

# Manufactured Housing Finance and the Secondary Market

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**M**anufactured housing, or mobile homes, is often the most attractive housing option for many low- and moderate-income Americans. Reinforcing the concept that it is expensive to be poor, the financing of manufactured housing is often much more expensive than it needs to be. This article reviews how the current financing for manufactured homes functions, explores why it is so expensive, and suggests an important strategy to reduce its costs by pursuing a secondary market for manufactured home mortgages.

The benefits to low- and moderate-income home owners of a more efficient manufactured home mortgage market would be substantial, for as many as 10 million families live in manufactured homes. Many are low-income families, the group for whom home ownership is one of the only sources of wealth and financial stability. Indeed, manufactured housing is a key resource when it comes to providing home-ownership opportunities for low- and moderate-income families, accounting for two-thirds of this country's new affordable housing production in recent years.<sup>1</sup>

There are many obstacles to creating this more efficient mortgage market, but that was also once true for site-built homes when credit was expensive and home-ownership rates were low. Over the past fifty years, however, the U.S. mortgage market has created ample capital flows and continued product innovation that have contributed to a home-ownership rate over 70 percent and a climate—unique in the international context—in which an 80 percent loan-to-value, thirty-year mortgage is considered “plain vanilla.” The following explores how that same vibrancy can spread to the manufactured housing market.

## **Current Financing of Manufactured Housing Is Expensive**

Although most families who live in manufactured housing consider themselves home owners like any other, the process by which they purchase and finance their home is radically different. This contradiction, in part, is a relic of the manufactured housing industry's origins in the travel-trailer industry of the 1940s and 1950s. The technology used to produce manufactured homes has evolved in leaps and bounds, resulting in a product that today can be virtually indistinguishable from site-built construction. But even though a manufactured

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<sup>1</sup> William Apgar, Allegra Calder, Michael Collins, and Mark Duda, “An Examination of Manufactured Housing as a Community- and Asset-Building Strategy,” Report to the Ford Foundation by the Neighborhood Reinvestment Corporation in collaboration with the Joint Center for Housing Studies of Harvard University, September 2002, 16.

home today bears no resemblance to a “trailer,” it is still all too frequently sold and financed like one.

The trailer-inspired sales and finance system imposes unnecessary costs on owners of manufactured homes. For example, most manufactured homes are titled as personal property and consequently their financing is handled through personal property—or “chattel”—loans rather than normal real estate mortgages. Consider data provided by two different lenders who deal predominantly in manufactured home chattel loans. Don Glisson Jr. of Triad Financial noted that his loans start at 7 percent, but only 20 percent to 25 percent of customers receive this rate. Others pay up to 10.5 percent, which is reserved for those with the lowest credit scores who are borrowing on a single-wide unit. David Rand of Origen Financial noted that his average was 9.5 percent with a range of 7.5 percent to 15 percent.

The prevalence of chattel loans tends to push up the finance costs for the average borrower. The Affordable Housing Survey shows that manufactured homes on rented land have median terms of 9 percent interest for 15 years (or 8.7 percent interest for 18 years if on owned land), compared to median terms of 7.5 percent interest over 25 years for single-family site-built homes.<sup>2</sup>

Although many manufactured home purchasers try to access the mortgage market as a way to get cheaper financing, they are rejected by lenders at a higher rate than homebuyers with similar credit scores who purchase site-built homes. Manufactured housing mortgage purchase applications were rejected 30 percent more often than applicants for site-built houses at every level of income (see Figure 1), according to 2004 lender data reported in compliance with the Home Mortgage Disclosure Act of 1975 (HMDA).<sup>3</sup> In fact, people well above the median income are rejected for manufactured housing mortgage loans at much higher percentages than those with incomes below the median who apply for site-built home mortgages.

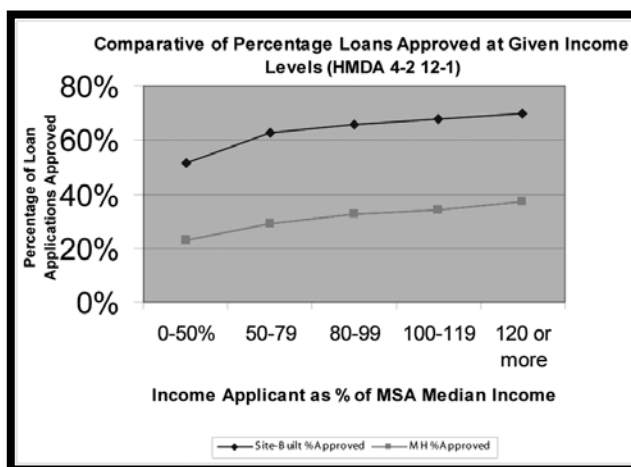


Figure 1

<sup>2</sup> Ibid., 12.

