Nine Myths of Manufactured Housing: What 2004 HMDA Data says about a Misunderstood Sector

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The pre-existing perceptions that surround manufactured housing explain a lot about the actions of its important players. Scared off by the wave of foreclosures five years ago, many lenders approach the sector with fear. Only 130,748 manufactured homes were shipped in 2004, a steep fall from the 348,000 that shipped in 1999[i]. Borrowers want the affordability offered by the sector, but they are migrating from land-lease to land-home. Park owners, holding land that fewer and fewer residents want to lease, entertain the idea of closing parks and selling land.

Some community advocates say it is all bad – all abandoned trailer parks, all depreciating assets. These advocates choose to stick to building affordable site built housing.

In some places, though, community advocates preach a message of higher quality buildings, better financing, and more wealth building. Their message is well received by industry.

Some states are proposing effective solutions, not the least of which are those already taking effect in New Hampshire and Vermont. There are beacons elsewhere, too, in places as diverse as Kentucky or California.

Even its ardent supporters admit that manufactured housing suffers from systemic problems. Building new projects requires advocates to surmount hurdles that are not common to the site built market. Problems like titling as personal property, zoning restrictions, and infrastructure.

We believe that advocates cannot shun this opportunity. Market-created manufactured housing has done much to account for the increase in homeownership rates. From 1997 to 1999, manufactured housing accounted for 72 percent of all new unsubsidized homes in a price range that was affordable to low-income buyers[ii].

Our conclusion is that the policy must recognize the continued persistence of problems in the market. And it should also affirm the potential of manufactured housing as a point of access for wealth building for low income people.

We support nonprofit interventions. Still, we acknowledge that the biggest changes will occur in the marketplace. We have to address the existing problems to realize future potential. Manufactured housing is not as bad as the myths that surround it. Yet there is still truth to some of those myths, and we have to look at how we, as a sector determined to help people build wealth, can overcome those problems.

This paper will test nine myths that have an impact on this sector. On every one of the nine myths, the simple stereotypes give way to more complex facts.

Understanding those facts matters to groups engaged in asset building. There is no way to avoid the fact that manufactured housing mortgage lending regularly strips wealth from low income and rural borrowers. Approximately 42.9 percent of the 242,260 loans originated for manufactured housing in 2004 in the United States bore "high cost" interest rates.

This is very different than the prospect faced by residents of site built housing. Only about 15.5 percent site built homes bear a high cost rate in the 2004 HMDA data[iii]. Only 11.5 percent of first lien conventional originations on site built homes bore high cost rates[iv].

It is huge gap and a classic example of how the poor often pay more for financial services. Among conventional first lien originations on a manufactured home purchases, 52.2 percent are high cost.

But go back and consider what else those numbers tell us. Forty-three percent sounds high compared to the rate for stick built properties. Yet, compared to prevailing expectations, it is almost surprising that the number is not even higher. Forty-three percent means that almost three in five manufactured housing loans are not high cost. This means that the majority of loans do not conform to the expectation of wealth stripping that many advocates fall back upon in explaining their disinclination to work in this sector.

That number gives hopes to advocates already working with manufactured housing. If almost half of all conventional first lien home purchases bear a non-high cost interest rate, then the specter of financing should not impede socially concerned actors from considering manufactured housing.

About our paper

Lack of good mortgage data, at least until 2005, presented an obstacle to participation by policy advocates. In September 2005, the Federal Financial Institutions Examination Council released its 2004 Home Mortgage Disclosure Act (HMDA) Loan Application Records (LARs). For the first time, that data set indicated the specific instances of loans made for manufactured housing.

HMDA data records all loan applications made for both personal property and real property mortgages. It excludes applications for manufactured housing that would not be used as a home. For example, it would not include loans made to school districts seeking to buy singlewides for use as classrooms. The general rule is that HMDA data covers a property if it is meant to be used as housing, according to analysts at the FFIEC.

