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STEPS **FORWARD**

Delivery of **Competitive Manufactured Home Financing in** Land-Lease Communities, Especially with **Long-Term Security of Tenure**

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About the Author

Kevin Sherper Walker has been involved in the community development field through research and practice domestically and abroad for over twenty years, with about thirteen of these years spent focused on manufactured housing. He has worked for about thirteen years at Northcountry Cooperative Foundation (NCF) as a program director for resident ownership of manufactured housing communities in the Upper Midwest. NCF is one of the charter members and Certified Technical Assistance Providers® (CTAP's) in the ROC USA Network®, a social enterprise and peer-to-peer network that supports resident ownership of manufactured housing communities in over thirty states around the country. In that capacity, he has led eight resident-ownership transactions valued at $23 million, resulting in resident ownership for 600 households in Minnesota and Wisconsin. Two additional projects representing another 200 households are presently in the pipeline. Kevin also worked in multifamily underwriting and management of the multifamily housing division of Community Planning and Economic Development (CPED) at the City of Minneapolis.

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I. Executive Summary

In the wake of the recent American home financing crisis and renewed attention to growing inequality in the United States, the landscape for manufactured housing policy and finance is a bellwether on what new impactful commitments can be made to advance asset-building opportunities for low-income households. Though manufactured housing is a small proportion of the nation's housing stock, it has been called "the most important [and largest] form of unsubsidized affordable housing in [the United States]." It also represents the vast majority of moderately priced homes available to buyers of modest means—70% of the nation's housing stock priced at or below $150,000.

The manufactured housing industry is at a crossroads. It has evolved significantly, from seasonal or temporary residences in an unregulated travel trailer industry sixty years ago to the mobile homes of fifty years ago. Now, on the 40th anniversary of the first national building code regulating their construction, manufactured homes are built comparably to site-built homes. As some of the most energy-efficient homes constructed today, many manufactured homes are indistinguishable from their site-built counterparts. Many observers have long thought that the industry is poised to expand to a broader market, especially to households of modest means. Yet significant obstacles to realizing its market potential remain.

Unscrupulous lending practices made famous by the recent mortgage crisis in 2007 and 2008 had their first run (with identical results) in personal property (chattel) loans secured by manufactured housing, especially those originated by the then-largest manufactured home lender. As a result, the government-sponsored enterprises (GSEs) Fannie Mae and Freddie Mac, which had purchased most of the largest manufactured home lenders' debts, lost billions of dollars in repossessions and exited the market abruptly.

At the height of the recent subprime mortgage meltdown, Congress recognized the critical role that the GSEs could play in this space. In the 2008 Housing and Economic Recovery Act, Congress created the Federal Housing Finance Agency (FHFA) to regulate the GSEs, including enforcing HERA's statutory requirement that Fannie and Freddie provide capital to three underserved markets, including the manufactured housing market. The Duty to Serve requirement offers the FHFA the option to permit the GSEs to fund the chattel market. In today's housing market, the Duty to Serve requirement represents a major opportunity to introduce additional liquidity and competitive financing to homebuyers who need and would benefit from it the most. At the same time, the character of manufactured housing community ownership, community by community, is evolving around the country. Resident ownership, though still a tiny proportion of overall land-lease community ownership, is reaching scale of its own, with nearly 12,000 home sites in land-lease communities now on land owned by the residents themselves. On a smaller but important scale, nonprofit organizations, led by NeighborWorks affiliates, are coming into ownership and operation of manufactured housing communities in service of their affordable housing missions. Public housing authorities, notably in Washington State, have also preserved communities in their markets. The security of tenure that these ownership models deliver, taken for granted in site-built construction, represents newly fertile soil for secure (and thus competitively priced) manufactured home lending for originators and the GSEs. When paired with what should be its corollary, more competitive home financing, it can create a virtuous cycle of asset-building opportunities for homeowners. As manufactured housing in communities moves closer to site-built conventions-- long-term security, energy-efficient construction, secondary financing markets and standardized consumer protections—the market advantages of resident and nonprofit ownership will be better defined. To stay competitive, investor-owners could themselves start to extend lease terms. Progressive community owners seeking to compete with nonprofit- and resident-ownership models would benefit directly from better financing and so could also become leaders of sectoral change. In this way, powerful new single-family finance loan products, designed and demonstrated to perform well, if brought to scale, could transform this industry and deliver significant growth to the economy as a whole. In one such example, the U.S. Department of Agriculture (USDA) is implementing a pilot program to introduce its competitively priced, 30-year, direct rural home loan product to energy-efficient manufactured homes exclusively in land-lease communities with long-term leases. Considerations in the design of this Agency's pilot program, from appraisal to foundation requirements, could help inform the rules that GSEs would develop in shaping their reactivated participation in the chattel market. The federal government has existing standards and a track record in manufactured home lending for land-lease communities through its Title I and Section 184 programs, so their standards and experience are gleaned below as well. After providing initial context, this paper scans the chattel finance landscape, finds lessons learned from successful chattel finance programs and highlights key design features of the emerging USDA pilot. Culling from this research and analysis, the author recommends elements of success for maximizing scale and impact of asset-building opportunities for manufactured home owners in communities.

KEY ELEMENTS OF SUCCESS INCLUDE
1. Long-term security of tenure
2. Attention to quality, energy-efficient construction and installation
3. Affordable foundation standards
4. Robust home buyer counseling and training, when needed
5. Transaction simplicity and minimal subsidy for replicability
6. Minimal obstacles for lenders to act on collateral in event of default

Though this paper is primarily targeted to lenders (prospective and current), practitioners, regulators and representatives of the GSEs, it is also intended to orient and educate a more general audience as well and therefore includes a glossary for those new to the manufactured housing field. The paper closes by identifying elements for additional research to advance the breadth and depth of asset-building opportunities.

II. Situating this Report

This report follows important work and fact sheets that CFED has commissioned or developed directly or with partners that document (a) the existing manufactured home lending landscape, (b) key consumer differences in manufactured home finance rules across the states, and (c) performance of key manufactured home lending programs.

As to the first two, CFED and the National Consumer Law Center collaborated on a Manufactured Housing Policy Brief, *Financing Homes in Communities*. Published in October 2014, it provided summaries of several states' legal approaches to classification of homes as real or personal property, the level and nature of consumer protections ensuring that homeowners may remain in their community, rules governing home transfers to new owners and protection of home lenders' interests.

In March 2013, after over two years of research into manufactured home finance portfolios around the country, CFED and the Fair Mortgage Collaborative jointly produced a paper, *Toward a Sustainable and Responsible Expansion of Affordable Mortgages for Manufactured Homes*. The report reflected analysis of over $1.5 billion of data from all 50 states. The report was meant to test, empirically, persistent stigma applied to manufactured home lending, namely that loans made on manufactured homes do not perform as well as loans made on site-built construction. Due largely to constraints based on data availability, the paper focused on manufactured home loans done as real estate loans, rather than personal property (chattel) financing. However, chattel loans fund the vast majority of manufactured home purchases.

NONETHELESS, THE PAPER'S KEY FINDINGS WERE INSTRUCTIVE AND CORROBORATED THAT

1. Manufactured home loans, when done right, can perform as well or better than site-built home loans
2. Manual underwriting, even with less restrictive downpayment and credit requirements, especially with high-touch servicing, often delivers strong performance.

Both the content and approach of this paper differs from the one carried out with Fair Mortgage Collaborative. This paper focuses on personal property (chattel) finance. Also, it does not perform statistical evaluations of variables leading to successful portfolio performance. Instead, this paper aims to extract lessons from examples of successful lending for design and implementation of new finance program requirements that the GSEs could and should apply to transform manufactured home lending in the land-lease sector.

III. Background

A. Manufactured Housing: What Is It, How Important Is It and Whom Does It Serve?

Manufactured homes, often still called "mobile homes," emerged out of the American travel trailer industry sixty or more years ago. Overall, 23 million Americans live in factory-built housing. [1]

Approximately one in four factory-built homes (about two million nationally) fit stereotypes of rickety "trailer homes" that predate the introduction of the national building code.[2] The other 75% are manufactured homes as defined below.[3]

Manufactured homes are defined as homes built in a factory after June 15, 1976, at least 320 square feet in size, constructed on a permanent chassis and otherwise compliant with the national building code, the National Manufactured Housing Construction and Safety Standards Act, established by the U.S. Department of Housing and Urban Development ("HUD Code") and as stipulated in 42 U.S.C. §5402.

As a result of the 1976 HUD Code and its updates since then, manufactured homes now perform in durability and construction quality on par with site-built construction.[4] In addition, the most energy-efficient housing built today comes out of factories, with EnergyStar® models and best-practice High Performance homes like NextStep® HUD Code homes, complementing contemporary factory-built modular housing that dramatically reduces energy costs over the lifecycle of the homes.[5]

Nationally, about seven percent of the housing stock takes the form of manufactured housing.[6] About 17 million Americans live in 6.8 million manufactured homes.[7] In most markets around the United States, manufactured homes outnumber subsidized housing by a ratio of two or three to one.[8] Aggregate numbers can obscure the importance of manufactured housing for specific market sectors and particular geographies. Manufactured housing is an especially critical source of affordable housing particularly for single heads of household, elderly or disabled people on fixed incomes, and young families seeking to get a start on their housing. It also is a very important source of affordable housing for large families in metropolitan and rural areas. With overall production down from its heyday, the Manufactured Housing Institute (MHI, the national trade association) found manufactured home sales to be 43% of new homes sold under $150,000 in 2009 and 23% of those sold for less than $200,000.[9] According to the U.S. Census, used and new manufactured homes in

[1] Burkhart, Ann. 2013.
[2] Berlin, Loren.
[3] McCarthy, George.
[4] Boehm and Schlottman.
[5] These include homes like the VerMod, which comes solar-ready and can be a net-zero energy consumer.
[6] George, Lance. p. 6-10.
[7] MacDonald, Jay.
[8] George McCarthy in Berlin, Loren.
[9] Long, Thayer. July 21, 2010.

2014, represent fully 70% of all homes available to homebuyers in the United States priced at or below $150,000.[10]

This said, the prevalence of manufactured housing at state or regional levels varies widely, from one percent to 17% of the housing stock by region and state. In rural and isolated areas, it can be much more important; for instance, it provides up to 64% of the occupied housing units in counties around the United States. The population served is part of what makes manufactured housing important.

B. People Served Today and in the Future

More than one of every five households (22%) living in a manufactured home has income at or below the federal poverty level.[11] Median net worth of individuals in manufactured housing is one-fourth that of their counterparts in site-built construction ($26,000 versus $112,500 in 2010 dollars). Also, median income for manufactured home occupants is half the median for all families.[12] Indeed, as of 2012, over 73% of owners of manufactured homes have incomes of less than $40,000.[13]

Overall, manufactured homes disproportionately serve younger or older consumers, adults who have only completed high school, households with relatively low income and relatively low net worth. Heads of households are more likely younger than 30 or older than 70, relative to site-built owner-occupants.[14] A head of household in a manufactured home is over 130% more likely a retiree than one in site-built construction (32% versus 24%).[15] Additionally, its owner-occupants have lower levels of educational attainment. Sixty-seven percent (rather than 37% in site-built housing) have high school diplomas or less, while 13% have college degrees or more (compared to 42% in site-built housing).[16] More demand could be coming; according to one 2011 Urban Land Institute study, of the 77 million people in Generation Y, two percent already live in manufactured homes. Others will likely be open to and interested in this housing type if the value proposition is strong.[17]

Manufactured homes provide an important source of stability for their occupants. Contrary to deeply held (and inaccurate) perceptions, manufactured home residents move far less than owners of site-built homes; 60% of residents live in their homes for more than ten years. (The average site-built owner-occupant resides in place for six years.[18]) The predominant threat to long-term residency and occupancy for 2.9 million households of manufactured homes is their lack of ownership of land beneath their homes. These residents live in land-lease communities, generally still known as "mobile home parks" or even "trailer courts" in many jurisdictions, though most live in HUD-code manufactured homes built after 1976.

