



**Testimony of Mr. Manuel Santana, P.E.
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**Before the
Subcommittee on Insurance, Housing and Community Opportunity
Committee on Financial Services
U.S. House of Representatives**

**Hearing on
Implementation of the
Manufactured Housing Improvement Act of 2000
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Thank you, Chairwoman Biggert, Ranking Member Gutierrez and members of the subcommittee for the opportunity to testify this morning on the implementation of the Manufactured Housing Improvement Act of 2000.

My name is Manuel Santana and I am testifying on behalf of the Manufactured Housing Institute. I am Director of Engineering for Cavco Industries. In this capacity, I oversee the engineering departments of Cavco Industries, Fleetwood Homes and Palm Harbor Homes. I have responsibility for the engineering design, development and maintenance of our products, which range from HUD-Code homes, factory-built housing and recreational park trailers. My tasks include maintaining relations with Department of Housing and Urban Development (HUD) inspectors, In-plant Primary Inspection Agencies (IPIAs), Design Approval Primary Inspection Agencies (DAPIAs) and state and local officials. I am a member of the International Code Council (ICC) and registered as a Professional Engineer in Arizona, California, Colorado, Georgia, Nevada, New Mexico and Texas. In addition, I currently serve on HUD's Manufactured Housing Consensus Committee (MHCC).

MHI AND CAVCO INDUSTRIES

The Manufactured Housing Institute (MHI) is the national trade organization representing all segments of the factory-built housing industry. MHI members include home builders, lenders, home retailers, community owners, suppliers and others entities affiliated with the industry. MHI's membership includes 50 affiliated state organizations. MHI members currently build 80 percent of all manufactured homes in this country.

Headquartered in Phoenix, Arizona, Cavco Industries, Inc. designs and produces factory build housing and is the nation's second largest producer of HUD Code manufactured homes, which are marketed under a variety of brand names including Cavco Homes, Fleetwood Homes, Palm Harbor Homes and Nationwide Homes. Cavco is also a leading producer of park model homes, vacation cabins, modular homes, and systems-built commercial living structures. Together with its subsidiaries Fleetwood, Nationwide and Palm Harbor, Cavco operates 15 homebuilding production facilities across the country and employs more than 2,500 people.

MANUFACTURED HOUSING

Manufactured housing is a key source of quality affordable single-family housing for 19 million Americans. During this critical time for our nation's housing markets, manufactured housing can play an even greater role in providing reliable sustainable housing for current and future homeowners looking to meet a variety of housing and lifestyle needs.

Manufactured homes are built in a controlled environment, transported to the building site, and installed on the home-site in accordance with federal building codes and enforcement regulations administered by the Department of Housing and Urban Development (HUD). These governing rules are commonly referred to as the "HUD Code." Since HUD oversees and regulates virtually every facet of the construction process, manufactured housing is one of the most heavily regulated industries in the construction field.

As the only federally-regulated national building code, the HUD Code regulates home design and construction, installation requirements for strength and durability, resistance to natural hazards, fire safety, electrical systems, energy efficiency, and all other aspects of the home. Homes are inspected every step of the way and our industry adheres to a robust quality assurance program which offers far greater controls than anyone else in the home building industry.

The affordability of manufactured housing can be attributed directly to the efficiencies emanating from the factory-building process. The controlled environment and assembly-line techniques remove many of the challenges encountered during traditional home construction, such as poor weather, theft, vandalism, damage to building products and materials and unskilled labor. Factory employees are trained and managed more effectively, efficiently, and with a higher degree of safety than the system of contracted labor employed by the site-built home construction industry.

Manufactured housing's importance as a sustainable source of affordable housing is reinforced by data (according to the U.S. Census Bureau) indicating that in 2010 it accounted for:

- 72 percent of all new homes sold under \$125,000;
- 47 percent of all new homes sold under \$150,000; and
- 27 percent of all new homes sold under \$200,000.