<sup>3</sup> HMDA data is available at the Federal Financial Institutions Examination Council website: <http://www.ffiec.gov/hmda/>.

Finally, for those customers who are able to secure a conventional (non-chattel) mortgage, the loan is more expensive than site-built home loans. Specifically, more than 50 percent of manufactured housing loans are made at rates that are three percentage points higher than Treasury rates, while only 11 percent of site-built home mortgages are made at these higher rates (see Figure 2).

### Current Obstacles to an Efficient Mortgage Market

Many aspects of the current market for manufactured homes make them difficult candidates for long-term, conventional mortgages, including how they are sold, sited, titled, and appraised.

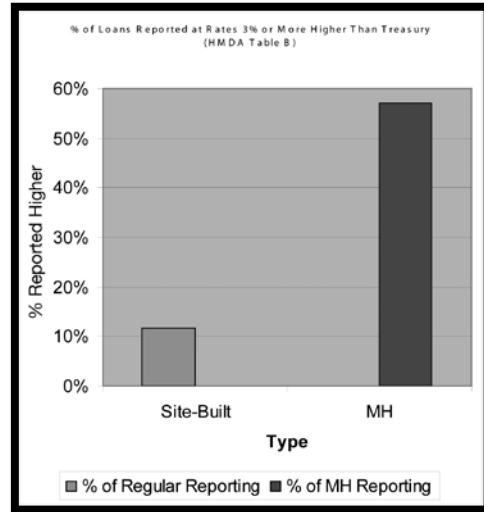


Figure 2

### Dealers

Most new manufactured homes are sold through dealers. In many instances, dealers steer buyers into the personal property loan route because those loans are fast and simple, even though they are more expensive. Moreover, loans are often referrals from dealer to lenders, where the dealer captures a fee—sometimes a percentage of total financing—in return for the referral. These fees can come as direct transfers, bonuses for pushing particular products, or bonuses based on the performance of the loan. Finally, some dealers aggressively try to steer purchasers to their own financing program, which often is less competitive than a home mortgage.

In addition to pushing more expensive financing options, some dealers also create confusion around the price of a manufactured home. The practice of pricing a manufactured home varies from state to state. In California, dealers are required by law to display the Manufacturer's Suggested Retail Price (MSRP). The MSRP information includes invoice price, recommended dealer markup, and the home's specifications. This allows consumers (those shopping dealers' lots, as opposed to those buying a home that has already been affixed to real property), to make apple-to-apple comparisons between different models and dealers. In many states, however, this is not yet standard practice. Although many lenders demand invoice information for a personal property, or chattel loan, consumers are often in the dark on their home's true price.

High dealer markups lead home buyers to take a bigger loan to cover the higher price that results from the markup, reducing the amount of home equity achieved through their down payment. This also raises the loan-to-invoice ratio, which increases the interest-rate lenders charge. In the conventional mortgage market, there are several safeguards to protect

borrowers, but there is very little supervision of predatory lending practices with personal property loans. Not all manufactured housing loans are governed by the Real Estate and Settlement Procedures Act, the Truth in Lending Act, or the Home Ownership and Equity Protection Act, for example, which protect borrowers from abusive or nontransparent practices, including exorbitant costs and kickbacks.

Manufactured home sellers who put a premium on the home buyers' utility could set better examples for the existing dealer network. For example, CFED's Innovations in Manufactured Homes (I'M HOME) initiative supports nonprofit affordable housing developers that are placing high-quality, affordable manufactured homes in communities around the country and selling them directly to home buyers. Potterhill Homes of Cincinnati is a leading example of a for-profit developer that also works directly with homebuyers, allowing them to bypass the dealer network. Bringing responsible dealers and developers, whether for-profit or nonprofit, into the sector will contribute to setting new standards for fair, efficient, and equitable treatment of consumers. It also, in many cases, brings consumers directly into the pipeline for traditional mortgages.<sup>4</sup>