Steadily escalating lot rents can add to home lenders' risk as it strips equity from the homeowner and/or undermines homeowner's capacity to make payments on their home loan. Moreover, homeowners can face closure and displacement risk due to competing redevelopment pressures, short-term lease arrangements, and

[10] Saunders, Audrey.
[11] Banker, Howard and Robin LeBaron, p. 9.
[12] CPFB, p. 19.
[13] Foremost Insurance Group in Weis, p. 13.
[14] CPFB, p. 13.
[15] CPFB, p. 14.
[16] Per US Census, in footnote 24, CPFB, p. 17.
[17] Two-third of study participants wish to own their residences and almost 80% anticipate owning their homes by their mid-thirties. This generation, aged between 18 and 32, which represents 25% of all Americans, have well-pronounced interest in owning their homes.
[18] Burkhart. University of Minnesota Legal Research Paper.

deferred maintenance due to a lack of return on investment on significant capital expenses for the investors. Thus, these risks redound not only to individual homeowners but also to any prospective home lenders. This risk can be one factor in driving the premiums in pricing of personal property loans on manufactured homes in land-lease communities.[19]

C. Tenure of Home and Land and its Consequences

Unit for unit, manufactured homes provide more homeownership than site-built construction, with an ownership rate of 78% compared to 68% of site-built homeownership rates.[20] However, getting "to the bottom of it," so to speak, only 48% of manufactured home occupants own the home and the land beneath their homes. Thirty percent (30%) own the home and rent the land, while about one in five rent both.[21]

In the nation's 50,000 land-lease communities, 2.9 million households live in manufactured homes. About 98% of these are investor-owned.[22] The nature and length of tenure on the underlying land is a key consideration for prospective lenders to buyers of manufactured homes. In most states, chattel financing is only available for home-only purchases. Ownership and control of the land plays a pivotal role in whether and to what degree homes can be expected to appreciate in value. Studies have shown that if ownership of the underlying land accompanies that of the home, whether site-built or manufactured, the dwelling unit typically appreciates in value.[23] Moreover, as discussed further below, in land-lease communities, the trajectory of lot rents often can affect home values and therefore the position and loan conditions for prospective home-only lenders.

Steadily escalating lot rents can undermine homeowner's capacity to make payments on their home loan and/or it strips equity from the homeowner. Homeowners can also face closure and displacement risk due to competing redevelopment pressures, short-term lease arrangements and deferred maintenance due to a lack of return on investment in infrastructure for the investors. All of these effects can redound not only to individual homeowners, but also to any prospective home lenders. These risks can be one factor in driving the premiums in pricing of personal property loans on manufactured homes in land-lease communities.

In many states, HUD-code manufactured homes purchased and placed on fee-simple parcels of land can be titled as real estate for tax and sales purposes. Buyers of such homes receive the same consumer protections (e.g., Real Estate Settlement Procedures Act, or RESPA, and others) associated with purchase of real estate. By contrast, in most states, homes set in land-lease communities are titled as chattel. Consumer protections are more minimal and/or regulated by Dodd-Frank and other relatively new federal legislation.

D. Structure, Character of Investor-Ownership of Land-Lease Communities

Almost 80% of land-lease manufactured housing communities are still owned by independent, "mom and pop" owners.[24] Even so, major companies have consolidated their ownership position especially in large, well-located land-lease communities. The top six owners, including real estate investment trusts (REITs)—Equity Lifestyle Properties, Sun Communities, RHP, YES Communities, MHP Funds and Hometown America—

[19] Many others are cited by industry sources including: (i) lack of secondary market; (ii) interest rate risk due to lack of secondary market; (iii) higher servicing costs; (iv) limited risk sharing with lenders and private or public sector; (v) cost and complexity of repossession, moving/resale of collateral in event of default. See MHI, p. 4.
[20] Burkhart. *Pepperdine Law Review.* p. 433.
[21] Fee, Stephen.
[22] Per Paul Bradley. Nationally, about 1,000 communities (2%) are resident-owned.
[23] Jewell, Kevin.
[24] Rolfe, Frank.

control 20,000 or more units apiece, or 375,000 units in all.[25] With low interest rates and broadly available financing for REITs, this form of ownership has delivered robust returns (with YTD returns through mid-2015 exceeding 13%).[26]

Most such land-lease communities have a one-year lease at best; many others have month-to-month arrangements. As the rules governing the operation of such communities is at the state level, the nation has a patchwork of varying levels of resident protection, tracked and documented by consumer and/or policy advocacy groups like the National Consumer Law Center and CFED.[27] In many such communities all around the country, displacement of residents due to redevelopment pressures or failing infrastructure has led to permanent loss of manufactured homes upon community closure.

E. *Terra Firma Crescit:* Resident, Nonprofit Ownership Expands

The resident ownership movement for land-lease communities has reached its own milestone, with residents owning about two percent of land-lease communities (roughly 1,000 nationally). This translates to over 10,000 units nationally in resident-ownership, mostly through the ROC USA™ model.

In a resident-owned community, members pay a one-time fee to buy a membership interest in a cooperative, mutual benefit or nonprofit corporation that owns and operates the land-lease communities. In the ROC USA model, such fees range between $100 and $1,000 per household.[28] All such organizations are democratically governed on a one-member, one-vote principle. Members make key decisions, elect a board of directors, set their Bylaws and community rules, establish an annual operating budget and approve a capital improvement plan. As with any homeowners' association, a resident board of directors manages day-to-day operations of the community, overseeing a bookkeeper, property management and maintenance, collections of lot rents, payment of bills and tracking of overall financial performance. Members gain a perpetual right of occupancy as long as they follow rules and pay lot rent. Articles of organization make clear that the purpose of resident ownership is to maintain and improve the community as affordable housing for the mutual benefit of its residents.

In the ROC USA model, a nationally franchised model of technical assistance and training is available through participating nonprofit organizations, whose staff undergo common training and participate in peer-to-peer conferences and regular conference calls to share lessons learned from their fieldwork. All such nonprofit organizations are designated as Certified Technical Assistance Providers (CTAPs) and provide ongoing governance assistance, support for financial monitoring, policy development and other organizational development support to their client cooperatives and resident nonprofit organizations.

As with the relative concentrations of manufactured housing as a proportion of local housing stock itself, the penetration of alternative models of tenure vary dramatically from one area to another. In New Hampshire, birthplace of the resident ownership model, well over 20% of the state's communities (120 as of this writing) are resident-owned. In Vermont, where the community land trust model has a long history, some are resident-owned, many are nonprofit-owned and many are owned by a community land trust. In both Maine and Oregon, eight are resident-owned; Minnesota, seven; Wisconsin, two.[29] Of the 4,800 land-lease communities in

[25] Mobile Home University.
[26] Urban Land Institute.
[27] See for instance, I'M HOME and NCLC.
[28] Other models, more typical in high-demand real estate markets like Arizona, Florida, and California have higher membership fee (equity requirements), perhaps in tens of thousands of dollars.
[29] These are small numbers relative to the supply in each state: Maine has 552; Minnesota, 950; Wisconsin, 430; Oregon, 1,000.

California, about 250 are resident-owned and another 40 or so are nonprofit-owned.[30] Thus, though steadily escalating numbers of communities are more secure, *terra firma*, the vast majority of land-lease communities overall continue to be investor-owned.

Resident ownership delivers security of tenure, stabilized monthly housing expenses, and a direct voice in governance, management and operations of the community. Once a community is resident-owned, all lot rents from the community can only be spent in a limited number of ways: to support mortgage debt service, to cover management and operating expenses, or to rebuild reserves. If revenues collected exceed the operating or capital needs obligations of the cooperative or nonprofit organization, subject to lender requirements, the excess can be returned to members, either in patronage dividends or a lot rent holiday.

Particularly where resident ownership has penetrated a significant portion of the market (e.g., in New Hampshire), the combination of security of tenure, opportunity for direct resident voice in governance and operations of the community, and stabilized (and over time, more competitive) lot rents translates into homes sold more quickly (as measured by days on the market) and into higher resale values for homeowners.[31] This, in turn, leads to a stronger position for lenders financing home purchases in resident-owned communities. Over time, such lending activity can attract more competitive rates and terms, which in turn can fuel home value appreciation relative to homes in investor-owned communities. In short, a positive spiral of appreciation can be created. Such home lending appears most successful where share prices to buy into the community represent a minor entry barrier (e.g., comparable to a security deposit of $200 to $1,000) so that cooperatives' interest in a share do not take priority over or otherwise complicate lender claims on the home (collateral) in event of default.[32]

F. Manufactured Home Building Industry

The manufactured housing industry has experienced significant consolidation. In 1977, twenty-five manufactured home builders shipped 70% or 186,462 homes of the 265,651 built that year.[33] Three builders (Clayton Homes, Champion Homes and Cavco, Inc.) shipped about 71%, or 50,086 of the 70,544 manufactured homes built in 2015.[34]

As it relates to opportunities to deliver asset-building opportunities, and as discussed below, this industry consolidation can be a mechanism to leverage bulk purchase, go to scale on home production and make home production more cost-competitive. Indeed, NextStep®, a nonprofit developer in Kentucky, has bargained for preferential price treatment on Clayton Homes' production of energy-efficient homes as the basis for a nonprofit network designed to advance best-practice installation, delivery and support.

G. Chattel vs. Real Estate: What's the Difference?

Distinctions between chattel and real estate lending on manufactured homes are worth noting first because of the prevalence of personal property over real property finance. In 2008, one-third of all new manufactured homes were titled as personal property.[35] Consistent with that finding, the Consumer Financial Protection

[30] Sargent, Dean.
[31] Ward *et al.* Carsey Institute. 2010.
[32] See, for example, Paul Bradley's notes at the "Home Finance Center" page on myrocusa.org.
[33] Allen, George.
[34] Ibid.
[35] Banker and LeBaron.

Bureau (CFPB) found recently that 30% of all recent manufactured home placements are eligible only for chattel financing. However, 75% of all owners of manufactured homes with purchase financing use chattel loans.[36]

Manufactured homes titled as chattel (personal property) have higher interest rates (ranging between 6-14%, or 200-500 basis points higher than their real estate/site-built equivalents), shorter terms (typically 15-20 years) and lower closing costs.[37] Consumer protections in the event of default are different from (and often do less) the protections routinely afforded to buyers of and borrowers for site-built homes.

The chattel lending market contracted significantly following a major spate of defaults in the late 1990s and early 2000s. Lenders dropped credit standards and documentation requirements and extended loan terms to increase origination volume. The nation's one-time largest manufactured home lender, Greentree Financial, nearly doubled its average loan term between 1987 and 1997. Presaging practices that later fueled the subprime crisis—inflated home appraisals and invoice prices, and falsified applications for financing—accompanied the rush to do more business.[38] In 1998, Greentree merged with Conseco. A surge in repossessed homes on the market undercut sales of new and used homes and drove down sales prices.[39] The ripple effects struck the production side of the equation, with the number of builder plants dropping by 41% within nine years of the production peak in 1998. Four years after its merger, Conseco filed for bankruptcy in 2002. By the end that year, repossessed inventory reached $1.3 billion, with major manufactured home lender bankruptcy making prominent manufactured home lenders a synonym for lending failure and "troubled assets."[40] By 2002, loans made by Greentree comprised 70% of Fannie Mae's manufactured housing balance.[41]

GSEs like Fannie Mae lost significantly in the bargain. They had entered the market in their quest to meet affordable housing goals. Fannie Mae serviced 24% of manufactured housing market by 1999. Fannie Mae had purchased $10 billion in manufactured home loan securities, but abruptly ceased after enduring major losses. Freddie Mac also lost greatly, as did other parties in the secondary market. In a dramatic response to the unscrupulous practices in the manufactured housing industry, many manufactured home lenders applied new rigor to their origination activity in the wake of the meltdown, with personal property loans carrying a downpayment requirement of 10-15%, terms at or less than 20 years and an average FICO score requirement of 700+.[42]

Nonetheless, securitizations of manufactured home debt essentially ground to a halt by 2009.[43] Today, the after-effects continue to resonate. As the Manufactured Housing Institute (MHI) noted in its 2009 Duty to Serve comment letter, "[a]t this time, the secondary market for personal property loans is essentially nonexistent."[44] Almost a year later, MHI noted the discrepancy in GSE participation on manufactured homes designated as real estate versus chattel: "While the GSEs may purchase small amounts of conforming real property manufactured housing loans," MHI noted, "they offer virtually no funding for personal property loans."[45]

[36] CFPB, p. 24.
[37] Banker and LeBaron, p. 10. CFED. "Financing Homes in Communities: Manufactured Housing Policy Brief."
[38] CFPB, p. 27.
[39] Burkhart, Pepperdine Law Review. p. 440.
[40] CFPB, p. 28.
[41] *Ibid.*, note 55 and text.
[42] Cooney, Brian D.
[43] *Ibid*, p. 439.
[44] Long, Thayer. August 16, 2009.
[45] Long, Thayer. July 21, 2010.