Manufactured homes serves many housing needs in a wide range of communities—from rural areas where housing alternatives (rental or purchase) are few and construction labor is scarce and/or costly (nearly two of three manufactured homes are located in rural areas), to higher-cost metropolitan areas as in-fill applications. Without land, the average purchase price of a new manufactured home is \$62,800 versus \$206,500 (excluding land costs) for a new site-built home (Source: U.S. Census Bureau), which is affordable by almost any measure.

In addition to the valuable role it plays in providing reliable, efficient and affordable housing for 19 million Americans, the manufactured housing industry is an important economic engine. In 2010, the industry produced 50,000 new homes, which were produced in more than 120 home building facilities, operated by 45 different companies, and sold in 4,000 retail home sales centers across the U.S.—generating 75,000 full-time, good-paying, jobs.

For manufactured homes to be a part of the solution to America's growing housing challenges, the industry relies on the HUD Code to be a dynamic standard that supports innovation, consumer safety and quality, while preserving manufactured housing's affordability.

THE HUD CODE AND THE MANUFACTURED HOUSING IMPROVEMENT ACT OF 2000

For over 35 years (since 1976), the HUD Code has set the quality assurance and safety standards for every manufactured home in America. HUD regulates home design and construction in the same way that state and local building codes do for site-built homes by setting requirements for strength and durability, resistance to natural hazards, fire safety, energy efficiency and all other aspects of the home. HUD regulations also strictly govern quality control and inspection measures.

The HUD Code is specifically designed for the factory-built environment. The inspection and enforcement process starts well before production. Plans must be approved by professional engineers and HUD, and factories must receive certification by HUD to be approved to build homes. There is then continual oversight throughout the building process and which does not end until the home receives a numbered certification label that indicates the home has been designed, constructed and inspected in accordance with the HUD Code.

In 2000, Congress passed the Manufactured Housing and Improvement Act (MHIA), which expands HUD's mission with regard to manufactured housing, and improves the process for establishing, revising,

enforcing, and updating the HUD Code. The law created the Manufactured Housing Consensus Committee (MHCC)—an advisory committee comprised of industry and responsible for recommending revisions and interpretations of the code.

Within MHIA, Congress intended for HUD to partner with the MHCC to update safety and construction standards. Specifically, Congress indicated that the key considerations that should guide the MHCC and HUD in their work include:

- Giving affordability and increasing homeownership equal weight with quality, durability and safety of homes;
- Ensuring that construction standards are practical, uniform and performance-based;
- Encouraging innovative and cost-effective construction techniques; and
- Ensuring that the process for developing, revising and interpreting safety and construction standards is balanced.

HUD must ensure that the HUD Code revision process can meet the increasing advancements in design that the industry makes each year. MHI believes it is crucial that HUD obtain and deploy the resources necessary to accomplish this mandate that fully engages the industry and the MHCC as envisioned in MHIA.

CHALLENGES IN IMPLEMENTING MHIA AND RECOMMENDATIONS FOR IMPROVEMENT

The MHIA's key provisions were designed to preserve the vital role manufactured housing plays in meeting the nation's housing needs. However, implementation of the Act has not been without challenges. There are several key action areas outlined in the Act which are not being implemented and that are of significant concern to MHI. These include provisions designed to:

- Promote innovation and affordability with timely construction codes and standards;
 - Enhance preemption to streamline production and reduce regulatory barriers;
 - Implement manufactured home installation standards to the benefit of consumers and industry; and
 - Strengthen manufactured housing as a priority within HUD through the appointment of a non-career administrator.
- **Promote Innovation and Affordability with Timely Construction Codes and Standards**

MHI believes the HUD Code is a "living" code that needs consistent attention and updating. Unfortunately, since its establishment and initial meeting in 2002, the MHCC has met nearly 200 times and has made dozens of recommendations to revise the HUD Code. Yet ten years later, the majority of these recommended updates remains pending and awaits final action by HUD.