With that data, this paper will test the notions that sponsor thoughts about manufactured housing. To accomplish that, it will compare nine ongoing "myths" about manufactured housing finance with the HMDA data from 2004. Those myths include:

1. Manufactured housing is for poor, white, and predominantly rural people.
2. Manufactured housing is a southern thing.
3. When it comes to getting access to capital, "lenders will finance anyone." Or, an alternative view on access to capital that says, "No one wants to make loans for manufactured housing."
4. All manufactured housing lending is "high cost." Property type imposes a 300 to 500 basis point premium on pricing of manufactured housing loans compared to single family site built properties.
5. Government guarantee programs like FHA do not play a significant role in manufactured housing.
6. Policy dictates that the government sponsored enterprises (GSEs) play only a limited role in the secondary market for manufactured housing lending.

7. Borrowers cannot take any money out for refinance. A related view holds that these properties do not retain equity.
8. Borrowers cannot access credit to rehab their manufactured home
9. Borrowers are confronted by a narrow set of choices among lenders. Those lenders consist of subsidiaries owned by manufactured housing manufacturers. Few banks or credit unions offer loans for manufactured housing.

Part of the challenge in bringing more socially responsible development lies in settling doubts about the perceptions that surround manufactured housing. Until now, the chance to design research that put those uncertainties to rest has been hampered by an absence of good data. In that vacuum, perceptions continue to hold a place in the minds of decision-makers. Our purpose is to target the stigma and misconceptions of manufactured housing – on both sides of the fence – to see what is actually happening.

There are still good reasons to ask more questions. Many cannot be addressed by this paper. HMDA data does not reveal the legal property status, be it personal or real, of a home. Although research indicates that about half of all financings are for units destined for rented land[v], HMDA data does not help analysts separate manufactured housing loans for their eventual location. HMDA data does not report credit scores, loan to value ratios, or debt-to-income ratios[vi]. All are important variables that influence a lender's decision to allocate credit to a borrower. HMDA does not reveal the age of borrowers, other assets that borrowers hold, or terms of loan. Analysts cannot use the data to distinguish a 30-year fixed rate mortgage from a 40 year stated income interest-only adjustable rate mortgage.

Definition of High Cost

This paper adopts the definition of high cost loans utilized within the HMDA LAR format. The FFIEC provides a discrete basis point description of the price premium on all loans priced at or above 300 basis points over comparable term treasury notes. When a loan is above that threshold, HMDA reports the interest rate premium to the single basis point.

It is not fair to use high cost and subprime interchangeably. High cost loans often cost more than subprime loans. The percentage of loans labeled as "high cost" is partially a product of the yield spread curve. When the difference in interest rates for long bonds shrinks in comparison to five or ten year terms, more loans break the 300 basis point barrier. Thus, whereas in 2004 about 73 percent of subprime loans were priced below the high cost threshold, just 45 percent were in 2005[vii].

The First Myth: Borrowers are Poor, White, and Rural

If a perception exists that manufactured housing serves a largely white, low income and rural population, then is that a justified view? The next table breaks down originators of loans by race, income, and metropolitan status.

Race	Median Income (000s)	Number of Loans	Percent Urban	Percent of Portfolio
African-American	$40	11,158	54.8%	4.6%
Latino	$34	15,284	74.3%	6.3%
White	$42	193,109	59.7%	79.7%
Total	$41	242,260	60.8%	100%

On the first perception, that borrowers are generally white, the perception is true. White borrowers make 79.7 percent of loans.

In terms of being poor, that myth is not entirely true. A better way to put it would be to say that borrowers have modest incomes. They are not without means. The median borrower reported $41,000 in income in 2004. Twenty percent of 2004 borrowers report incomes greater than $65,000.

While manufactured housing may make up the majority of housing stock in many rural areas, most manufactured housing is located in urban areas. The majority (60.8 percent) of loans for manufactured housing go for properties destined for spots within a metropolitan statistical area.

For people concerned with the question of what areas are most affected by asset stripping manufactured housing lending, HMDA data finds that many of the counties most affected are very urban. Los Angeles County, California will pay an additional $1.5 million in loan costs for loans made in 2004. San Diego County will pay an additional $650,000.

Although HMDA data shows that manufactured housing is predominantly utilized by whites, race still matters. African-American borrowers are 1.5 times more likely than non-African-Americans to have a high cost loan. They are 1.28 times more likely than non-African-Americans to be turned down.