### Flight Risk: How Mobile Is a Mobile Home?

Once a customer buys a manufactured home from a dealer, he or she will site the home on a lot that could be either owned or leased. Even though many manufactured homes are sited on leased land, they are rarely moved—by one estimate, as little as one percent are ever moved.<sup>5</sup> In part, this is explained by the cost of moving and the limited options of where to go: “relocating a ‘mobile’ home costs \$1,500 to \$5,000, and most parks won’t take one more than ten years old,” according to a Ford Foundation report.<sup>6</sup>

Manufactured homes are also increasingly likely to be placed on privately owned land rather than leased lots.<sup>7</sup> Yet these homes, even when permanently affixed to land to which the home owner has fee simple or cooperative ownership, are essentially still treated like travel trailers by some lenders. This phenomenon is explained, in part, by a Catch-22 situation where you cannot title a home as real estate until you attach it to the ground, but you cannot attach it to the ground until you buy and transport it home.

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4 Similarly, the entrance of major banks into the manufactured housing mortgage market holds potential to improve competition, standards, and practices, which in turn would make manufactured housing mortgages more enticing to a secondary market. More mainstream mortgage lending would also bring greater consumer protection to the manufactured housing market.

5 Allan Wallis, “Manufactured Housing,” in *Encyclopedia of Housing*, ed. Willem van Vliet, 347–51 (Thousand Oaks, CA: Sage Publications, 1998).

6 Kevin Krajick, “The American Dream on Wheels,” Ford Foundation Report, Spring 2003. [http://www.ford-found.org/publications/ff\\_report/view\\_ff\\_report\\_detail.cfm?report\\_index=392](http://www.ford-found.org/publications/ff_report/view_ff_report_detail.cfm?report_index=392).

7 CFED, 2005. <http://www.cfed.org/focus.m?parentid=317&siteid=317&id=581>.

### The Problems with Title and the Importance of Owning the Asset as Real Estate

Title to manufactured homes is also complicated. Nearly one-third of manufactured homes are titled as real estate, with the vast majority being titled instead as a car or boat would be: as personal property.<sup>8</sup> In more than 40 states, it is possible to convert the title of the manufactured home from personal to real property (in many cases the central requirement is that the home is affixed to a permanent foundation).<sup>9</sup> Yet the numbers themselves indicate that home owners are not pursuing this option. It is unclear whether this is because of a lack of information during the purchasing and financing process, or because of the complexity of the titling process.

While the reasons that most manufactured homes never get converted to real property may vary from case to case and state to state, the way in which the home is titled will consistently influence the home owner's financing options. Homes that are titled as personal property rather than real estate will qualify only for personal property financing or nonconforming mortgage financing. Both types of financing are more expensive than standard conforming mortgages.

### Appraisals, Value, and the Resale Market

A final consideration that complicates the manufactured housing market is the current process of valuation and appraisals. Appraisers used to dealing with site-built housing are often at a loss as to how to fairly appraise manufactured homes. Guidelines such as Fannie Mae's requirement that two out of three comparable sales used for the appraisal be manufactured homes may further confuse things, particularly when manufactured housing is used for infill development alongside site-built homes.<sup>10</sup> Steve Hullibarger, industry consultant, notes that "the low number of HUD code homes in many urban locales makes it tough or impossible to locate manufactured housing comps to satisfy the Fannie Mae requirement."<sup>11</sup> Efforts to train appraisers on modern manufactured housing do exist, such as a partnership between the Manufactured Housing Institute (MHI) and the Appraisal Institute. Appraisals without solid backing affect both new and existing homes, increasing the general uncertainty of the resale market for manufactured housing.

For asset-building strategies to provide low- and moderate-income families with a meaningful path to financial security, families must be able to acquire assets, preserve or grow their value over time, and eventually realize the accumulated value of that asset. George McCarthy, program officer at the Ford Foundation, refers to these three elements as the "asset-building trinity."<sup>12</sup> Yet the constrained resale market for manufactured housing is the weakest part of this market's "trinity." Owners of these homes cannot simply assume that

8 Ronald A. Wirtz, "Home, sweet (manufactured?) home," Federal Reserve Bank of Minneapolis, Fedgazette, July 2005. <http://minneapolisfed.org/pubs/fedgaz/05-07/cover.cfm>.

9 Cathy Atkins, "Manufactured Housing: Not What You Think," National Conference of State Legislatures, January 2006, <http://www.ncsl.org/programs/econ/housing/manufacturedhousing.html>.