With 77% of HUD-code manufactured homes titled as personal property, chattel financing in the United States is big business.[46] All told, the third-party chattel finance market for HUD-code manufactured homes is estimated to be well over $50 billion. Today, four lenders are dominant in the chattel lending space: 21st Mortgage ($34.5 billion), Vanderbilt and 21st Mortgage ($12.8 billion combined), Triad Financial Services ($1 billion), and San Antonio Federal Credit Union ($1 billion). (Both 21st Mortgage and Vanderbilt Mortgage are Berkshire Hathaway companies.) U.S. Bank also has a sizeable presence. The five lenders, including U.S. Bank, carried out over 52% of the manufactured home financing in 2012 according to Home Mortgage Disclosure Act (HMDA) data.[47] Despite the dearth of a secondary market (with the exit of the government-sponsored entities (GSE's) following the collapse, and the dominance of these lenders in the market, over 2,000 lending institutions reported originating one or more manufactured home loans in 2012.[48]

Most buyers of manufactured homes borrow between $10,000 and $80,000, with the median loan amount at $55,000, or one-third of the median site-built mortgage amount, $176,000.[49]

H. Dearth of Financing for Target Market

Borrowers with credit scores between 580 and 650 likely represent a significant portion of buyers of manufactured homes in land-lease communities. The Urban Institute found the number of renters without a mortgage in the past sixteen years to be 96 million, the largest number of total adults of six tenure groups studied. Compared to other groups studied, it was younger, with a median age of 30; disproportionately single; and had the lowest median Vantage credit score (619). Of these, 58% (almost 54 million adults) had no debt in collections, suggesting that some of the lower credit scores were reflective of a relative lack of credit history.[50] Sixty-four million (52% of all renters) had credit scores below 650, so generally would not be able to qualify for a traditional site-built mortgage.[51] Similarly, according to FICO data, one in four American consumers has a credit score between 580 and 650. However, a significant subset of these, as individuals and/or as households, could qualify and, based on the experience of successful manufactured home lending programs around the country, be successful buyers of and borrowers for manufactured homes in land-lease communities, especially if they had access to the long-term security of tenure and stabilized lot rents.

Today, the nation's manufactured home lending environment in land-lease communities is marked by localized practices of successful lending among the five major commercial manufactured home lenders, community development banks and loan funds, credit unions and a handful of state housing finance agencies. This is partly attributable to the fact that chattel lending, over fifteen years after its collapse in the late 1990s and early 2000s, continues to lack any significant secondary market outlet.

Given the relative paucity of home financing, community owners themselves have been forced to enter the home lending space. In 1999, several million dollars of property-owned home financing was active. Today, over $3.5 billion in owner financing of manufactured homes among over 500 land-lease community owners has filled the void.[52] Taken together, these community owners control about one in four of the 50,000 land-lease

[46] Burkhart, University of Minnesota Legal Research Paper. p. 6.
[47] CFPB, p. 30.
[48] Ibid.
[49] HMDA data does not distinguish between home-only loans on manufactured homes and home-land loans that predominate for site-built transactions, so this partly accounts for the differences in principal amounts on the mortgage lending. Supplementary consumer data found average loan amounts for home-only transactions of $31,000 between 2006 and 2010 or $65,000, if the buyer owned the land as well.
[50] Li, Wei and Laurie Goodman, p. 20.
[51] *Ibid.*, p. 22.
[52] Allen, George. August 1, 2010.

communities.[53] Despite many objections by the national trade association, MHI, manufactured home lending became, in the wake of the subprime crisis, subject to Dodd-Frank requirements, Truth in Lending Act (TILA) Escrow Rule requirements, and higher-priced mortgage limits (HPMLs), which in turn triggered additional lender due diligence and scrutiny from the CFPB.[54] Regardless of one's opinions of the CFPB's oversight activities in this space, it seems clear that the idiosyncrasies of personal property financing (e.g., the size of the loans, the calculation and application of sales taxes in escrow accounts, etc.) can interfere with seamless application of consumer protections routine in real estate lending.

Moreover, the parallel but different systems of titling and Balkanized rules around the nation for converting manufactured home titles to real estate further tend to confound and mystify prospective new entrants to manufactured home market. Such barriers to entry, particularly when taken together with new frontiers of financial regulation, likely further undermine the availability of manufactured home financing, thus interfering with the scale at which this product could better serve its current occupants and attract new ones.[55]

I. Duty to Serve: Historic Opportunity to Address Market Gaps

Following the subprime mortgage collapse of 2007-2008, Congress passed the Housing and Economic Recovery Act (HERA), which stipulated two requirements meant to address ongoing erosion of liquidity for manufactured home loans and its resultant negative impact on this housing type to serve shelter needs of low-income Americans. First, the federal government's primary home loan insurance product available to chattel lenders in land-lease communities, the HUD Title I program, received a long-overdue increase in loan limits and updated underwriting requirements. Also, FHFA is required to "implement" a duty-to-serve requirement on the GSEs it regulates, specifically calling out manufactured housing as a market "underserved" by the GSEs.[56]

After the publication of a second-draft Duty-to-Serve rule in December 2015, there are broad-based expectations that FHFA will require Freddie Mac and Fannie Mae to deliver secondary market access to chattel loans in the interest of promoting more competitive rates and terms for manufactured homes. However, as Mark Weiss of the Manufactured Housing Association for Regulatory Reform (MHARR) has observed, recent efforts to expand chattel finance availability have been frustrated by subsequent decisions. In 2010, Ginnie Mae, the FHA-related GSE, adopted a 10-10 rule requiring net worth of $10 million and a 10% loan loss-reserve for lenders who would participate in the Title I program. This effectively restricts Title I participation to two lenders: Vanderbilt Mortgage and Countryplace Mortgage. According to Weiss, this helps deliver total Title I loan originations "at negligible levels," even while these few lenders have chosen not to share real-time loan performance information that could lead to a jettisoning of the 10-10 rule and thus a broadening of the program for other lenders.[57] Recent production reports from HUD show steadily declining volume from $986,000 in insurance endorsements in FY 2011, to $655,000 in FY 2012, to $612,000 in FY 2013.[58] This seems to corroborate MHARR's complaints of the restrictive impact of the Title I program, despite the important reforms of 2010.

[53] Ibid.
[54] CFPB.
[55] Allen, George.
[56] Weiss.
[57] Ibid.
[58] Galante, Carol. FHA, Table 3, p. 18.

This impact is partly due, in the eyes of some observers, to overweening threshold restrictions imposed by Ginnie Mae on participating lenders.

IV. Chattel Lending Landscape

Personal property (chattel) lending activity in land-lease communities divides generally into four camps. With the emphasis of this report on home lending in nonprofit- or resident-owned communities, this report also includes as **Exhibit A** a current inventory of home lenders active in states served by the eight nonprofit ROC USA Certified Technical Assistance Providers, where a portfolio of about 200 resident-owned communities have taken shape.

1. Traditional commercial lenders.

Triad Financial Services, 21st Mortgage and Vanderbilt Mortgage together originate over half of the loans available for buyers of manufactured homes in land-lease communities. Triad will originate loans for homes in resident-owned communities if they do not have significant share prices.

2. Credit unions and community development lenders.

Local credit unions (e.g., Capital Credit Union in Bismarck, ND; Mendo Lake Credit Union in Northern California; and San Antonio Federal Credit Union, a national lender) are willing to lend in investor-, resident- and nonprofit-owned land-lease communities. New Hampshire Community Loan Fund, after its longstanding success in supporting and lending to resident-owned communities in the state, has built a very successful lending program. Since manufactured homes are classified as real estate in New Hampshire even if placed in land-lease communities, all are real estate transactions with associated consumer protections. Other lenders (e.g., Champlain Housing Trust in Vermont) have designed and implemented specialized programs, targeted at today's most energy-efficient manufactured housing construction.

3. State housing finance agencies.

Several state housing finance agencies (HFAs), notably in New Hampshire and Maine, operate successful home lending programs for homebuyers in land-lease communities, including in resident-owned communities. This report delves into both of these agencies' programs as case studies. In New Hampshire, HFA involvement followed on the heels of the Community Loan Fund's very successful home lending program. In Maine, the HFA has been able to make a concerted and meaningful commitment to this sector through an active Self-Insured program, even though the legal treatment of homes could be clarified for the benefit of the HFA, and even though a Fannie Mae or Freddie Mac outlet for the Self-Insured program do not exist and would not be easy to introduce in the state.

4. Federal government programs.

The federal government currently operates several small programs for home-only lending on manufactured homes. HUD runs the Title I loan insurance program and the Section 184 program for manufactured home lending on tribal lands. In addition, USDA's 502 program offers three-percent, 30-year, fully amortizing loans for manufactured homes (and 33-year financing for modular housing) on fee-simple land. The latter of these programs has not historically been available for manufactured homes titled as personal property in land-lease communities.

5. New Initiative: Section 502 Pilot Program.

A new pilot initiative, led by several USDA offices, proposes to introduce the favorable financing terms of the USDA 502 program to manufactured homes in land-lease communities. This section of the paper delves into program goals and design considerations, and explores nascent experience for lessons learned to date related to additional program design considerations.

CURRENT CHATTEL LENDING LANDSCAPE FOR MANUFACTURED HOMES IN LAND-LEASE COMMUNITIES

Category/ Lender	Product	LTV	FICO	Interest Rate	Term	Lease	Community agreements
COMMERCIAL							
Triad Financial Services	Purchase/ refinance	~90%	640	9.00%	15 to 20 yrs	Any land-lease community	
21st Mortgage	Purchase/ refinance	Max of 95% LTV Min loan of $20,000	<600, 35% down no minimum FICO	6.99% to 11.99% (interest rate depends on age of house, credit of buyer). For homes in parks, 8 or 9% is typical rate.)	5 to 23 yrs	No ROC's	None required
Vanderbilt Mortgage	Purchase/ refinance (financing available only through Clayton Homes Freedom Homes, or Oakwood Homes).	3.5% down to 35% down	Min FICO: 480+ Two years' verifiable income; ratios; bankruptcy 6 mos or more	5% to 12%.	20 to 23 years	Will lend in resident-owned communities	Community Agreement required
COMMUNITY DEVELOPMENT/CREDIT UNIONS							
Champlain Housing Trust	Up to $27,500 for replacement of old manufactured home or purchase of new EnergyStar homes (or up to $35,000 for VerMod modular home)	Up to 100% LTV (after primary loan) Min of $2,500 from cash savings toward closing costs	No minimum	0.00%	Matches primary loan term	No minimum loan term	None required
Community Loan Fund	Purchase/ refinance	95% max		8.875% fixed	5 to 30 yrs		None required

	"Cash out" refinance or home equity loans	85% Maximum	No minimum FICO; overall profile evaluated			Only ROC's or fee-simple	
Mendo Lake Credit Union	Purchase/ "Cash out" refinance	80%	No minimum FICO; overall profile evaluated	4.33%	10 to 20 yrs	All lending in investor-owned communities; open to ROC's or nonprofit-communities as well.	None required
San Antonio Credit Union	Purchase/ refinance/ "cash out" refinance	95%	640*	<9.5% single <8% multi-	15 yrs (single-section) 20 yrs (multi-section)	ROC's or land-lease	None required
HOUSING FINANCE AGENCIES							
Maine HFA	Purchase/ refinance	95%	640*	4.125%	**Term per age of home**	**Any land-lease community with lease exceeding loan term.**	**None, but no age or income restrictions.**
New Hampshire HFA	Purchase/ refinance	*Currently inactive but working toward reintroduction of manufactured home lending in resident-owned land-lease communities via Fannie Mae pilot.*					
FEDERAL GOVERNMENT							
Section 184 (Mortgage insurance program)	*Purchase, refinance Construct, rehabilitate, buy/rehab,* "Cash out" refinance only of homes classified/taxed as real estate on tribal lands	98 or 99% LTV; no more than 150% of HUD limit	No minimum FICO; overall profile evaluated	*Lender rate plus MIP of .5%*	*15, 20, 30 years*	*Recorded leasehold approved, recorded by BIA.* *Title Status Report to HUD.*	*None other than leasehold interest discussed.*
Title I (Mortgage insurance program)	*Purchase/refinance*	*90% or 95% LTV, per FICO*	*No minimum FICO, but 10% down if <500.*	*Upfront insurance premium; lender rate plus insurance premium*	20 years	*The lease term must be at least 3 years long, renewable in minimum terms of one year or more, require 180 days' notice before termination and must provide that inadequate notice will automatically*	*None required*

						add another year to lease term.	
USDA Section 502 Pilot (VT/NH, OR, CA)	EnergyStar home purchase/refinance	95%	*No minimum FICO*	1% to 3%	30 years	*Lease must exceed terms of USDA financing by two years.*	*Memorandum required*

A. Traditional Commercial Lenders

1. Triad Financial Services

Triad's target market uses typical underwriting criteria in their lending. Triad requires a minimum $20,000 loan amount, a debt-to-income ratio of 43% or less, and a minimum credit score of 640. Financing is available for buyers on individually owned land. Financing is available on cooperatively owned property with low share prices like those organized in the ROC USA model. A co-signing program is available. Triad has offered manufactured home loans for 55 years.[59]

2. 21st Mortgage

Owned by Clayton Homes (itself a Berkshire Hathaway company), 21st Mortgage finances single-section and multi-section homes with or without a permanent foundation. The minimum loan amount is $20,000. Financing is available at up to 95% loan-to-value on a primary residence. Closing costs can be financed. In all but three states, no age restrictions apply. Processing timeframes range between four and six weeks for home-only transactions and six to eight weeks for land-home transactions. Interest rates start at 6.99%. Purchase and refinance terms range between 5 and 23 years. No mortgage insurance is required on any 21st Mortgage loan. [60] Per 21st Mortgage representations, their manufactured home portfolio default rate is less than three percent.