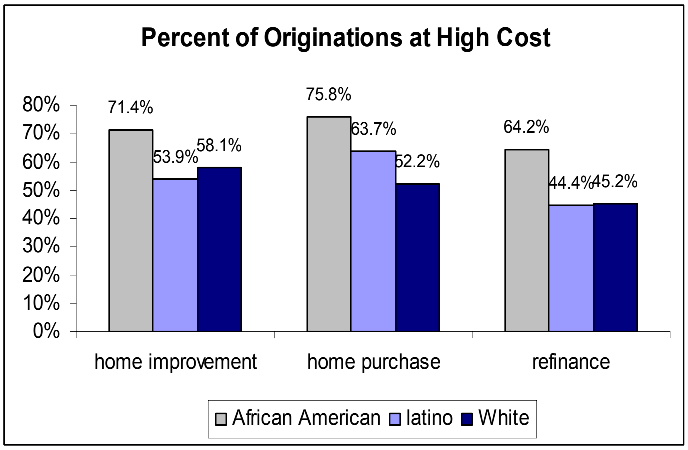
Those numbers is all the more unusual given the high incidence of denials and high cost lending that serve as the point of comparison.

The next table shows difference in access to conventional home purchase first lien mortgages for borrowers in the United States.

	denial rate	**non-group denial rate**	**High cost pct**	**Non-group High Cost Pct**	**odds ratio denials**	**Odds ratio: High cost**
African American	64.6%	50.4%	73.1%	48.9%	1.28	1.50
Asian American	45.1%	51.4%	53.3%	52.2%	0.88	1.02
Latino	56.8%	50.9%	61.9%	51.5%	1.11	1.20
White	47.6%	61.2%	50.3%	59.6%	0.78	0.84

Conventional mortgages make up the great majority of loans. The table shows that among identified racial and ethnic groups, that African-Americans are most likely to be denied for a manufactured housing loan. They are 1.50 times more likely than other borrowers to be denied. Whites (odds ratio=0.84) are less likely than other groups to be denied for a mortgage. More than half (52.2 percent) of all conventional home purchase first lien mortgages are denied.

African-American borrowers are more likely to pay more for their conventional home purchase first lien mortgage than white borrowers. More than 73 percent of African-Americans originated loans at high cost rates, compared to 50.3 percent of white borrowers.



The next table compares the incidence of high cost originations among non-Latino African-Americans, non-Latino whites, and Latinos. The table considers only conventional loans. The rate of high cost lending is expressed for home improvement, home purchase, and refinance loans.

The home purchase category differentiates most strongly by race. For African-American and Latino borrowers, home purchase loans are the most likely loans to bear a high cost interest rate. This is not true for white borrowers.

Geographic dispersal of population may account for some of the disparate relationship in high cost lending rates. A greater percentage of African-Americans live in the states where high cost lending is rampant. Then again, it may be a cause and effect relationship whose direction is hard to pin down without further study.

Income is not a strong factor in the likelihood of a high cost loan. In fact, African-Americans with a high cost loan actually have an insignificantly higher level of income than do African-Americans with a low cost loan. The same holds true for Native Americans. White borrowers with high cost loans lag those with low cost loan in income level by less than $4000, on average.

The Second Myth: Manufactured Housing is a "Southern Thing"
Part of the lore surrounding manufactured housing dovetails with other perceptions of a Southern rural lifestyle. Potentially, this notion might dissuade nonprofit groups from considering manufactured housing development.

The myth is certainly not true. Neither the modern South nor the geographic distribution of manufactured housing fully fits with that perception exclusively. Nevertheless, the South does have a good portion of the country's manufactured housing stock.

The map "Number of Originations by State" shows all originations made for each of the states in the Continental US. Excluding Alaska and Hawaii from our analysis makes little difference as neither of these states uses manufactured housing for its homes. Alaska only made 65 originations in 2004, for example.

So, while the South does include some of the states with the highest numbers of manufactured housing loans, it is not unique. The West Coast and Michigan also originate many manufactured housing loans. These markets are hardly uniform. In California, the average amount borrowed for a home purchase origination is $113,140. However, in Florida the average amount is just $59,160 and in Michigan, the average amount borrowed is just $42,320.