The MHCC has recommended three comprehensive sets of updates to the HUD Code, including numerous updates to various non-controversial reference standards used in the residential building industry. To date, only one update, in 2005, was finalized and implemented by HUD.

The MHCC has recommended four significant rewrites of enforcement regulations and, to date, none have been implemented. Of particular importance to MHI is a proposal considered by the MHCC in 2007-2008 to streamline the regulations for obtaining approval for designs for alternative construction.

Under the current regulations (24 CFR Part 3282.14), manufacturers must obtain individual approval from HUD for each new home design or construction technique that is not in compliance with the HUD Code.

Because consumers are increasingly requesting homes with customized designs, the number and frequency of these approval requests has significantly increased. As a result, due to the inability of the HUD Code to keep pace with these practices, it often takes months to receive the required HUD approval of these non-standard designs. These delays result in lost sales and unnecessary interruptions in the construction process, which ultimately lead to loss of jobs and lost economic opportunity for the industry.

A lack of updated codes and standards has resulted in the very certain likelihood that the manufactured housing industry will be subject to energy efficiency standards established and enforced by the Department of Energy (DOE). The Energy Independence and Security Act of 2007 (EISA; P.L. 110-140) contains provisions requiring DOE to establish, implement and enforce compliance with energy efficiency standards for manufactured housing (Sec. 413).

The law effectively replicates HUD's statutory responsibility for manufactured home energy standards within DOE and established a duplicative regulatory standard and system for the manufactured housing industry. MHI believes this dual regulation will have the real impact of raising the costs on affordable manufactured housing and costing jobs in an industry already suffering through a significant decline.

- **Enhance Preemption to Streamline Production and Reduce Regulatory Impediments**

The HUD Code preempts state and local building codes affecting manufactured housing. This concept of federal supremacy is reinforced in MHIA, which states the HUD Code should be "broadly and liberally construed" to ensure that "disparate State or local requirements or standards do not affect the uniformity and comprehensiveness" of the HUD Code.

Congress recognized the importance of federal preemption as a key element to the production and distribution of manufactured housing. A single uniform building code is essential to interstate commerce and to preserving manufactured housing's affordability.

However, there has been an erosion of the HUD Code's preemptive identity resulting in local attempts to establish building code requirements (for manufactured housing) not required by the HUD Code. In addition, local exclusionary zoning and land use requirements continue to plague the industry and limit the availability of affordable housing.

MHI has requested HUD update its policy on preemption to reflect the expanded authority Congress specifically provided in MHIA. The MHCC, last year during consideration of proposed fire sprinkler standards, also requested HUD revisit its official policy on preemption.

- **Implement Installation Standards to Benefit Consumers and Industry**

HUD is empowered to enact minimum state installation standards for manufactured homes. *Model Manufactured Home Installation Standards* established by HUD in 2007 prescribes methods for performing specific operations or assembly of a manufactured home to ensure that compliance with the HUD Code is preserved and maintained.

The implementation of minimum installation standards and state installation programs—including licensing and training—has significantly reduced the number of consumer complaints and provided assurances that a manufactured home is installed according to design requirements.

HUD is required to develop licensing, training and enforcement programs governing the installation of manufactured homes for those states that lack individual HUD-approved programs. However, HUD has failed to develop these programs. The development of substantive programs in these areas would greatly aid industry efforts to ensure both consumer satisfaction and product reliability is maximized.

- **Make Manufactured Housing a Priority within HUD; Appoint a Non-Career Administrator**

HUD has failed to recognize manufactured housing as important to fulfilling its mission to “create strong, sustainable, inclusive communities and quality affordable homes for all.”

Indeed, despite serving as the housing choice for 19 million Americans, HUD’s *FY 2010-2015 Strategic Plan* fails to mention the role manufactured housing can play meeting HUD’s programmatic mission and goals. Specifically, HUD has identified five major goals and 18 sub-goals to fulfill its mission. However, agency’s manufactured housing program is only given cursory mention and a limited scope related to HUD’s overall mission — “to protect and educate consumers when they buy, refinance or rent a home.”