3. Vanderbilt Mortgage

Also owned by Clayton Homes, Vanderbilt Mortgage is Clayton's in-house financing arm. Vanderbilt only provides loans on new homes. Vanderbilt offers direct lending and is the largest lender, by volume, participating in the HUD Title I manufactured home loan insurance program. Vanderbilt lends in resident-owned communities with a community agreement**.**

4. US Bank

US Bank still makes direct home-only loans on doublewide (or other multi-section) manufactured homes with a maximum of 80% loan-to-value in thirteen states plus the District of Colombia. The minimum FICO score for these loans is 640. [61]

LESSONS LEARNED	
1.	Terms and conditions for qualifying borrowers among these lenders are reasonably competitive, but are not broadly available to many homeowners in land-lease communities with marginal or modest credit because of underwriting requirements.
2.	In particular, borrowers with credit scores between 560 and 620 often are unable to meet minimum underwriting requirements for these sources of financing.

[59] Triad Financial Services.
[60] 21st Century Mortgage.
[61] US Bank. Effective November 2014, citing relatively small volume and new regulatory requirements, US Bank exited indirect lending on manufactured homes through dealers and no longer will service third-party manufactured home loans (MHI).

B. Community Development Lenders and Credit Unions

1. Champlain Housing Trust.

Though the first program to be discussed here is a downpayment assistance program in the form of secondary financing, it shows a model of how targeted financing with a priority toward energy efficiency can drive market change.

Champlain Housing Trust (CHT) is a community development lender that offers the Manufactured Home Down Payment Program (MHDP), which provides up to $27,500, contingent on appraised value, toward purchase of an EnergyStar™-certified manufactured home. [62] The loan is secured by the home (on home-only loans) or on the home and site (where lent on a home owned on private land). Funded with homeownership tax credits created in 2011, the program started in 2012 and has been very popular, with 18-20 loans originated per year (and 50 loans currently in the 2016 pipeline).

CHT staff learned that EnergyStar homes were not being actively marketed by most manufactured home dealers in Vermont. However, the Housing Trust's program has brought important new focus to energy efficiency. In a state like Vermont, where the primary heating fuels for manufactured homes are propane and kerosene—which are both expensive for consumers and high in carbon footprint—the value of energy efficiency adds up quickly. Annually, according to Larry Holmes at Better Homes Ahead, a NextStep® member organization, a single-wide EnergyStar™ home can save the typical Vermont consumer over $2,800 per year in energy costs. These savings are valuable and adequately documented, enabling CHT to incorporate these savings into the Annual Percentage Rate of effective interest that CHT delivers to its customers.

CHT prefers but does not require a long-term lease for their second loan downpayment assistance product. Loans have been equally available in investor-owned, nonprofit-owned or resident-owned communities in Vermont. Homeowners must have incomes at or below 120% AMI to qualify for CHT's MHDP. Participants must participate in homebuyer training.

CHT's program, given its funding source—the homeowner tax credit program—takes a mortgage interest in every home on which its funds are lent. CHT's core program is the largest portfolio of community land trusts (CLTs) in the country. In a CLT, all homes owned are subject to a leasehold interest in the property. This is very similar to a long-term lease in a land-lease manufactured housing community. [63]

LESSONS LEARNED

1. Quantifiable and reliable energy savings can be incorporated into the good-faith estimates of effective interest rates for prospective consumers as a way to promote more competitive financing (and efficiency considerations).
2. A mortgage interest, if necessitated by the source of funds, can be incorporated even into home-only lending in a state where homes in land-lease communities are titled as chattel.

[62] The same program offers up to $35,000 for modular homes, like the VerMod home that is the subject of the first 502 pilot in Vermont.
[63] Per interview with Cheryl Read, Champlain Housing Trust. 12 August 2016.

2. San Antonio Credit Union (via subsidiaries CU Factory-Built Lending and Mountainside Financial).

The other major national lender for manufactured housing is San Antonio Credit Union (SACU). It provides direct consumer lending through its subsidiary, Mountainside Financial, and indirect lending through retailers via its other arm, CU Factory-Built. It operates in most states and carries a total portfolio of about $1 billion, with about $300 million per year in new lending business. SACU requires a credit score of at least 650, but reviews each individual application and makes exceptions with manual underwriting. This said, SACU's median FICO score for its portfolio is approximately 740. [64]

SACU does both home-only and land-home lending. Home-only transaction amounts average in the mid--$50,000s in the eastern half of the nation and the mid-$60,000s in the western half. Land-home transactions average just under $100,000. Roughly 60% of SACU lending is on private land, with the rest of its lending occurring in land-lease communities.

Per the organization's Senior Vice President, Barry Noffsinger, SACU has concerns about long-term lending in land-lease communities with short-term lease arrangements and/or where lot rents escalate to track consistently with apartment rents, independent of cost considerations. Noffsinger notes that in very tight apartment markets, if and when community owners follow industry "rules of thumb" (keeping combined site rent and estimated home payments at about $50 per month cheaper than the cost to rent a two- or three-bedroom, two-bath conventional apartment unit).without capital improvements or operating cost considerations, the results can erode the value of the manufactured homes of recent buyers.

Noffsinger sees manufactured homes as providing a powerful mechanism for many buyers to have more flexibility—to build a downpayment for a site-built home later or to get a manageable monthly payment in the immediate term. SACU is currently partnering with NextStep® on the development and implementation of consumer education designed to build credit for prospective borrowers from the high 400s through the mid-500s to become creditworthy buyers and borrowers. Most of SACU lending is structured as chattel, rather than as real estate loans.

SACU is also seeking to expand its financing efforts in condominiums and market-rate cooperatives, alongside limited-equity cooperatives like those formed in the ROC USA model. Recognizing the long-term security of tenure and the cooperatives' at-cost operations, SACU and its affiliate, Mountainside Financial, are moving to target cooperatively owned properties. To that end, SACU is working on developing its application materials, processes and loan-management software to track the form of underlying tenure in land-lease communities where it is financing homes. [65]

[64] Per interview with Barry Noffsinger, 12 August 2016.
[65] Interview with Barry Noffsinger. 24 August, 2016.

LESSONS LEARNED

1. One of the nation's top manufactured home lenders sees a market advantage and mitigated home lending risk with long-term security of tenure and stabilized lot rents and seeks to target and monitor its increasing share of this subset of the market.

2. In addition, this lender sees tremendous opportunities for market growth by addressing and supporting prospective borrowers that fall just below standard underwriting criteria.

3. New Hampshire Community Loan Fund.

Following its success in the 1980s providing technical assistance and financing for resident purchases of New Hampshire land-lease communities, the Community Loan Fund (the Fund) in 2002 began to provide home loans in resident-owned communities, as well as to buyers of manufactured homes on fee-simple parcels of land).

The Fund provides their loans on relatively generous terms, with a rate today of a little less than nine percent and a maximum loan-to-value of 95% for purchase/refinance transactions and 85% for cash-out refinancing and home equity loans. No private mortgage insurance is required. Of the five percent in equity required from the buyer on the purchase/refinance, two percent must come from borrower, while the remaining balance can come from the seller or in gifts from a third party. No minimum credit score is required and all underwriting is manual.

Portfolio & Performance

Over the last fourteen years, the Fund has originated 1,042 loans for over $47.3 million in lending. The current portfolio reflects 638 loans for $27 million, with an average loan size of $45,004. The loss rate is only 2.23% ($1.05 million) over the last 13 or more years.

Loan funds totaling $1.5 million have been sold in three pools to third-party investors. Per the Fund's staff, with such a high-performing loan portfolio, the sale of these loans to third parties is more for mission-related reasons of spreading the exposure and experience to successful manufactured home lending to the larger banking sector of the state. The Fund's staff note that despite the strong loan performance and the fact that manufactured homes in New Hampshire land-lease communities are titled and treated as real estate, many lenders are not showing interest in entering this market. Also, per New Hampshire HFA staff, many lenders active in the New Hampshire manufactured housing market exited during the subprime mortgage meltdown.

Approach to Management & Servicing

As the primary lender to almost all of the resident-owned communities in New Hampshire, the Fund's staff members know intimately the financial performance of the host communities of their manufactured home borrowers. In this way, the Fund does not need to request information about the performance of communities upon receipt of applications for home financing for prospective buyers or resident-members of host cooperatives.

In an innovative approach to borrower support, the Fund covers Employee Assistance Program (EAP) benefits for its borrowers. Reportedly, the Fund's borrowers make about 12 to 15 calls per year, especially in challenging circumstances of divorce, disability, or death. Access to the EAP resources provide critical support in such times of challenge, and such resources have helped borrowers stay on or get back on track and avoid default.

Fifty-eight percent (or 581) of the loans were made to borrowers with low or very low incomes. Based on the 61% of 829 borrowers who volunteered their status as first-time homebuyers, 507 were made to first-time homebuyers. Of the 1,491 borrowers who volunteered their age, 48% (or 716 loans) were made to seniors aged 55 or over.

LESSONS LEARNED
1. Manual underwriting, especially with high-touch servicing, can be very effective at minimizing loan default rates.
2. Even with a minimal downpayment from borrowers, loan performance can be very high.

4. Mendo Lake Credit Union (soon to be Community First Credit Union).

Mendo Lake Credit Union serves Mendocino and Lake Counties in northern California. Widely recognized for the social impact and quality of its community development lending activity, Mendo Lake Credit Union recently announced that it will merge with Community First Credit Union and jettison its own name. In combining resources with Community First, the new entity will be a financial cooperative worth $423 million serving 48,000 members. Since 2004, Mendo Lake has offered a manufactured home loan program.[66]

Program Requirements

Mendo Lake's program requires 20% down (10% may come from third-party gifts) and therefore provides an 80% loan-to-value financing option for purchase or a 75% loan-to-value option for cash-out/refinance loans. Currently, the fixed interest rate in the program is 4.99% with loan terms ranging between 10 and 20 years, depending on the age of home. The program applies 35% front-end (housing expense-to-income) and 45% back-end (housing debt-to-income) ratios. Minimum loan amounts used to be $20,000, but were recently revised downward to $10,000. Per the Lending Director, the Credit Union does not look at FICO scores, but rather engages entirely in manual underwriting and evaluates borrowers' track records of paying bills on time and managing finances properly. All borrowers are required to be owner-occupants and use the home as a primary residence. [67]

Mendo Lake requires that the community owner or manager approve borrowers in writing. In addition, community rules are required to provide that any homes can be taken out of the community. Any foundation acceptable for home placement in land-lease communities in the area is acceptable to Mendo

[66] Press Release, Community First Credit Union and Mendo Lake Credit Union.
[67] Interview with Maria Velásquez.