The Third Myth(s): "Lenders will finance anyone", or alternatively "No One can get a loan for manufactured housing"

The manufactured housing industry experienced a boom in the 1990's when annual sales of manufactured homes more than doubled, from 174,000 in 1991 to 374,000 in 1998[viii]. The boom, which was initially sparked by improvements in design and quality in the product as well as an improving national economy, was also fueled by lenders who relaxed credit standards in order to gain access to the growing market and compete with other lenders.[ix]

This lenient lending, however, led to massive numbers of defaults and repossessions that stifled the industry. The repossessed inventory of manufactured homes went from $300 million in the beginning of 1999 to $1.3 billion at the end of 2002, with the percentage of loan value recovered by sale of repossessed collateral dropping to as low as 25 percent.[x]

In this context, a person's perception surrounding access to credit may depend upon the timing of their exposure to the field. People working since 2000 will have a different notion of credit availability.

Things have changed since 2000. Although no HMDA data exists to make a statistical claim about lending prior to that time, anecdotal experience describes a very different mood.

"That is what is driving the industry – the financing," says Chris Parrish, a park owner in Garner, North Carolina. Parrish serves on the Board of Governors for the National Communities Council of the Manufactured Housing Institute (MHI) and on the MHI Board of Directors.

"The lenders got hurt," adds Parrish. "Some, by their own fault. They have backed off so much that there is no resale market."

It is not unusual for lenders to have a large set of used homes for sale. At this moment, 21st Century Mortgage, a subsidiary of Berkshire Hathaway, has 77 foreclosed homes for sale in North Carolina alone. The presence of so many homes hangs over the market and drags down resale values. The glut cannot be discounted as a problem. It curbs the ability of residents to build wealth through their homes.

That may also explain why lenders have become so strict about approving mortgage applications. In 2004, half (49.7 percent) of all manufactured housing mortgage applications and 52 percent of conventional first lien home purchase applications were denied.

The map "Declination Rates, Conventional First Lien Home Purchase Applications" shows that manufactured housing lenders reject a high percentage of applications. This is a very different market than for site built properties, where generally about 12 percent are denied in any year[xi].

Only Puerto Rico's manufactured housing lending (declination rate is 7 percent) exceeds the national average for stick built. Among bigger states, the lowest declination rates are Nevada, Arizona, Washington, Oregon, California, and Maine. All had declination rates between thirty four and forty percent.

HMDA data confirms the latter expectation: it is difficult to get a manufactured housing loan.

The Fourth Myth: All Manufactured Housing is High Cost

Prior to arrival of HMDA data, there was no systemic way to gauge the high cost of lending for manufactured housing. One assumption held that property type imposed a 300 to 500 basis point premium on pricing of manufactured housing loans compared to single family site built properties.

The truth is that more than forty-two percent of all manufactured housing originations bear a high cost interest rate. Within home purchase first lien conventional applications, 52.2 percent have a high cost interest rate. By contrast, just over 15.5 percent and 11.5 percent of loans for site built properties are high cost[xii].

The table below ranks states by the number of conventional home purchase (first lien) originations issued at high cost. It is a dubious list to head up, to be sure.

state name	Sum	High cost	not high cost	pct high cost
Texas	9,825	6,827	2,998	69.5%
Florida	10,812	4,242	6,570	39.2%
California	7,638	4,142	3,496	54.2%
Alabama	4,534	3,490	1,044	77.0%
North Carolina	6,162	3,259	2,903	52.9%
South Carolina	5,090	3,221	1,869	63.3%
Tennessee	5,106	3,188	1,918	62.4%
Louisiana	3,660	2,717	943	74.2%
Mississippi	3,190	2,629	561	82.4%
Georgia	3,746	2,126	1,620	56.8%

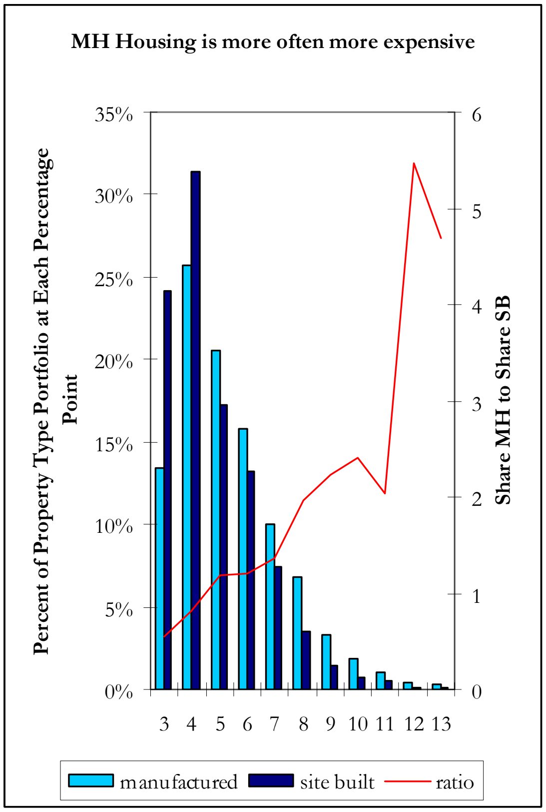
This table shows why high cost manufactured housing lending should concern people concerned with asset building among families in the Southeast. With the exception of California, every one of these states comes from the Southeast. In Mississippi or Alabama, approximately four in five conventional home purchase originations bear a high cost rate.

