State of the Manufactured Housing Consumer Lending Environment

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Since 1989 manufactured housing has accounted for an important share of this nation's affordable housing stock and approximately (21%) of the total single family housing supply. At an average price of roughly $65,000, the typical new manufactured home is affordable by almost any definition. There exists minimal liquidity for manufactured home lenders, especially since the onset of the credit crunch. Construction of new manufactured homes was 49,800 for 2009, a precipitous drop from 372,800 homes constructed in 1998.

Manufactured home loans for consumers can be grouped into two primary categories – real property mortgages and personal property loans. Real property mortgages are available to borrowers who wish to finance their manufactured home and land together, while a personal property loan is used if the borrower is financing the home only. In the latter case, the land may be leased (e.g. manufactured housing community) or the home often is sited on land (such as family property) that is already owned.

Lending conditions in each of these sub-groups have been severely weakened and would benefit greatly from increased activity from the private asset-backed securities (ABS) market; Fannie Mae and Freddie Mac (collectively, the GSEs); as well as fully operational FHA Title I and Title II programs with full Ginnie Mae participation.

The availability of capital to support any lending market is driven by investors' appetite for such loans. Manufactured housing is one of the few sources of quality; affordable housing that does not receive government support to access the capital markets. In many states, manufactured homes make up the largest percent of non subsidized affordable housing. To complement and promote the industry's efforts, MHI needs national policy-makers as active supporters and vocal advocates.

Personal Property Lending

Asset Backed Securities

In the early part of this decade, the ABS market was a critical source of capital for manufactured housing lenders. This was a very important funding mechanism which no longer exists today. With the downturn in the manufactured housing marketplace, only two companies continued to use the ABS market until the collapse of the financial markets in 2007-2008 which wiped out the ABS market. One company was put out of business because of the collapse of the ABS market, while the other was forced to go into a mortgage loan production only business model. Notwithstanding improved loan performance, the ABS market for manufactured housing loans still remains dormant.

Government Sponsored Enterprises

Fannie Mae and Freddie Mac have historically been very small players in manufactured housing financing. Despite improved loan performance the GSEs policies continue to base loan purchase decisions upon underwriting standards created several years ago. As a result, the companies' automated underwriting systems reject a disproportionate number of the manufactured home mortgages submitted

More recently, during the tumultuous 2008-2009 credit crisis, the GSEs have not provided any support for manufactured housing lending. While the GSEs purchase a very small amount of conforming real property manufactured housing loans, they offer no funding for personal property loans. In fact, less than 1% of their business is manufactured housing even though since 1989 manufactured housing accounted for 21% of all new homes sold in this country, and in 2009 manufactured housing accounted for 43% of all new homes sold under $150,000 and 23% of all new homes sold under $200,000.

In the Housing and Economic Recovery Act of 2008 (HERA), Congress mandated that the GSEs have a "duty to serve" (DTS) the manufactured housing marketplace. Both Congress and MHI believe it is vitally important that the GSEs play a major role in ensuring the availability of affordable financing for low-to-middle income borrowers through adherence to the DTS. Because manufactured housing is so prevalent in rural markets across the country, greater involvement in manufactured housing would not only help the GSEs fulfill their affordable housing mission, it would also assist them in meeting their DTS for rural markets which is also identified in HERA as an underserved market.

HERA was signed into law in July 2008 and requires that the DTS provision be effective on January 1, 2010. Although the Federal Home Finance Agency (FHFA) has issued an Advance Notice of Proposed Rulemaking, to date it has still not published a proposed rule seeking public comments regarding the DTS provision. The lack of priority by the FHFA regarding the DTS provision for manufactured housing is very troublesome, especially as the industry's condition continues to deteriorate.

MHI strongly believes that the DTS requirements to be developed by the FHFA must include a mandate that the GSEs develop loan programs that provide for the purchase of new and pre-owned personal property loans on an ongoing or a "flow" basis. A manufactured home financed with a personal property loan is among the most affordable forms of homeownership as no land is involved in the loan transaction. Today, the industry estimates that personal property loans account for two-thirds of manufactured housing lending. There are approximately 8 million manufactured homes today, about 80% of which were funded through personal property loans. Enhanced liquidity for new homes will help the existing home market as well.

At this time, the secondary market for personal property loans is essentially nonexistent. As mentioned earlier, the GSEs do not currently purchase personal property loans although the charters of both Fannie Mae and Freddie Mac have always allowed for these purchases. MHI believes that the development of a GSE program to purchase these loans on an ongoing or "flow" basis will provide much needed liquidity to manufactured housing lenders, will lower borrowing costs, and will ensure the continued availability of this important form of affordable housing.