Lake Credit Union, so most of the homes are simply anchored and tied down. However, skirting on the homes is also required.

Portfolio & Performance

Mendo Lake has provided $6.7 million in 143 manufactured home loans, exclusively in land-lease communities, all of which are investor-owned. The default rate on this portfolio is 1.1%. The average borrower's FICO score is 665. In the past four years, FICO scores have been in the low 700's.

LESSONS LEARNED

1. A combination of strong "skin in the game" with 20% downpayment requirements, together with manual underwriting, has delivered stellar performance to this nearly $7 million portfolio.

Other community development lenders

Two other lenders are soon to enter this chattel lending space for buyers of manufactured homes in their markets.

First, the Missoula Credit Union (MCU), led by Jack Lawson, is introducing a 95% LTV (which requires five percent down and at least three percent in borrower's equity) and a 20-year term (the maximum allowed by the National Credit Union Administration). Echoing other programs finding a ready and performing market through manual underwriting, loan pricing is predicated on underwritten risk, not credit scores. Interest rates will range between 6.5% and 8.5%. Values will be determined based on simple appraisals performed by DataComp™ reports. The program will be available for existing and new homes and even pre-HUD code mobile homes, based on the fact that in the local market, roughly half of the stock is comprised of pre-HUD code construction. The maximum loan size for home purchase in a resident-owned community will be $60,000. MCU is prepared to lend on homes in land-lease communities if park owners can provide evidence of a minimum five-year lease term. [68]

Second, per Director of Programs and Development Joe Rowan, Funding Partners for Housing Solutions of Fort Collins, CO, became a subsidiary of Mile-High Community Loan Fund in Denver in May 2016. Funding Partners and its parent company—both community development financial institutions–have combined assets of $42 million. With limited background and experience in lending on manufactured homes, Funding Partners found a market gap. Few manufactured home loans have been available for buyers of existing homes or those with low credit scores. In response, Funding Partners is preparing to launch a pilot program, underwritten manually and to run on a portfolio basis (not sold to any secondary market) for 10-year loans sized at a minimum of $5,000 with seven-year (or slightly longer) amortization periods. Depending on their experience with the program, Funding Partners may design and develop longer-term manufactured home financing programs to follow.

C. State Housing Finance Agencies

[68] Interview, Jack Lawson.

This paper discusses the experience of two housing finance agencies—in Maine and New Hampshire—that actively finance manufactured homes in land-lease communities. Maine has a handful of resident-owned communities today, while famously, over 20% of manufactured housing communities in New Hampshire are resident-owned. New Hampshire's Community Loan Fund has led the development of a resident-ownership model that has now been franchised and spread nationally through ROC USA. In another anomaly, manufactured homes in New Hampshire are titled as real estate, even when placed in communities. It is the only state where real estate loans are the norm for all manufactured homes.

I. Maine Housing

The Maine State Housing Authority, MaineHousing, oversees a portfolio of approximately $126 million in manufactured home loans. Since MaineHousing utilizes mortgage revenue bond financing for its lending activity, its manufactured home lending has some non-negotiable features:

- **A.** Income restrictions
- **B.** Purchase price restrictions
- **C.** Eligibility limited to first-time homebuyers[69]

Consistent with the opinion of MaineHousing's bond counsel, all manufactured home loans—even those in land-lease communities otherwise classified as personal property—can be considered real estate if ALTA insurance can be issued on the home.[70]

Program Requirements

- **Equity.** All buyers are required to make a five-percent downpayment.
- **Minimum credit score.** Borrowers are expected to have a minimum credit score of 640. However, if the buyer can increase their equity contribution and show stable employment for at least three years, a lower credit score may qualify.
- **Loan pricing.** Loan pricing does not vary with the credit profile of the borrower. A borrower either does or does not qualify for participation in the program based on program guidelines.
- **Maximum loan terms.** Loan terms cannot exceed the useful life of the subject home as established by an appraisal. Licensed real estate appraisers conduct the appraisals. Homes more than 20 years old do not qualify for the program.
- **Foundation requirements.** MaineHousing does not impose foundation requirements other than to require that the homes be tied down. Any additional applicable foundation requirements are determined by local city or county rules. Provided the home meets local foundation requirements, MaineHousing will fund the loan.

Program Scope

Currently, MaineHousing's manufactured home loan portfolio consists of 2,130 loans approaching $127 million in value. Of these loans, 96% (or 2,055 loans) are held on fee-simple land, with two-thirds (1,367 loans) on single-section homes and one-third (688 loans) on double-section homes. Another four percent (153

[69] Defined as buyers who have not purchased a home within the last three years. Buyers not meeting this requirement are redirected to another local credit union without such restrictions.
[70] Maine does not have its own independent definition of real estate, so this is the basis on which MaineHousing is able to classify these home loans as real estate loans. Kristin Ross interview, May 20, 2016.

loans), or about $9.18 million in loan value, is secured by homes in land-lease communities. Of these, 63% of the loans are held on single-section homes and 37% on double-section homes. Of the loans on homes in land-lease communities, 88% are backed by MaineHousing in their Self-Insured program, 13% are uninsured and about three percent have private mortgage insurance.

The primary manufactured home financing program of interest for the purposes of this report is the predominant Self-Insured program, which MaineHousing retains in portfolio. The entire manufactured home program, with an average loan size of $59,600, represents about seven percent of the total home lending activity in which MaineHousing is engaged.

MaineHousing's manufactured home loan programs on fee-simple owned parcels is made available to over 30 participating lenders in Maine. However, only three lenders—all local savings banks—currently participate in the manufactured home Self-Insured program. Feedback from participating lenders indicates that most banks simply do not wish to manage two sets of documents—those for manufactured homes classified as real estate on fee-simple lots and those for manufactured homes classified as chattel and governed by Dodd-Frank and other consumer protection requirements. For most lenders, it is easier to design and operate one system, rather than try to develop and effectively operate two systems. [71]

Community banks, with their smaller systems and volume, are more nimble and better positioned to participate in the Self-Insured program. Since MaineHousing purchases loans only after closing and delivery, the lender incurs the upfront risk of closing a non-compliant loan that MaineHousing cannot purchase, which then must be sold elsewhere or held in their portfolio. In the case of a mortgage company, there is no "Plan B" outlet for a non-compliant loan.

Portfolio, Clientele & Performance

The Self-Insured program, despite the constraints discussed below, continues to grow for MaineHousing. In 2014, MaineHousing originated $4.6 million in 63 Self-Insured transactions. Last year, with a 17% increase in the number of loans and a 20% increase in annual production, MaineHousing purchased 74 loans to reach $5.5 million in volume. The average transaction size also grew slightly to over $74,000 in 2015, up from $73,000 in 2014.[72]

MaineHousing's program typically serves a younger population, with an average borrower age of 36, seven years younger than the typical recent Maine homebuyer.[73] The program also serves a low-income clientele; average household income among borrowers is $35,600. Based on current median income of $49,460, this represents 71% of the current area median income (AMI) for Maine.[74] With a threshold minimum FICO score of 640 (subject to caveats above), FICO scores since November 2005 have averaged around 698.

MaineHousing's Self-Insured manufactured housing portfolio has a default rate of 6.17%, about 25% better than the 8.43% overall default rate for MaineHousing's other lending.

Factors Impeding Expansion

[71] Ibid.
[72] These transaction sizes, about 50% higher than most other manufactured home loan programs discussed in this paper, reflect the predominance of MaineHousing's lending on manufactured homes on fee-simple owned lots.
[73] Sosnowski, Michael. "Profile of 2011 Maine Homebuyer." Maine Home Connection Residential Brokerage. http://www.mainehomeconnection.com/blog/2012/02/29/profile-2011-maine-home-buyers/. Accessed 20 August, 2016.
[74] Information provided by Kristin Ross and Tina Partridge. 11 August, 2016.

- **Pricing and consequences.** MaineHousing adds a 100-basis-point premium to the loan interest rate for the Self-Insured program over the standard program to cover its obligation as a mortgage insurer on these loans. As of this writing, the resulting interest rate was 4.125%, putting the loans into the higher-priced mortgage loan category as defined by the Truth in Lending Act (TILA). Though Maine Housing is exempt from the TILA requirements as applied to such loans, its participating lenders are not; this could represent an obstacle toward expanded participation by additional lenders.

  MaineHousing requires standard title work and closing procedures on manufactured home loans. With typical closing costs, these loans can be classified as high-rate and high-fee, relative to the average principal amounts of $59,600. For participating lenders, this can trigger additional compliance, scrutiny and reporting requirements.

- **Regulatory impediments.** The TILA-Real Estate Settlement Procedures Act's Integrated Disclosure Rule (TRID) requires use of the original Good Faith Estimate statement, Truth in Lending disclosure and HUD-1 Settlement Statements. Many lenders no longer maintain access to these documents in their servicing systems and will not process these loans. [75]
- **Lack of legal clarity on treatment of manufactured homes.** MaineHousing staff maintain that the state should adopt a position and clear definition of when and under what conditions manufactured homes should be treated as residential real estate.
- **Land-lease community-based constraints.**
  - **Investor-owned communities.** Since the Self-Insured product requires a lease with a term equal to that of the home financing term, this limits the application of this loan product, as many investor-owned land-lease communities will not offer a long-term lease. Without a long-term lease, leasehold title insurance cannot be obtained to verify that MaineHousing has a valid first mortgage position as servicer. Therefore, nonprofit- and resident-owned communities are well positioned for this product.
  - **Affordability requirements and income or age-restrictions.** Land-lease communities, even if resident- or nonprofit-owned, cannot have organizational documents requiring or preferring low-income occupancy or age requirements (e.g., 55+) that would interfere with resale at a public auction in the event of foreclosure.

    Bond rules require a valid first mortgage without impediments to resale at public auction. With eight resident-owned communities now in Maine, many developed through the ROC USA model, this is an important consideration that necessitates carve-out language in bylaws and/or community rules to permit waiver of any such requirements in the event of foreclosure affecting MaineHousing-insured loans.

LESSONS LEARNED

1. Lenders seek consistency, clarity and certainty in their regulated lending activity. Consumer protection requirements for chattel lending, when distinct from typical real estate-related requirements, can serve to discourage participation in lending, even when payment performance is stronger on manufactured home loans than conventional home

[75] Per Kristin Ross, interview May 20, 2016.

loans. Regulators would do well to evaluate the impact of their rules on lenders' interest in participating in this underserved market.

2. State housing finance agencies that rely principally on bond financing, like MaineHousing, must incorporate lending requirements that conform their security interests to requirements of the bond investors. This can result in required waivers on restrictions being applied in the event of default. Such waivers can conflict with community ownership models in which income restrictions cannot be waived.
3. Expensive foundation requirements do not enhance home loan performance. By deferring to local ordinances, MaineHousing has minimized buyers' costs, created a program of meaningful scale, and delivered a portfolio that performs as well or better than their conventional site-built real estate counterparts.

2. New Hampshire Housing Finance Authority

Since 1983, HUD-code manufactured homes in New Hampshire, even when in land-lease communities, have been considered real estate and titled as such. As a result, New Hampshire has provided a promising platform for competitive single-family home financing on manufactured homes.

Utilizing their Mortgage Revenue Bond (MRB) Program, and following successful lending programs and initiatives of the Community Loan Fund, New Hampshire Housing has provided competitive financing options for manufactured homes in resident-owned communities for many years. Since 2011, however, as a result of the state of the mortgage finance market, New Hampshire Housing provides financing only for manufactured homes situated on their own land.

Over the years, New Hampshire Housing has financed 927 manufactured homes in various settings, including on their own land and in cooperatively owned communities. Of its current outstanding manufactured home portfolio, 553 active manufactured home loans exist. Of those 553 loans, 206 are in cooperatively owned communities; the other 347 manufactured home loans are to buyers who owned the land directly beneath their homes. New Hampshire Housing does not provide any manufactured home loans in investor-owned communities. The overall median purchase price for New Hampshire Housing's total manufactured home portfolio is $111,000. By comparison, the median loan amount for all manufactured homes in New Hampshire Housing's portfolio is $102,910. For all resident-owned community homes financed by New Hampshire Housing, the median purchase price is $69,998, while the median loan amount is $65,529.