10 Fannie Mae Announcement 03-06, June 3, 2003. "Mortgage Eligibility and Servicing Procedures for Mortgages Secured by Manufactured Homes," 9. <http://www.efanniemae.com/sf/guides/ssg/annltrs/pdf/2003/03-06.pdf>.

11 Steve Hullibarger Interview, February 2, 2006.

12 George McCarthy Interview, February 3, 2006.

their investment will result in a nest egg when they are ready to sell, in part because financing options for existing manufactured homes are scarce. Fannie Mae's standards, for example, do not allow the purchase of mortgages on anything but new manufactured homes. This limitation severely curtails capital for the sale of existing manufactured homes. Inasmuch as the lack of a resale market limits the collateral value of manufactured homes, a vicious cycle is created. The lack of credit available for purchase of existing manufactured homes severely restricts the pool of potential buyers. Fewer buyers who are willing and able to buy an existing home means lower collateral value: as demand shrinks, lenders' perception of risk—for both new and existing manufactured housing—grows. After all, what would happen if the home owner needs to sell before the loan is paid off?

### **Making the Manufactured Home Market More Like the Site-built Home Market: A Promising Example**

The Ford Foundation and the New Hampshire Community Loan Fund (NHCLF) are proving that a home financing system that mimics the single-family, site-built home mortgage market can work for manufactured housing. Ford provided \$3 million in low-interest capital to help NHCLF originate retail mortgage lending services to residents of the 78 manufactured housing parks that it has helped to convert to resident ownership. NHCLF makes mortgage loans for new home acquisition, purchase of existing homes, refinance, and repair to borrowers at rates between 8 percent to 9 percent for up to 25 years. NHCLF also provides first-time home buyers access to state Housing Finance Authority loans at 6 percent interest over 30 years. The Loan Fund has also been successful in selling mortgages to CRA-motivated lenders. This is a crucial point, given that the development of a vibrant secondary market for manufactured housing loans is one of many obstacles that must be overcome before it is possible to realize the potential savings for the millions of low- and moderate-income families that own manufactured homes.

### **Toward a Secondary Market for Manufactured Housing Mortgages Overview**

Securitization is “a process of packaging individual loans and other debt instruments, converting the package into a security or securities, and possibly enhancing their credit status or rating to further their sale to third-party investors.”<sup>13</sup> The key purpose in securitizing loans is to move from illiquid loans to liquid investment vehicles. This makes raising capital easier for lenders and, in turn, allows them to lend at lower rates. This also provides more available funding and a variety of credit forms for consumers. For the loan originator, securitization allows for the turnover of capital more quickly and for increased profits. Investors receive more options for diversification, profit possibilities from trading, liquidity, and yields based on rated levels for risk. Finally, investment banks have opportunities for new products, and for trading volume and profits.<sup>14</sup>

13 Kendall, Leon T. and Fishman, Michael J. eds, *A Primer on Securitization* (Cambridge Mass.: The MIT Press, 1996), 1-2.

14 Ibid, 13.

The process of securitization begins with a lender making loans that it continues to service as protection against default. These loans are purchased by a trust that issues securities that are protected by the underlying collateral. These loans are then rated by credit-rating agencies; they receive the highest rating if they are backed by the full faith and credit of the U.S. government, or with the highly regarded credit backing of a Government Sponsored Enterprise (GSE). This rating provides investors with a heuristic to measure the worthiness of the loan and decide what level of risk they are willing to take for a given yield—as well as indicate how easily they can resell the security. If a loan does not merit the desired credit rating on its face, credit enhancements such as a letter of credit or a bank insurance policy, as well as use of subordinated debt, reserves, or overcollateralization, can work to enhance investor confidence.<sup>15</sup>

### GSEs

For the site-built market, Fannie Mae and Freddie Mac are the chief actors who purchase loans from lenders and package them as securities that can be sold to investors. As a result of the above risk and perceptions of risk, investors and the GSEs, such as Fannie Mae and Freddie Mac, have been reluctant to get more involved in the manufactured home market where they suffered significant losses in the recent past. Yet the losses they suffered were the result of an “easy credit” boom, which has now passed and from which the entire industry has learned major lessons.

