might have been eligible for a mortgage, 11.5 percent took out a mortgage, and 28 percent would not have been eligible for a mortgage because they did not own the land.

TABLE 2

Ownership Type of New Manufactured Homeowners with a Chattel or Mortgage

	Real property	Personal property and own land	Personal property and do not own land
National	19.0%	53.0%	28.0%
Texas	11.5%	60.5%	28.0%

Sources: Texas Department of Housing and Community Affairs Manufactured Housing Division homeownership records, the 2013 American Housing Survey, and the 2017 Manufactured Housing Survey.
Note: Homeownership records represent property records from 2017.

These numbers are upper bounds. Not everyone who purchased a manufactured home and owned the land would qualify for a real estate mortgage. In addition, there are reasons for choosing to have the manufactured home titled as personal property. For example, if the land is family land, the family might not want one member to encumber the land because he or she has put a home in the corner, and subdividing the land requires additional cost. Moreover, some states have a lower property tax on personal property than on real property.

Some Borrowers Choose More Expensive Loans for the Convenience But Might Not Know Their Options

Even though a chattel loan is more expensive than a mortgage, more than half the manufactured housing borrowers who own their land opt for a chattel loan. A major reason for this discrepancy is the greater convenience of obtaining a chattel loan. Most manufactured homes are automatically titled as personal property, even when the homeowner owns the land on which the home is located. The owner typically needs to provide documentation that the home has become fixed to the land to convert the property to real property. The rules for titling also differ by state, and it is unclear how familiar consumers are with these rules. Aside from titling, obtaining a chattel loan can be more convenient because chattel lenders are typically available on-site where manufactured homes are sold, and the borrower can walk away with a loan the same day the home is purchased. Some borrowers may not realize that a financing option with a lower rate is available.

Policymakers Should Explore Measures That Make Affordable Financing More Accessible

Although not a universal solution, encouraging more manufactured housing customers to consider a mortgage would provide better consumer protection and offer considerable savings. From a public policy perspective, it would be useful to explore whether states can make the titling process easier and less expensive for manufactured housing, perhaps with an expedited process as the state level.

The reduced costs and greater protections could stimulate demand for manufactured housing and hence the production of these homes, adding units to the scarce supply of affordable housing. Not all people who own both the property and the land could qualify and would want a mortgage, but the numbers suggest the differences in monthly payment are significant enough that getting mortgage-eligible borrowers to consider taking that route, even if it takes longer, is a good idea.

Note

[1] Our assumption is an oversimplification. Manufactured housing lenders may also make real estate loans, but most of their loans are chattel loans. General lenders may also make chattel loans, but most of their loans are mortgages.

About the Authors

Laurie Goodman is vice president for housing finance and codirects the Housing Finance Policy Center at the Urban Institute. The center provides policymakers with data-driven analyses of housing finance policy issues they can depend on for relevance, accuracy, and independence. Before joining Urban in 2013, Goodman spent 30 years as an analyst and research department manager at several Wall Street firms. From 2008 to 2013, she was a senior managing director at Amherst Securities Group LP, a boutique broker-dealer specializing in securitized products, where her strategy effort became known for its analysis of housing policy issues. From 1993 to 2008, Goodman was head of global fixed income research and manager of US securitized products research at UBS and predecessor firms, which were ranked first by *Institutional Investor* for 11 straight years. Before that, she was a senior fixed income analyst, a mortgage portfolio manager, and a senior economist at the Federal Reserve Bank of New York. Goodman was inducted into the Fixed Income Analysts Hall of Fame in 2009. Goodman serves on the board of directors of the real estate investment trust MFA Financial, is an adviser to Amherst Capital Management, and is a member of the Bipartisan Policy Center's Housing Commission, the Federal Reserve Bank of New York's Financial Advisory Roundtable, and Fannie Mae's Affordable Housing Advisory Council. She has published more than 200 journal articles and has coauthored and coedited five books. Goodman has a BA in mathematics from the University of Pennsylvania and an MA and PhD in economics from Stanford University.

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