Though manufactured housing is a relatively small part of New Hampshire Housing's total homeownership portfolio (553 of about 8,000 loans, or seven percent), these loans draw a strong mission interest from New Hampshire Housing. As a result, Ignatius MacLellan, Managing Director for the Homeownership Division at New Hampshire Housing, is seeking to broaden the agency's participation in the manufactured home market. Currently, New Hampshire Housing is working toward offering mortgage financing in resident-owned communities, this time through renewed interest in the Fannie Mae Manufactured Home Pilot program, which provides conventional financing for manufactured homes in resident-owned communities. Previously, only two lenders in the state have participated in the Fannie Mae Manufactured Home initiative.

In addition to providing mortgage financing for manufactured homes, New Hampshire Housing has used excess tax-exempt mortgage bonding authority since 2012 to issue mortgage credit certificates through their Home Start Homebuyer Tax Credit program to qualified buyers. The tax credit program allows homebuyers to take up to $2,000 in credit against their mortgage interest on their federal income taxes for the life of the mortgage loan. This mechanism provides a means by which buyers can reduce their tax withholding so as to increase their disposable income, prepay their mortgage or find other ways to further build their assets. This unique federal tax credit can also be utilized by homebuyers seeking to purchase manufactured homes on their own land or in resident-owned communities, thereby making homeownership more affordable.

Benefits & Challenges of Lending in Resident-Owned Communities

Lending in a resident-owned community offers a security advantage, New Hampshire Housing staff note. In the event of a default, the lender (at least in concept) can foreclose upon the home, and transfer the membership interest and occupancy agreement to another qualifying buyer. In practice, however, New Hampshire Housing has experienced several challenges in defaults on its manufactured home loans in resident-owned communities. First, in many New Hampshire cooperatives, higher lot rents are charged to any non-occupant homeowner. The lender pays these premium lot rents as it seeks to recover its collateral and transfer to a new owner. Second, in New Hampshire, the land-lease community owner is required to sign the deed on any transfer of the home to another party. In a cooperative, this means that the Board of Directors must authorize the signatures on the deeds. In its experience, New Hampshire Housing has found boards or directors to be less than timely in processing applications that meet community eligibility criteria, thus extending transaction timeframes and liability for the lender.

If resident-owned communities wish to access financing made possible by a secondary market outlet, their lower interest rates (typically about 300 basis points less than rates available through community development lenders without GSE secondary market outlets) necessitate that they ensure their ability to deliver business-like efficiencies to support the lenders investing in homes placed in their communities. Modifications to bylaws in communities seeking access to the Fannie Mae pilot program—designed to require timely action and response by boards in addition to waiving affordability restrictions—could help provide prospective lenders comfort that their interests will be respected in the process.

Factors Impeding Expansion of the Manufactured Home Lending Pilot in Resident-Owned Communities in New Hampshire

Where most manufactured home lenders in the country experienced effects of the chattel market collapse around 2000, manufactured home lenders in New Hampshire experienced the subprime mortgage crisis in 2008. Site-built homes, condominiums and manufactured homes all lost value during New Hampshire's foreclosure crisis, but manufactured housing was especially hard hit.

Private mortgage insurers left the manufactured housing market during the foreclosure crisis, as their capital was the first 20% at risk on resale of the homes. Their departure greatly hampered the potential for the expansion of the Fannie Mae pilot. Both the New Hampshire Community Loan Fund and New Hampshire Housing have actively cultivated the reintroduction of private mortgage insurance providers to improve interest rates and terms available to buyers and to better position loans for Fannie Mae purchase on the secondary market. As of this writing, New Hampshire Housing had recently identified at least one and possibly more providers that would consider making private mortgage insurance again available. With resolution of the aforementioned servicing issues, New Hampshire Housing anticipates that the pilot program can and will expand to further build the market for manufactured home loans in New Hampshire's resident-owned communities and provide an example for successful lending elsewhere in the nation.

LESSONS LEARNED	
1.	For lenders and GSEs to open new channels of manufactured home financing in land-lease communities and be successful, they will expect and must receive reliable support in recovering and transferring their collateral in the event of default. New Hampshire Housing's experience suggests the importance of educating resident owners and establishing performance safeguards in organizational documents. New chattel loan programs can and should reasonably include affirmative obligations on the part of nonprofit- or resident-ownership groups to honor and support lenders' prerogatives.
2.	Titling of manufactured homes as real estate positions homebuyers to access additional asset-building benefits, including mortgage credit certificates. Titling reform of manufactured homes in every state could help broaden the delivery of these benefits outside of the three states that currently classify homes as real estate or have relatively easy conversion procedures from chattel to real estate in communities.

D. Federal Government Loan and Loan Insurance Programs

1. HUD Title I Program

The Title I insurance program was created by the federal government in 1934 for insuring loans made for property improvements. In 1959, the program expanded to provide financing for manufactured homes classified as personal property. (HUD operates a mortgage insurance program, Title II, for homes on and titled as real estate.)

Under the program, the Federal Housing Authority insures up to 90% of loans made under the program, with the lender responsible for the remaining 10%. An upfront loan insurance premium of 2.25% is applied to borrowers. An additional 100-basis-point (1%) ongoing premium for insurance premiums also applies to the outstanding principal.

Under Ginnie Mae's currently applicable capital requirements, two lenders make use of this program—Vanderbilt and Countryplace Mortgage.

Over last few years, the interest rate used by lenders in the HUD Title I program has been about seven percent. The program allows a maximum loan term of 20 years. Lenders can charge a two-percent origination fee. Lesser terms can be negotiated between lender and borrower. The program provides a back-end debt-to-income ratio of 43%, with compensating factors allowed.

The program requires that any underlying lease be at least three years in length with one-year renewals thereafter. The program also stipulates that 18 months' notice be provided in the event of lease termination and community closure, and that inadequate notice automatically triggers a one-year lease extension.

Portfolio & Performance

Program staff could not indicate the evolving volume of Title I lending over time. Less than one percent of the loans made include land, so the program's limited scope is directed primarily to buyers of homes in land-lease communities.

The default rate (defined as a claim against the loan insurance) is predicted to be 10% of each cohort year, based on the last ten years' experience. Specific default rates by cohort over the last 3-10 years were unavailable, but could be solicited in the future with a Freedom of Information Act (FOIA) request.

Clientele

The median FICO score among borrowers is in the mid-600s.

2. USDA 502 Program

The United States Department of Agriculture (USDA) has long operated the Section 502 single-family rural home lending program, created by the National Housing Act in 1949. The program offers both Direct and Guaranteed variants and is today referred to as the Rural Home Loan Program. The Direct program provides direct home financing from USDA on eligible properties for qualifying borrowers in rural areas. The Guaranteed program insures privately originated mortgages for qualifying borrowers on eligible properties. Manufactured housing comprises only one percent of the 502 portfolio, despite accounting for about 15% of the nation's rural housing stock.[76]

(A) Direct Program

The Direct program offers a base interest rate of three percent for 30-year, fully amortizing financing; that interest rate can be subsidized down to one percent for qualifying borrowers on a renewable two-year basis.[77] Any such subsidy becomes available if the borrower's income is reduced. The program requires applicants to be without "decent, safe and sanitary housing," unable to get a loan on terms and conditions that the applicant is likely to be in a position to meet, and that the subject property be the principal residence. [78]

Eligible applicants must have incomes of up to 115% of area median income, with financing covering 100% of value and closing costs either borne by seller or financed into the loan. Today, the USDA Direct 502 program has provided 298,533 loans for $15.6 billion. Over the last three years, about 1.3% of the loans (275 of the 20,713 loans) have been on HUD Code manufactured homes, representing 1.1% of the $2.7 billion in production over that timeframe.[79] Interest rates on 502 Direct program loans to buyers of manufactured homes range between less than 1% and up to 5% of total program volume annually.

(B) Guaranteed Program

The Guaranteed program is available through any USDA-approved lender. Approved lenders include any state housing agency, lenders approved by HUD for single-family housing mortgage insurance or as an issuer of Ginnie Mae mortgage-backed securities, Fannie Mae, Freddie Mac, the United States Department of Veterans Affairs, any lender approved for other USDA mortgage insurance programs and Farm Service Agency-guaranteed lenders. Mortgage insurance in the program is covered through an initial upfront fee and an ongoing monthly mortgage insurance premium.[80]

[76] CFED. "Manufactured Housing: Ten Truths."
[77] Urban, Michael. In evaluating eligibility for interest-rate subsidy, USDA housing staff applies a 24% annual income threshold as the maximum housing expense. In manufactured home mortgages done on fee-simple land, subsidies start when principal, interest, taxes, and insurance exceed 24% of income. In the proposed pilot (discussed below), lot rent is added to calculation.
[78] USDA. "Rural Home Loans (Direct Program)."
[79] USDA. "Rural Home Loans (Direct Program)."
[80] Wikipedia.

To date, both the Direct and Guaranteed programs as they relate to HUD-code manufactured housing have focused exclusively on home mortgages placed on fee-simple land and where such homes are titled as real estate. To date, USDA has originated 966,769 Guaranteed loans for $114.8 billion in lending. In the Guaranteed portfolio, 0.6% of these loans (0.55% of loan volume, or $633 million) have been on HUD Code manufactured homes.[81]

Clearly, HUD-code manufactured housing loans have made up a tiny proportion of the overall Direct and Guaranteed Section 502 lending activity around the country to date.

(C) USDA 502 Pilot Initiative

Several USDA offices, namely USDA Vermont-New Hampshire, USDA Oregon and USDA California, have all agreed as of this writing to pursue a pilot lending initiative under the USDA 502 program that would try to expand the application of 502 into this space. In this pilot initiative, USDA staff would underwrite and execute Direct 502 loans for buyers of homes titled as chattel in land-lease communities. All such lending in the pilot program would need to meet several conditions discussed in the "core program requirements" below.

Goals of the USDA 502 Direct Pilot Initiative

As explained by Michael Urban, Housing Director at USDA-Vermont-New Hampshire, the first office to originate a USDA 502 Direct loan under this program, the goals are as follows:

1. Deliver high-quality, low-cost housing to rural low-income households
2. Recognize and capitalize upon the security of tenure provided by long-term leases in resident-owned, nonprofit-owned and a few investor-owned communities
3. Build the market, increase the value of homes already in secure land-lease communities by introducing new products, add to neighborhood curb appeal and deliver very favorable financing terms
4. Promote energy-efficient housing
5. Deliver less risky lending through foregoing, even while serving an underserved market

Core Program Requirements

Per related Administrative Notices on the pilot program:[82]

1. All homes must be EnergyStar®-certified homes or better in terms of their energy performance
2. The underlying land lease for each home must be two years longer than the loan term applied to the home. (Nonprofit- and resident-owned communities typically readily meet this requirement.) In a few isolated cases, investor-owners may have a long-term lease.[83]
3. Any community hosting homes in this program must be approved by the local USDA office; cooperatives and nonprofits must submit organizational documents for review by USDA staff and execute a Memorandum of Understanding for cooperation in event of default of the homebuyer
4. Participating home dealers must be approved by the local USDA office

[81] Per data provided by Michael Urban provided by national USDA office on August 30, 2016.
[82] Administrative Notices, USDA NH-VT, OR, and CA.
[83] For instance, as of the writing of this report, in Vermont, one investor owner of a land-lease community owner qualifies; another is in the pipeline for approval.

Additional Considerations

1. **Foundations.** USDA Vermont-New Hampshire expects all foundations to be fully frost-free slab foundations. In New Hampshire, the foundation requirement has added about $20,000 per unit in cost. In Vermont, a compliant foundation can be delivered at around $6,000-8,000 per unit. The local USDA office has worked with support staff at the national office to refine foundation standards to ensure an "adequate" foundation without incurring undue cost pressures in the program. In the most recent interim guidance from the central office of USDA Rural Development, three options are given for foundations for the Direct program pilot: (1) installation of all piers below frost line; (2) frost-free foundations, accompanied by soils analysis confirming that soils are well-drained and/or soil remediation to replace poorly draining soils with gravel or comparable material to frost depth; and (3) a frost-protected shallow foundation using below-ground insulation to prevent soil from freezing with subsurface drains.[84] Anecdotally, many observers find that "permanent foundation" requirements are often misinterpreted by local USDA offices to mean perimeter foundations.[85]
2. **Appraisals.** All 502 pilot homes must be appraised in a manner consistent with the Uniform Standards of Professional Appraisal Practice (USPAP) and other applicable appraisal standards stipulated in the USDA 502 Direct handbook.
3. **Energy efficiency.** EnergyStar® is a designation initiated by the U.S. Environmental Protection Agency (EPA) and developed and jointly administered by the EPA and the U.S. Department of Energy. EnergyStar homes have three systems designed into them: (a) energy-efficient building envelopes (insulation, tight construction and high-performance windows), (b) energy-efficient air distribution systems (well-insulated and airtight ducts), and (c) energy-efficient equipment (heating, ventilation and air conditioning equipment).