As a result, GSE involvement is almost nonexistent in manufactured housing. Typically, Fannie Mae and Freddie Mac do not buy chattel loans, and though the properties that are titled as real estate can be purchased by the GSEs as manufactured housing mortgage-backed securities (MH MBS), less than half of one percent of Fannie Mae’s holdings are manufactured housing loans.<sup>16</sup>

In addition, Fannie Mae buys only a very small subset of manufactured home mortgages that have specific characteristics. In order for Fannie Mae to purchase a manufactured housing loan, the home must meet HUD-dictated building standards, be classified as real property, be on owned land or cooperatively owned land, meet specific space requirements, be attached to a permanent foundation, be on a public or community owned street, have permanently connected utilities, and have all improvements fully paid.<sup>17</sup>

Data that do exist often reflect the worst of the market. For example, Fannie Mae charges a 50 basis point risk premium on manufactured housing loans based on the poor performance of their manufactured home mortgages acquired from their takeover of a failed chattel lender. Even though this data set does not represent the full spectrum of manufactured housing loan performance, Fannie Mae’s policies compromise the entire marketplace. According to Steve Hullibarger, Fannie’s policies “have really chilled the market and spooked many developers

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<sup>15</sup> Ibid, 2–6.

<sup>16</sup> Ronald A. Wirtz, “Ginnie Mae I buy a Manufactured Home?” *Fedgazette*, July 2005, <http://minneapolisfed.org/pubs/fedgaz/05-07/buy.cfm>

<sup>17</sup> Fannie Mae Announcement 03-06, June 3, 2003 (see footnote 9).

into either using more expensive modular homes or simply backing off [from manufactured housing] entirely.”<sup>18</sup>

While Michael Collins of Policylab Consulting believes that “Fannie and Freddie have to do it first to get the bigger lenders into the market, while also playing some retraining role to help lenders to understand the market,” others look outside the GSEs for secondary market options.<sup>19</sup> As McCarthy points out, “The GSEs now buy less than 50 percent of site-built loans—Citibank, Chase, and others are getting as big or bigger than Fannie or Freddie. Citibank is trying to decide if manufactured housing is enough of an emerging market to get into.”<sup>20</sup>

### Collateral Risk

One significant challenge to creating a secondary market for manufactured housing mortgages is understanding the value of the underlying asset. In other words, does manufactured housing appreciate or depreciate, and by how much under different circumstances? Part of the problem in answering this question is the recent turmoil in the manufactured housing market.

The manufactured housing and chattel lending industries have experienced remarkable upheaval since the mid-1990s. During a phase of solid performance up to the mid-1990s, industry expert Martin Lavin explained that there was a period of “free-wheeling retail lending terms, when many long-time industry loan provisions were discarded.”<sup>21</sup> Such relaxed underwriting soon led to a performance crisis in the chattel lending industry, ultimately culminating in the highly publicized bankruptcy of lender Consec (formerly Green Tree Financial) in December 2002. While Consec may have generated the most headlines in the mainstream media, it was not the only casualty. Lavin estimates that by 2000, when the “asset backed securities . . . bomb detonated . . . about two-thirds of the lenders had perished.”<sup>22</sup> Home shipments also dropped precipitously as failed loans flooded the industry with excess product in the form of repossessed homes.

The assumption that a manufactured home does not appreciate like a “regular” home is deeply ingrained in the public’s consciousness. There are proponents of this view within the industry itself: David Rand of Origen asserts, “We still have a depreciating asset. When you map out the amortization curve on one of these units over thirty years, the customer is under water.”<sup>23</sup> This assessment may reflect the market as it is—with many imperfections and irresponsible lending practices—rather than the market as it could be if it had better rules and products. It most likely does not reflect quality of construction, which has risen dramatically over the years to the point where MHI estimates that manufactured housing’s life expectancy today approximates that of comparable site-built housing.

18 Steve Hullibarger Interview, February 2, 2006.

19 Michael Collins Interview, February 1, 2006.

20 George McCarthy Interview, February 3, 2006.

21 Martin V. Lavin, “Chattel Lending Today: Is It Dead or Alive?” MHI, *Modern Homes*, November–December 2004, 13–15. <http://www.martylavin.com/writings/Feat-Chattel%20Today.pdf>.

22 Martin V. Lavin, “It’s the Affordability, Stupid,” *Manufactured Home Merchandiser*, March 2002, 1–3. Available online at <http://www.martylavin.com/writings/its-the-affordability-stupid.pdf>, accessed March 31, 2006.