The map "High Cost Loans – Percentages" shows the high frequency of high cost lending in the South. When combined with the earlier map "Number of Originations by State", a good sense of the geographic footprint of the crisis in manufactured housing comes into view.

The implication from this map is that lending in the Southeast is most often at high cost prices, relative to the rest of the county. The implication from earlier maps is that lending is busy in Southeast as well as the West. Taken together, the two maps show that the Southeast the region that is simultaneously experiencing high levels of originations and high percentages of high cost loans.

While this area shows serious problems, the most aggressive efforts by nonprofit organizations have taken place in other states. Groups in New Hampshire, Vermont, Kentucky, California, and Florida are reliably able to demonstrate success in using manufactured housing for affordable housing efforts. With a few notable exceptions, the Southeast is largely left to the marketplace.

Going back to the idea that the average premium is between 300 and 500 basis points, we see that the average premium is a lot less. Among high cost loans, site built homes averaged a premium to Treasuries of 479 basis points. Manufactured housing loans had a premium, above Treasuries, of 548 basis points. With rounding, the different is slightly less than seventy basis points. Both manufactured housing and site built loans offer pricing up and down the interest rate spectrum. This is the era of "risk-based" pricing for borrowers regardless of property type. Nevertheless, more of the high cost share of the entire site built portfolio bunches up at rates below 500 basis points (100 basis points equals 1 percentage point) premium. The manufactured housing portfolio spreads out more evenly.



The chart "MH Housing is more often more expensive" shows the percentage of loans originated on conventional home purchase first lien homes at high cost rates for both manufactured housing and site built homes. While there were only about 111,000 manufactured homes in this category, there were over 2 million site built homes with the high cost conventional home purchase first lien profile. For the sake of comparison, the chart uses percentage of originations for each type of property.

After 500 basis points, the characteristics of the two arrays of property types change. Manufactured housing does fit with the stereotype. It is more high cost. This is true for every 100 basis point set.

The red line in the left chart makes the change most clear. It shows how the ratio changes as the price of loans goes up. In the chart, the ratio becomes significantly higher at the upper end of the price array. It shows that a greater share of manufactured housing loans are priced at very expensive rates compared to site built loans.

The map "High Cost Lending, Percentage Manufacture as a Share of All High Cost Lending" shows the extent that high cost manufactured housing loans make up the share of all high cost lending. In some cases, manufactured housing is almost half of all high cost lending (West Virginia, 42.6 percent). Nationally, manufactured housing only constitutes one in ten high cost loans.

The outcomes are impacted by the degree to which states depend upon manufactured housing for their housing stock. If a greater share of housing is manufactured housing, then it follows that most likely a greater share of high cost lending in that state will be high cost manufactured housing lending.

We can extrapolate from the HMDA data to describe a sense of the overall impact of costs. The next table examines how much money borrowers pay from high cost manufactured housing. It divides all of the interest paid beyond the interest rate threshold by the number of mortgages originated in 2004. This smoothes out differences in states with different percentages of high cost lending. This perspective gives a sense of the cost faced by a state's manufactured housing residents in terms of their monthly expenditure on above threshold interest. States where residents make fewer than 500 originations are excluded.

state name	Loans	high cost	Monthly Cost
Alabama	7,486	$ 4,495,023	$ 50.04
Vermont	585	$ 317,125	$ 45.17
Tennessee	9,638	$ 5,089,447	$ 44.01
Maryland	1,088	$ 563,659	$ 43.17
California	15,343	$ 7,914,359	$ 42.99
South Dakota	1,037	$ 513,945	$ 41.30
Massachusetts	794	$ 383,414	$ 40.24
Arkansas	4,618	$ 2,161,156	$ 39.00
Michigan	10,478	$ 4,809,798	$ 38.25
Oklahoma	4,647	$ 2,104,812	$ 37.74