As the Administration and Congress focus upon the creation of a successor secondary market entity or entities to the GSEs, MHI believes Congress must ensure that the successor entity retains a nexus to the federal government to help ensure its commitment to affordable housing. More specifically, MHI urges Congress to require that the statutory DTS mandate for manufactured housing migrates to the successor entity.

In fact, the statutory DTS needs to be strengthened in one important area. The current DTS provision provides that FHFA's Director "may consider loans secured by both real and personal property" in determining whether the GSEs are meeting their annual DTS mandate. MHI strongly believes that this language must be amended to state that the Director "shall consider loans secured by both real and personal property". This language change will help ensure that the GSEs are doing everything they should be doing in purchasing personal property loans which secure the most affordable homes available today and in the future.

FHA Title I

The FHA Title I program for chattel loans was virtually nonexistent in the early and middle part of this decade. The program as originally designed in the 70's, contained serious flaws including inadequate loss reserves and premium structure. The result was major losses for lenders, lender defaults and subsequently GNMA take over of Lender obligations. In the late 80's GNMA imposed a moratorium on new lender approval

In 2008, the FHA Title I program was updated and changed from a "pooled insurance" program to a loan by loan program. The new program offers great opportunity for the industry when a final rule is published, and GNMA lifts their moratorium and allows new lenders to issue GNMA securities.

The most recent report is that FHA is prepared to issue a final rule on the program any day now, and GNMA is prepared to lift the moratorium in the next 30-60 days. That should greatly enhance the number of lenders offering FHA Title I financing since they would have a way of replenishing their capital and doing more loans.

Mortgage Lending

Government Sponsored Enterprises

Another area where the GSEs can assist the industry relates to private mortgage insurance. Private mortgage insurance companies today routinely deny coverage for manufactured housing loans, or in the limited number of cases, coverage may be available on an 85% loan to value (LTV) loan where the costs of private mortgage insurance are higher than for site built housing. The requirement to have private mortgage insurance on any loan greater than 80% LTV places a reliance on a private insurance product that is generally unavailable and has had a tremendously negative impact on the GSEs financing of the industry's product.

MHI believes that the FHFA must approve some form of self insurance mechanism for the GSEs, similar to the FHA insurance program, which eliminates the dependence on a private insurance industry that for all practical purposes is on "life support" and in no position to provide sufficient loan level loss protection. The manufactured housing industry's lenders have for many years "self insured" against credit loss and can provide

valuable assistance in developing the levels of reserves needed to cover losses. This mechanism can also allow FHFA and the GSEs to address non-conforming loans in rural areas where appraisals and comparables are not readily available. We believe that a graduated insurance premium, depending on the LTV and the credit evaluation, is a model the industry can embrace.

FHA Title II

This program insures lenders against loss on mortgage loans. The FHA program has become a significant player in the overall market in capturing over 30% of all mortgages. Because of the easy availability of conforming mortgage money and private mortgage insurance, the Title II program in the early and mid 2000's was not utilized a great deal. However, because of the lack of PMI and the extreme tightening of standards in the traditional mortgage market, the Title II program has become a valuable tool for the industry.

While the Title II program represents an important tool for the industry, there are significant constraints currently. Most of the Title II loans have historically been originated by community banks, and specialty mortgage companies who then sold those loans to larger correspondent lenders. Those lenders then securitized the loans through GNMA or sell them to other investors. As of June 2, 2010 there are no significant or major lenders such as Wells Fargo, GMAC, and BAC agreeable to buying Title II MH loans through a correspondent network. Further there are a very limited number of lenders willing to aggregate or purchase loans for pooling into GNMA securities. This drastically reduces the availability of FHA Title II lending. The lenders active in Title II are selling loans on a loan by loan or flow basis to Fannie Mae or Freddie Mac.

The future of Title II lending is further jeopardized perhaps as an unintended consequence by regulatory rules established by both FHA and GNMA.

Specialty lenders originate a substantial portion of FHA Title II loans. Clearly they are serving an underserved market both from a consumer standpoint and geographically since most MH loans are sited in rural markets.

Buyers of MH tend to have moderate incomes and less assets and "disposable" income than the broad spectrum of buyers of site built housing. Since many large mortgage entities do not originate MH loans those loans traditionally are being handled by specialty lenders.

The Federal Housing Administration's "Neighborhood Watch Compare ratios" and GNMA's combined default and delinquency standards unfairly compare lenders rather than product class.

What is the MH delinquency and default rate for a Bank of America or Wells Fargo? If their delinquency was 10% on MH neither FHA nor GNMA would know since their product class delinquency is not compared to other lenders that originate primarily MH loans. MHI does not believe that this is intentional. However specialty MH FHA Title II lenders have the burden to underwrite significantly tighter than their large lender counterparts or run the risk of having offices closed or worse being suspended or barred from participating in the programs.