23 David Rand Interview, February 7, 2006.

There is a small but growing body of data that suggests that manufactured housing appreciates under the right circumstances. Consumers Union, for example, analyzed manufactured housing data and found that “average appreciation rates of manufactured homes packaged with owned land are statistically in line with the site-built market” (emphasis added).<sup>24</sup> However, the Consumers Union study did find that there is a wider variation in appreciation and depreciation of manufactured housing than site-built housing, as illustrated in Figure 3.<sup>25</sup> The fact that more manufactured housing units depreciate tends to lead people to assume that most, if not all, of these units depreciate.

NHCLF has accumulated anecdotal evidence that homes in resident-owned communities appreciate faster than those in land-lease communities. The organization is now working with the University of New Hampshire to track appreciation more generally.<sup>27</sup>

The experience of California, the first state to prohibit zoning restrictions based solely upon construction method, is instructive as well. For nearly 25 years, industry consultant Steve Hullibarger has maintained a database of more than 1,500 manufactured homes on infill lots that have been converted to real property. Appreciation rates of the more than 500 of these homes that changed hands during this period track similarly to surrounding site-built homes.<sup>28</sup> Finally, both MHI<sup>29</sup> and HUD’s Partnership for Advanced Technology in Housing (PATH) review academic studies that suggest that manufactured homes, when architecturally compatible to their neighborhoods and affixed on permanent foundations, can appreciate.<sup>30</sup>

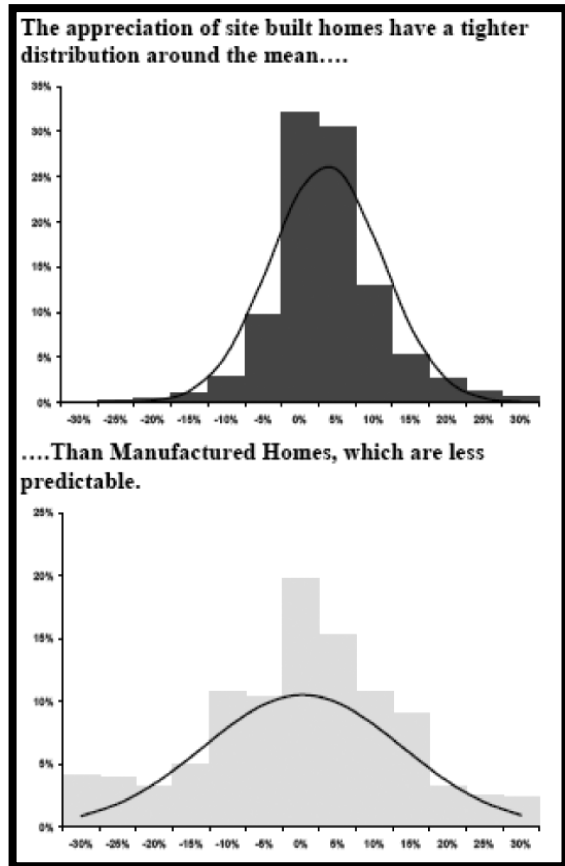


Figure 3<sup>26</sup>

24 Kevin Jewell, “Manufactured Housing Appreciation: Stereotypes and Data,” Consumers Union (April 2003). <http://www.consumersunion.org/pdf/mh/Appreciation.pdf>.

25 Ibid. This is also true generally for cheaper housing, whether it is manufactured or site built.

26 This graph in the Consumer Union source (see note 24) is based on data from the American Housing Survey. <http://www.census.gov/hhes/www/housing/ahs/ahs.html>

27 Paul Bradley Interview, February 2, 2006.

28 Steve Hullibarger Interview, February 2, 2006.

29 Manufactured Housing Institute. [http://www.manufacturedhousing.org/lib/showtemp\\_detail01.asp?id=129&cat=3](http://www.manufacturedhousing.org/lib/showtemp_detail01.asp?id=129&cat=3).

30 Stephen Winter Associates, “A Community Guide to Factory-Built Housing,” September 2001. <http://www.huduser.org/publications/destech/factbuilt.html>.

## Default Risk

Researchers at the University of North Carolina found that controlling for everything but manufactured housing status (though analyzing refinancing loans), the odds of default are only 11 percent higher, while prepayment risk is 43 percent less that of site-built home mortgages.<sup>31</sup> This means that, while it is somewhat more likely that a manufactured home loan will go into default, it is far less likely that the borrower will prepay.<sup>32</sup> In the end, these risks do not seem to explain the much higher interest rates for manufactured housing over site-built housing.