   EnergyStar home construction divides the nation into four climate regions and stipulates performance standards for these regions. Pre-approved EnergyStar design packages are provided for each climate region, which are meant to provide flexibility for local manufacturing plants to design an EnergyStar-qualified home.[86]

   All homes under the Section 502 Pilot are required to be EnergyStar-qualified (or High Performance)[87] homes. This is intended to deliver long-term savings in operational costs, strengthening low-income borrowers' cash flow and therefore their ability to be more financially resilient, which better enables them to build assets over the long term. A 2007 study found EnergyStar homes save 24-29% of energy costs compared to conventional construction. In 2016 dollars, this would be the equivalent of an additional $219-283 per year (or $18-23 per month) in average saved energy costs compared to non-

[84] Hernandez, Tony.
[85] As Jamie Voigt of Centennial Homes in Aberdeen, South Dakota, has observed, manufactured homes, by definition, are designed to be structurally self-sufficient. The frame of a manufactured home provides the structural strength for the home. This contrasts with the foundations designed for modular and/or site-built housing, which rest and rely on the basement to provide the structural support for the dwelling unit (Interview, May 31, 2016).
[86] Manufactured Housing Research Alliance.
[87] High Performance is defined as homes that exceed EnergyStar standards, typically because they are solar-ready or otherwise designed to deliver above-and-beyond energy performance.

EnergyStar homes built to HUD Code in 1994 or later.[88] According to the Manufactured Housing Institute, EnergyStar homes represent 5-10% of those produced nationally.[89]

First 502 Pilot Loan: A Case Study

USDA Vermont-New Hampshire recently approved the first USDA 502 pilot loan to a modular homebuyer in Vermont. The buyer, formerly a tenant of a nonprofit-owned apartment unit, purchased a VerMod doublewide modular home with a solar panel installed. Overall per-unit project cost was $140,000, of which $15,000 was for the solar panels. Five entities collaborated to put this first home purchase together. USDA provided $84,000 as the first mortgage lender under the Direct 502 pilot program, and partnered with the Vermont Energy Efficiency Corporation, Vermont Housing Board, a utility rebate program and the Champlain Housing Trust (with their subordinate financing) to put the balance of the home sale transaction together.

The buyer's home is located in a nonprofit-owned manufactured housing community. The host community, like many, is marked by a wide array of homes, from simple single-wide homes constructed in the early days of the HUD code selling for $2,000 apiece, to another recently-constructed VerMod home priced around $130,000 two doors down.

The next two borrowers under the program are also slated to put their homes in nonprofit-owned communities in Vermont.

Factors Impeding Replicability

1. **Market value gap.** Early efforts to deliver high-quality, energy-efficient manufactured homes can be challenged to be cost-competitive with prevailing home values in land-lease communities because of the relative dearth of home financing available in such communities. As a result, the first transaction, which relied on five sources of financing, is not readily replicable due to the time, effort and complexity associated with aligning supplementary financing beyond the 502 Direct loan. These challenges will be exacerbated by any missing resolution on a cost-effective foundation solution.
   As a result of the cost-value issue, until the market in these land-lease communities is strengthened, in part with the introduction and regular availability of USDA and other cost-competitive sources of financing, either value gap financing, additional equity from the buyer or other value-engineering solutions (e.g., bulk purchase and placement) may need to be brought to bear to take home placement and this pilot program to scale.
2. **Predominance of short-term lease length in investor-owned land-lease communities.** In other USDA pilot states outside of Vermont and New Hampshire, resident and nonprofit ownership represents a small fraction of community ownership in the market.[90] In Oregon, nine communities with 580 home sites are resident-owned. In California, five percent of the communities are resident-owned and less than

[88] Equivalent 2016 dollars calculated by author from website, http://www.in2013dollars.com/2007-dollars-to-2016-dollars. Accessed 24 August, 2016. Assuming all of these monthly energy savings were directed to the home purchase, applying the standard 3%, 30-year fully amortizing Section 502 Direct loan financing terms, the buyer would pick up another $4,200 to $5,500 in borrowing power based on choice of an EnergyStar™ manufactured home.
[89] MHI Duty to Serve Comment Letter.
[90] For a detailed and interactive map of the nation's landscape, of the types of classification provided manufactured homes on fee-simple and leased land, and the levels of statutory encouragement for resident ownership, see CFED's online "Assets & Opportunity Scorecard: Housing & Homeownership - Resident Ownership, Titling and Zoning of Manufactured Homes," available at http://scorecard.assetsandopportunity.org/latest/measure/resident-ownership-titling-and-zoning-of-manufactured-homes.

one percent are nonprofit-owned. Accordingly, the opportunity for taking the USDA 502 pilot to scale will be limited in these states.

V. ELEMENTS OF SUCCESS

ELEMENT 1. Long-term security of tenure.

Common to all of the new USDA 502 pilot program initiatives is a requirement that the underlying lot lease meet or exceed, typically by two years, the length of the loan term on the home. The long-term security of tenure these leases deliver much more closely approximates the fee-simple land control that most American homeowners take for granted and create conditions of success for homebuyer, land-lease community and the host community alike.

Twenty- or thirty-year leases (or perpetual occupancy for members or residents in good standing) should be the gold standard for competitive home financing. Confirmation of the existence of such leases is easy due diligence. Moreover, the positioning advantage of a long-term leasehold interest for the secondary market is straightforward. As a second-best option, minimal consumer protections with modest consumer price indices or other modest annual lot rent increases (like the minimum five-year lease favored by NMHOA, used in Missoula Federal Credit Union's recently launched home-only financing program, or the three-year minimum required by HUD's Title I) could provide a minimum threshold for GSE purchase of manufactured home loans in land-lease communities.

ELEMENT 2. Quality, energy-efficient construction and installation.

Common to all of the USDA 502 pilot programs is a threshold requirement for EnergyStar-qualifying (and/or High Performance Standards) construction. In recent years, there has been admirable inter-organizational work through the U.S. Department of Energy Working Group to strengthen energy standards in the HUD Code while trying to keep an affordable price point.[91] Some builders have developed optimized energy-efficient alternatives that are cost-competitive with EnergyStar homes. Any home independently verified to match or exceed the thermal building envelope performance of EnergyStar homes should be eligible for programs or preferences for the EnergyStar standard. In this way, innovative and cost-effective designs that deliver performance at or better than the EnergyStar standard can and will be rewarded.

ELEMENT 3. Affordable foundation standards.

Well-meaning but overwrought foundation standards that add $20,000 in costs can quickly obviate the availability or undermine the advantages of better financing. Long-time manufactured home builders decry the fact that perimeter foundations, crawl-space foundations and basements have been required on HUD-code homes not because they are needed to deliver any structural advantages, but because they serve to make manufactured homes more "like stick-built" and so help overcome misplaced and outdated product stigma still

[91] Representatives from industry, homeowners' advocacy groups, nonprofit developers using manufactured housing, energy-efficiency research and advocacy, and government all participated in the Appliance Standards and Rulemaking Federal Advisory Committee to contribute to final recommendations. For list of participants, see Docket No. EERE-2009-BT-BC-0021.

associated with this industry. The price of this lack of education among public officials and the public is a home that becomes unaffordable to many of the prospective buyers it was designed to serve. Builders observe that precisely what distinguishes a manufactured home from its site-built counterparts is that its structural strength lies in its frame, rather than in its foundation. To build a foundation for a manufactured home too often means spending money unnecessarily to address political, rather than technical issues.

Moreover, appraisals rarely treat foundations differently and will not recognize a market-value differential between a $5,000 foundation and one costing four times as much. Indeed, the Mendo Lake Credit Union program showed the lowest default track record among all studied. The program does not require permanent foundations or piers, and yet the collateral has not left any of its host communities and the default rate is well below two percent. Similarly, MaineHousing runs a very successful program without anything beyond the anchor tie-down that may be required by local ordinance. Likewise, the Funding Partners program designed to roll out soon in Colorado only requires that the home be affixed. Indeed, traditional commercial lenders have not stipulated permanent foundations.

Accordingly, local USDA 502 offices should consider affordability alongside their concerns for quality in approach to installation. Key industry informants have suggested that high performing frost-free piers—though a very cost-effective industry standard that complies with state placement requirements among the strictest for HUD code housing installation standards nationally—sometimes are construed by local USDA offices not to conform to program standards, often because local offices confuse "perimeter foundations" with "permanent foundations." [92] Such a misplaced requirement could dramatically reduce production volume and impact of pilot programs. In so doing, it could undermine availability and expansion of cost-competitive financing.

ELEMENT 4. Robust homebuyer counseling and training, when needed.

Many studies have verified the efficacy and importance of homebuyer training and counseling. NeighborWorks America, a national network of community development practitioners and homebuyer counseling agencies, has long demonstrated the benefits of homebuyer counseling. In a 2013 Freddie Mac study, counseling reduced first-time homebuyer delinquency by 29%, while in another study, pre-purchase counseling by NeighborWorks affiliates reduced delinquency in the first ninety days by one-third.[93] NeighborWorks has even developed a curriculum for first-time homebuyers. As this paper helps to illustrate, many successful lenders to buyers of manufactured homes have built their success on high-touch servicing and consumer support. [94]

NeighborWorks' efforts to build a robust curriculum specifically for buyers of manufactured homes were well placed. This curriculum should be translated for the many audiences of recent immigrants that populate manufactured housing communities, especially in the South, West and Midwest, and should be a standard part of the support provided by nonprofit organizations, community action agencies and ROC USA CTAPs overseeing home placement programs in their market areas. NeighborWorks could likely initial provide pilot

[92] Per PATH, MHI, and HUD's *Guide to Foundation and Support Systems for Manufactured Homes*, "The pier and anchor support system is the least initial cost for providing a support system for manufactured homes," p. 3.5.
[93] NeighborWorks America.
[94] Examples include lenders discussed in this report, e.g. Mendo Lake CU, Community Loan Fund (of New Hampshire) as well as those who are not, e.g., Opportunities Credit Union of Vermont.

funding support in conjunction with their curriculum and then scale up in response to third-party evaluations and subsequent funding.

Next Step® has prioritized and required homebuyer training as a top priority as well. Next Step requires NeighborWorks' Realizing the American Dream online homebuyer education program, ensuring that homebuyers understand (a) manufactured housing basics, (b) if owning a manufactured home is a good fit, (c) the roles of those involved in purchase process, and (d) proper siting and foundation systems for best financing.[95]

With more homebuyer support, the promise of manufactured housing reaching a broader array of the market will become closer to reality, as most manufactured home residents, with proper support and reasonably reliable employment, should be able to support their housing costs in a long-term, low-cost loan, especially in a nonprofit- or resident-owned community or an investor-owned community with long-term lease security.

ELEMENT 5. Transaction simplicity and minimal subsidy for replicability.

As with any effort to bring a new product to market and build it to scale, standardization, speed and replicability of transaction is important. For the 502 Direct Loan program to reach scale, second- and third-generation transactions will need to deliver sales more in line with the $55,000 to $65,000 transactions typical of the successful programs featured in this paper. The more competitive price point will reach a broader market, reduce reliance on value gap subsidy, and/or multiple sources of financing and so speed transactions and accelerate the scale of impact.

Moreover, with much of the sales machinery concentrated in corporate and vertically integrated versions of community ownership, opportunities for industry leaders to collaborate with nonprofits (e.g., as in NextStep's collaboration with Clayton Homes for preferred pricing) will become an important mechanism to reaching scale for delivering high-quality homes at a strong value and competitive costs. When delivered with competitive financing like that made available by the USDA 502 pilot program or new chattel programs that find a GSE secondary market outlet, it should deliver strong value to the host communities and the homebuyers alike.

ELEMENT 6. Minimal obstacles for lenders to act on security interest.