A key provision within the law is for HUD to appoint a non-career administrator to oversee the agency’s manufactured housing program. Congress intended the administrator to oversee the development of codes and standards and to serve as an advocate for manufactured housing in HUD’s overall mission, policies and programs. However, this position remains vacant.

HUD’s FY2012 budget envisions an increase in the label fee paid by home manufacturers to offset the expenses incurred by the agency in carrying out its regulatory responsibilities. However, it is unclear whether increasing label fees will translate into a more effective program. We were pleased to hear in HUD’s testimony before this committee in November that the MHCC will have the opportunity to evaluate any fee increase proposed by HUD.

With recent budget cuts to HUD’s manufactured housing program and increases in labeling fees imposed on manufactured homes producers, the need for a key advocate to serve the larger manufactured housing market has never been greater. In considering a label fee increase, it is necessary to thoroughly evaluate current program initiatives to accurately determine if the agency is meeting program priorities within the existing budget confines. Appointing a non-career administrator for the manufactured housing program is essential an essential first step that should be taken prior to the adoption of any fee increase.

MANUFACTURED HOUSING INDUSTRY AND CONSUMER FINANCING CHALLENGES

Despite its role as a valuable source of affordable housing; a driver of the U.S. economy; and a model of efficiency and sustainability in the larger housing industry, the manufactured housing industry has had ongoing challenges over the past decade. Since 2005, the pace of new manufactured homes sold in the U.S. has declined by 65 percent (146,881 in 2005 vs. 50,046 in 2010) and there has been a decline of nearly 80 percent since 2000 (when 250,419 new manufactured homes were produced).

The decline in home sales and activity within the manufactured housing market and its resulting job losses coincides with a number of challenges:

- the lack of liquidity and credit in the manufactured housing finance sector has limited financing options for our homebuyers;
- the uncertainty and impact of new financial services and mortgage finance regulations has hindered growth; and
- the slow pace of adoption for new standards within the HUD Code has prevented the manufactured housing industry from remaining on the cutting-edge of design and construction.

While the manufactured housing industry would benefit from an up-to-date building code and a responsive and engaged regulatory body and is appreciative of the subcommittee's willingness to examine and evaluate MHIA's impact and effectiveness, the single most important issue impacting the manufactured housing market remains the availability of accessible and affordable financing for those seeking to purchase manufactured housing.

Lack of a viable secondary market for manufactured home loans coupled with growing regulatory burdens threaten to further constrict the limited financing options that currently exist within the manufactured housing market.

Over the past year, MHI has worked to educate Members of Congress and the Administration regarding some of the unforeseen impacts recently enacted legislation would have on limiting access to credit for the purchase of affordable manufactured housing.

Specifically, provisions within the Dodd-Frank Wall Street Reform and Consumer Protection Act (P.L. 111-203) and the Secure and Fair Enforcement of Mortgage Licensing Act (SAFE Act; P.L. 110-289) would have the very real unintended consequence of limiting the availability of and access to credit for the purchase of affordable manufactured housing.

Fortunately, MHI has been working with majority and minority leaders of the House Financial Services Committee to develop a bipartisan solution to these issues that will provide relief for manufactured homeowners while maintaining consumer protections.

New manufactured home construction has fallen roughly 80 percent over the past decade, which has accounted for more than 160 plant closures, more than 7,500 home center closures, and the loss of over 200,000 jobs. More importantly, thousands of manufactured home customers have been left unable to purchase, sell or refinance homes. Without action in these key areas, the people who live in manufactured homes and whose livelihood is connected to this industry are at significant risk.

Chairman Biggert, Ranking Member Gutierrez and members of the subcommittee, I thank you for the opportunity to testify and welcome any questions you may have.

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