## Strategies to Reduce Risk

Risk, or perceived risk, to investors of manufactured home mortgage securities currently impedes a functioning secondary market. Risk can be reduced through the following credit enhancing strategies:

### Subordinated Debt and Overcollateralization

One way to make manufactured home mortgages more attractive to both lenders, and ultimately secondary market investors, would be to borrow a strategy used by the New Hampshire Community Loan Fund (NHCLF) for co-op conversion loans for residents to purchase their mobile home parks. “The key strategy,” according to Andrea Levere, president of CFED, “is to bring in Community Development Financial Institutions to provide subordinated debt to back up the first mortgage.” This approach of sorting out the debt, with a senior piece that is less risky, has been a very successful strategy for NHCLF. “That’s how New Hampshire built its whole market,” Levere said. Over time, as conventional lenders get more comfortable with the loan product, “then the subordinated debt can get smaller and smaller.”

The same strategy could be employed at the individual mortgage level. In this case, you could have a first mortgage that was relatively small compared to the value of the collateral (the manufactured home). This approach would accomplish two objectives: (1) make lenders more comfortable with making manufactured home loans; and (2) create a type of loan that would be attractive to investors after it was pooled and securitized. In this case, you might have a CDFI, philanthropy, government agency, or some other socially-motivated lender make the subordinated second loan on the manufactured home.

31 “The Impact of Predatory Loan Terms on Subprime Foreclosures,” in *The Special Case of Prepayment Penalties and Balloon Payments*, ed. Roberto G. Quercia, Michael A. Stegman, and Walter R. Davis, Center for Community Capitalism, Kenan Institute for Private Enterprise, University of North Carolina at Chapel Hill, January 25, 2005.

32 Prepayment risk is generally of greater concern to lenders because it is unpredictable and cannot be mitigated; whereas default risk can be controlled by insurance.

## Insurance

Mortgage insurance could play some role in supporting a secondary market for this industry. This type of policy exists for other “risky” or small-scale loans. The Federal Housing Administration (FHA) provides mortgage insurance for loans with as little as three percent down, which vary from plain vanilla mortgages to mortgages that have rehabilitation built into them. FHA will provide insurance for single-family houses, houses with two to four units, condominium units, and houses needing rehabilitation under its 203(b) and 203(k) programs. In the case of default, following foreclosure the lender can be reimbursed for the unpaid portion of the loan after filing an insurance claim with HUD. If this policy were extended to manufactured housing, lenders would be able to loan with more confidence—reducing rates and making the loans much more attractive to secondary market investors. Beyond FHA and HUD, mission-driven organizations could provide low-cost insurance in pursuit of meeting their goals.<sup>33</sup> On the for-profit side, private insurance could also be used to reduce the risk of these loans.

## Guarantees

Guarantees in the primary sense exist through mortgage insurance programs described above; however, guarantees could also be useful on the secondary market side. The Government National Mortgage Association (Ginnie Mae) provides a guarantee of interest and principal payment to secondary market investors for all loans insured by the variety of government agencies discussed above that are backed by the full faith and credit of the U.S. government. This is in pursuit of its mission “to expand affordable housing in America by linking global capital markets to the nation’s housing markets.”<sup>34</sup>

Ginnie Mae’s guarantee extends to manufactured housing; however, under its current guidelines, most manufactured housing loans do not meet eligibility criteria. Among other requirements, the loan must be insured by FHA (the Title 1 program) or the Department of Veterans Affairs (VA), and interest rates for a given pool of loans must be within 1.5 percent of each other.<sup>35</sup> According to HMDA data, less than 17 percent of all manufactured housing mortgages (this is excluding personal property loans) approved in 2004 were approved under Title 1 or by the VA, and the sheer amount of interest-rate variation in manufactured housing loans due to the lending practices described in the previous section disqualify most mortgages.<sup>36</sup> Loosening these requirements, and exploring ways for Ginnie’s secondary market guarantee to extend to a greater portion of manufactured housing loans, would do much to interest secondary market investors.

33 Federal Citizen Information Center, “Guide to Single Family Home Mortgage Insurance”), February, 2005. [http://www.pueblo.gsa.gov/cic\\_text/housing/home-insure/mortgage.htm#how](http://www.pueblo.gsa.gov/cic_text/housing/home-insure/mortgage.htm#how).