There are many models to limit home lender risk on homes in land-lease communities. For example, the USDA 502 Direct pilot requires acknowledgment of the primacy of home lender's interests, liability for no more than six months' lot rent, and a Memorandum of Understanding with host nonprofit or resident-owned communities. Mountainside Financial requires some form of community agreement with core provisions for assurances that the community owner (resident-owned community) will work with Mountainside in helping them recover their collateral. Similarly, standard language included in ROC USA template bylaws stipulate for the benefit of Fannie Mae that any "low-income" restrictions do not apply in the event of foreclosure and the lien rights of the resident corporation are subordinate to the rights of the home lender. Such provisions, in providing important assurances to home lenders, are designed to afford priority for home lenders in gaining access to their collateral and redeeming its value.

[95] Next Step. "Homebuyer Education Programs."

Outside of new programs designed to deliver Duty to Serve credit for the GSEs, regular housing finance agencies active in this sector and using mortgage revenue bonds clearly need similar carve-outs from affordability restrictions to be able to lend in nonprofit and resident-owned communities.

Boards of nonprofit- and resident-owned communities will need to cooperate actively with lenders to ensure that they can quickly access collateral and recover value in the rare cases of default. Provisions or practices interfering with smooth collections and recovery will only serve to isolate such communities from what could become their strongest market advantage—access to home financing capital that allows their residents to truly capitalize upon and build their assets on the platform of long-term security and control.

Conclusion

All in all, the factors that lead to successful manufactured home loan programs are familiar to those who study or participate in the field of residential finance. In the absence of long-term security that private land ownership readily delivers to a homebuyer, the long-term security that nonprofit or resident-owned communities routinely deliver strengthens lenders' interest in making long-term, low-interest loans available to buyers. By offering borrowers funding with manual underwriting, lenders can more broadly serve this market. Energy-efficient construction and quality foundations can also enhance the likelihood of lender and borrower success. Well-known approaches such as homebuyer training and high-touch servicing can greatly strengthen borrowers' likelihood of success. A discrete, predictable and manageable regulatory burden for lenders doing manufactured home-only loans is also important to encourage lender participation. Lenders also must be confident that they can act upon and enforce their security interest. All of these factors lead, especially once standardized secondary market outlets become widely available, to a lending environment with competitive rates and security of tenure that position buyers of manufactured homes to enjoy benefits generally taken for granted in the American Dream: a stable, affordable place to live where homeowners can build their assets and better provide for themselves and their families over time.

It is worth noting that of the states studied, only New Hampshire titles all manufactured homes in land-lease communities as real estate. Thus, in New Hampshire, in conjunction with the ongoing Fannie Mae pilot, buyers of homes in the nation's largest concentration of resident-owned communities can expect to see better interest rates and longer terms made available. That pilot will be key to determining whether and to what degree homeownership in a resident-owned community—the closest approximation to private home-land ownership in a land-lease context—can deliver the long-term asset-building potential for low- and moderate-income homebuyers.

With work yet to be done in the chattel lending landscape to further demonstrate—at scale—the efficacy of high-quality lending even to buyers with subprime credit scores, a key question is about the benefits to buyers of manufactured homes in land-lease communities if homes are titled as real estate. What would happen if Real Estate Settlement Procedures Act consumer protections and standard HUD Settlement Statements would apply to these low- and moderate-income buyers? Would the value proposition for manufactured home owners increase if homes were titled as real estate? Would there be a more competitive marketplace for financing these homes? If long-term leases provided a basis not just for USDA 502 and GSE pilots, but also for regularization and mainstreaming of manufactured home loans into typical real estate origination processes, would we see an improvement over the current system of workarounds and ad hoc chattel financing regulation? What if homeowners, as a result, could get a more predictable return on their investments? Could they join their peers in site-built construction in expecting that their purchase of a home is not a decision to incur a liability or to put them at risk (of depreciation with escalating lot rents or loss with community closure), but rather a way to control an asset of stable or even appreciating value?

Several states have demonstrated interest in pursuing titling reform for manufactured homes. Why are homes that observers agree are on par with site-built construction not titled as real estate? How willing are we to accept the disconnect between the quality and durability of the construction of today's manufactured home and the archaic titling practices that make competitive financing harder to find and deliver to its buyers? Several states are rethinking that relationship. State housing finance agencies in at least two states are considering a position of strong support for titling reform.

Further Research

To further enhance and strengthen innovation in single-family chattel finance, several areas could be further understood. Three clear areas are identified below.

First, a broad and deep look at the performance of single-family chattel financing, comparable to the Fair Mortgage Collaborative/CFED study of real estate finance for manufactured homes, would highlight how to balance loan access and performance. With chattel finance programs profiled in this report ranging widely in performance from 1.1% default rates to 10% default rates, and with many for-profit lenders unable to share performance data, there is much more to learn about what can broaden access and still deliver long-term loan performance.

Secondly, anecdotally, a number of appraisers have recognized the value between lower lot rents and the value of homes in a specific land-lease community. Outside of a brief look at the stabilizing effects of resident ownership and the associated expansion of single-family financing carried out by the Carsey Institute in New Hampshire, there has been no systematic or reliable study done on the relationship between long-term security of tenure, better financing and strengthened home values in resident-owned or nonprofit communities. [96] Quantifying any such differential in home values would help make the case for prospective homebuyers, residents in such communities and the lending community about why and how these homes will appraise for more, attract more financing and deliver a stronger overall value proposition relative to land-lease communities with a pattern of aggressive lot rent increases.

Third, quantification of energy savings delivered by EnergyStar and comparable improvements in construction would be helpful. In particular, if energy efficiency analysis could measure reduced heating and cooling burden in terms of British Thermal Units (BTU's) or kilowatt-hours consumed, local practitioners could predict annual savings, based on local climate, typical energy demand and prevailing rates of energy costs. In this way, underwriters could, as Champlain Housing Trust has done, incorporate such energy savings into underwriting, leveraging energy efficiency to expand access to lower-income customers.

Fourth, though this report makes passing mention of the Section 184 program and its use on tribal lands, there is much more research about how well the program works. Specifically, research into overall performance and lessons learned from loan officers, HUD staff and consumers could likely inform additional innovations in chattel finance for land-lease communities. Further work and studies on the use and impact of the Section 184

[96] Ward et al.

program on tribal lands and additional lessons to be learned in farmworker communities and other underserved markets would advance policymakers', lenders' and regulators' effectiveness in this space.

VI. GLOSSARY

Chattel loan

Chattel mortgage or loan is a legal term used to describe financing in which movable personal property is used as security for the loan. The movable property, or chattel, guarantees the loan in this type of mortgage. This differs from a conventional mortgage in which the loan is secured by a lien on real property.

In a traditional mortgage, the lender may take possession of the property serving as security if the loan is in default. With a chattel mortgage, the legal relationship is reversed and the lender does not hold a lien against the movable property (the chattel). The lender instead has had ownership of the chattel conditionally transferred to him until the loan has been satisfied, at which point the borrower resumes full control and ownership of the chattel.

HUD Code

The HUD code refers to the Housing Construction and Safety Standards Act of 1974, which became law on June 15, 1976. From this date forward, any factory-built home with a minimum square footage and constructed on a permanent chassis must meet this national building code. The HUD code establishes requirements like minimum size for a manufactured home, ceiling heights, how many outside doors a home must have, minimum square footage for bedrooms, how many windows a house needs and how much formaldehyde can be used in construction of these permanent dwelling units. HUD code also has requirements designed to make manufactured homes safer in the event of fire.

Though the HUD code is a national standard, manufactured homes still must conform to a few geographically specific standards. HUD divides the nation into different wind zones, roof load zones and thermal zones. All manufactured homes need to meet relevant standards for local placement. For example, a manufactured home destined for a coastal area (with its accompanying hurricane risk) must withstand higher wind speeds, while manufactured homes going to frost belt states must have roofs to support significant snowfall. One advantage of the HUD code is faster and less expensive approval for home plans. This efficiency typically translates into lower per-square-foot construction costs, even though manufactured homes have useful lives comparable to site-built construction.

Land-lease community

A land-lease community is a community where homeowners sign a lease agreement permitting them to use a portion of land (generally not platted or subdivided with separate property identification numbers) owned by the landlord in exchange for rent.

Government sponsored enterprise (GSE)

Government sponsored enterprises, or GSEs, are quasi-governmental, privately held entities established to improve and at times make possible the flow of credit to specific sectors of the economy or to otherwise provide essential services to the public. Ginnie Mae (Government National Mortgage Association, established in 1968), Fannie Mae

(Federal National Mortgage Association, established in 1938) and Freddie Mac (Federal Home Loan Mortgage Corporation, established in 1976) are the three GSEs established by Congress.

Manufactured home

Manufactured homes are constructed according to a code administered by the U.S. Department of Housing and Urban Development (HUD Code). The HUD Code, unlike conventional building codes, requires manufactured homes to be constructed on a permanent chassis. The homes display a red certification label on the exterior of each transportable section. Manufactured homes are built in the controlled environment of a manufacturing plant and are transported in one or more sections on a permanent chassis.

Most such homes will have stairs or ramps leading up to the house, as opposed to a modular or site-built home, which may have entrances and exits on-grade. The roof pitch of a manufactured home today can be designed comparable to that of site-built construction. Manufactured and modular homes today often have a medium pitch of 3.5/12 or 5/12 pitch (3.5″ or 5″ rise over 12″ run). Buyers seeking eight-and-a-half or nine-foot ceilings typically cannot have pitches above a 5/12 pitch. This said, manufactured homes constructed today can be and often are indistinguishable from site-built construction.

Modular home

A modular home is built indoors in a factory-like setting. The finished products are covered and transported to their new locations on a flatbed truck, where a builder assembles them. A modular home is not a mobile or manufactured home; it is simply a home that is built off-site, as opposed to on-site. Cranes are often employed to place the home over a perimeter foundation on site. Often, additional finishes can and will be built on site, such as garages, flatwork (driveways, sidewalks), decks and porches. Modular homes can have a crawl space or full basement, but unlike mobile or manufactured homes, modular homes rely on the perimeter foundation for its structural support.

Mobile home

A mobile home is the generic term used for factory-built homes made before June 15, 1976, when the HUD Code went into effect. After introduction of the HUD code, all subsequent factory-built homes became HUD-code manufactured homes.

Multi-section home

A multi-section home refers to manufactured home that is constructed in two or more sections and put together at a site. A typical double-section home runs 24 feet by 60 feet, or about 1,440 square feet.

Permanent chassis

All manufactured homes are constructed on a permanent chassis (or frame). The chassis, an integral part of the design and construction of the home, is necessary for the transportability of the home from factory to site. It also provides the underlying structural strength that supports the home and cannot be removed. Homes so constructed (and complying with the HUD Code after its introduction) are not regulated by state and local building codes, but exclusively and uniquely by the national building code that is the HUD Code.

Private land

Often called "fee simple" or "fee simple absolute," private land is an estate in land, a form of freehold ownership. It is a way that real estate may be owned in common-law countries. It represents the highest possible ownership interest that can be held in real property. In this report, this form of ownership, routinely associated with site-built construction, is contrasted with the form of tenure common to many manufactured homeowners—that of a typically time-bound leasehold interest in a land-lease community.

Resident-owned community

Resident ownership of a land-lease community can take different forms. Typically, the resident-owned organization has membership interests or shares, sold for a one-time fee. The resident organization is organized either as a nonprofit or cooperative corporation according to laws of its host state. Ownership of a membership interest is evidenced by a subscription or membership agreement and accompanied by a proprietary lease or occupancy agreement. The lease is associated with ownership of the membership interest. Shares in the ROC USA model can be purchased for $100 to $1,000. In contrast, in some resident-owned communities, typically in states like Florida and California, can be purchased (and resold upon homeowners' departure) for thousands of dollars.

Single-section

A single-section home is a home constructed in a factory and transported to its destination in a single trip. The typical size (and most economical design) is 14 feet by 80 feet, which provides about 1,100 or more of square feet of habitable space.

Site-built

Site-built refers to homes built as most North American homes are constructed, where all materials are brought to and the home is constructed on a site. Site-built construction is also sometimes referred to as "stick-built," referring to the studs in the walls typical of much of North American construction. However, manufactured homes are often constructed of similar or even identical materials, including studs and drywall, with exterior options familiar to homeowners including vinyl siding, LP® SmartSide® and other non-concrete exterior treatments (for weight and transportability reasons). Thus, "stick-built" does not really capture the distinction between factory-built and site-built construction.

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