34 Ginnie Mae, “About Ginnie Mae,” <http://www.ginniemae.gov/about/mission.asp?subTitle=About>.

35 Ginnie Mae, “Chapter 30: Manufactured Home Loan Pools and Loan Packages—Special Requirements,” Ginnie Mae 5500.3, Rev. 1 30-1, (July 2003). <http://www.ginniemae.gov/guide/pdf/chap30.pdf>.

36 Housing Mortgage Disclosure Act National Aggregates, Tables A-1 and A-2, Federal Financial Institutions Examination Council 2004. <http://www.ffiec.gov/hmdaadwebreport/NatAggWelcome.aspx>

The same holds for Fannie Mae and Freddie Mac. As publicly traded entities, they have the freedom to pursue many types of mortgages, but their guarantees are backed by their own credit, not that of the U.S. government. However, credit markets rate their paper with the highest confidence—in large part because some believe there is an implied guarantee by the government. Yet even though manufactured home sales can be as high as 20 percent of all new homes in a year, Fannie and Freddie’s manufactured housing holdings are less than half of one percent of their total holdings.

It is in the interest of many agencies and mission-driven organizations to increase the stock of affordable housing. To this end, an individual manufactured home guarantee program could be created with funding across agencies, or it could be created within one of these agencies. Further, any investor or foundation with the financial wherewithal could endow such a guarantee program.

### Reserves

Another approach to this problem would be to capture the entire surplus that is currently going to dealers and lenders and find a way to funnel that money (or a portion of it) into reserves that make manufactured housing mortgages less risky. For example, tens of thousands of borrowers currently pay 14 percent on their loans; imagine what one could do to make loans less risky with the difference between that interest rate and an 8 percent mortgage?

This demonstrated willingness-to-pay by millions of consumers could be redirected to reserves that would be used as a reserve account for the trust that issued the securities. The reserves would be subordinated to all other interests and could be released over time after the underlying collateral hit specified performance targets. The freed-up financial reserves might fund deferred maintenance, or park upkeep (in the case of a co-op ownership), or be released back to the borrower.

### How to Pay

The many types of credit enhancements explained above are expensive but provide a significant bang for the buck. One policy consideration would be to analyze how existing government housing programs (Community Development Block Grants, LIHTC, NMTC, HOME funds) might fund credit enhancement for manufactured home mortgages. Other sources of financing that should be explored are the proposed Single-Family Affordable Home Housing Tax Credit or the American Dream Downpayment Fund.

### Conclusion

In a world where only one-third of all manufactured homes are titled as real estate, there is clearly a long way to go before there is a vibrant mortgage market, much less one that benefits from the liquidity and lower borrowing costs that a secondary market can generate. But the potential benefit—both to the borrower and the financial industry—is spectacular. It is hard to overestimate the impact that low-cost mortgages for manufactured homes could

have. This new efficient financial system could create new markets for mortgage lenders and Wall Street firms; develop a new affordable housing tool for CDCs and local governments; and provide banks with a new CRA-qualified lending product (and investment, if EQ2s or Community Development Venture Capital were used as credit enhancements). Most importantly, however, it would promote asset creation, pride, and the dignity of home ownership for millions of low-income American families.

Perceptions that manufactured housing is an innately risky housing stock, along with market imperfections in both the for-sale and resale markets, create formidable barriers for lenders. Yet it is worth distinguishing between unacceptably high risk and unfamiliar risk. Michael Collins believes “once you get the lenders over their stereotypes, they’d be more than willing to enter the market. The biggest issue is not the product, but the lack of education. A lot of people got burned in the 1980s and early 1990s. Others just don’t know and are going on stereotypes and assumptions.”<sup>37</sup> In this sense, all the players necessary to stimulate the growth of a healthy mortgage market for manufactured housing – lenders, GSEs, mortgage insurers, and other investors – need to feel that they are not taking on unknowable, unmanageable risks by entering this market. And what does that take? In the site-built market, such confidence is based on familiarity with the product, market data, accurate valuation of collateral, and confidence in a thriving resale market.

*Sean West recently received a Master of Public Policy degree from the Goldman School of Public Policy at UC Berkeley, and completed this paper, as well as a larger survey of manufactured housing finance, as part of his degree program, with sponsorship from the Federal Reserve Bank of San Francisco. He has also authored papers on foreign policy and international security, and was recently hired as a consultant working with the federal government in Washington, D.C.*

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<sup>37</sup> Michael Collins Interview, February 1, 2006.