Residents of Alabama, Vermont, and Tennessee face the highest per-resident burden. The main point, though, is that this shows that a sizable amount of wealth is leaving the hands of residents each year. In Alabama, monthly housing costs for owners of manufactured homes are just $339[xiii]. Just the portion of interest considered as "high cost" accounts for almost fifteen percent of that figure.

The map "Wealth Stripping – Excess Interest Paid per Borrower" shows the average amount that a family pays in interest per year on the portion of their interest above the interest rate threshold. This is only the last percentage points of interest. A loan priced below threshold will not contribute to this map.

A second observation about this map is that it shows how high cost manufactured housing lending often occurs in places where affordable housing initiatives are already active. Places like California, Massachusetts, and Maryland have some of the highest real estate prices in the country. Non-profit developers have been committed for years to provide more affordable housing in those markets. Yet, in most cases, it would be fair to say that most of their efforts have focused on site built properties. Nonprofit and other socially concerned developers have plenty of opportunities to serve manufactured housing residents.

Myth Number Five: Government guarantee programs do not play a significant role in manufactured housing. The truth shows that government programs play a big role in the manufactured housing market than they do in the site built sector. FHA guarantees appear to improve the availability of low-cost loans. FHA guarantees help consumers build wealth. As well, they require easier underwriting standards. They are a positive presence.

Socially responsible efforts to build more manufactured housing communities can tap several streams of government subsidies. HOME funds, community development block grants, mortgage revenue bonds, and the Rural Housing Services program are examples of programs that exist to support manufactured housing residents[xiv].

FHA borrowers, on the average, make less money than people who borrow with conventional loans. In spite of having lower incomes, borrowers under the FHA program are denied less frequently.

The next table shows the share of borrower income as a percentage of median household income in the borrower's respective metropolitan area. This table excludes all rural lending because HMDA data does not append median incomes for non-metropolitan areas.

			denials	originations	Denial Pct
loan type	Race	Number of originations	share of median income		
conventional	African-American	2,900	68%	88%	64%
	Latino	6,007	72%	88%	27%
	White	53,596	75%	96%	48%
FHA	African-American	626	56%	67%	36%
	Latino	1,350	70%	77%	25%
	White	8,791	68%	78%	23%

Includes conventional and FHA Home Purchase First Lien Loans

Denial rates drop significantly in the FHA program. In the conventional market, many borrowers earn nearly as much as the community-wide median income. The four percentage point difference in income that separates white manufactured housing borrowers, for example, from the average household probably amounts to less than $2,000 in most cities.

In general, participation in one of the federal loan programs changes the likelihood of loan cost significantly. Median income for conventional loans ($41,000) exceeds the level among borrowers in the FHA ($39,000) and FSA ($37,000) programs. It almost matches the income level among VA borrowers ($44,000). Yet conventional loans are more than nine times more likely to bear a high cost interest rate (48.0 percent) than are loans (5.2 percent) in any one of the three federal loan programs.

Guarantees granted to borrowers under the FHA program make a difference in manufactured housing. Those guarantees protect lenders from the high default rates experienced in manufactured housing lending. In 1998, these deficiencies helped contribute to a rate of default of 12 percent, which was four times higher than that of loans for site built properties[xv].

The National Housing Act currently caps the percentage of FHA manufactured housing loans issued by any lender to ten percent of that lenders' total number of loans. Since many lenders avoid the manufactured housing market and only about 35 specialize in the field, this curbs the ability of consumers to get FHA loans.

High cost conventional loans cost a lot more than high cost FHA loans. In 2004, that gap reached 126 basis points. For African-American and Asian-American borrowers, the difference was even greater: approximately 160 and 182 basis points, respectively. What's more, whereas 52 percent of conventional loans were below the high cost threshold, more than 94 percent of loans sponsored by loan guarantee programs (FHA, FSA, VA) were below the high cost threshold.

Myth Number Six: There is not much of a secondary market for manufactured housing. Government-sponsored enterprises (GSEs) do not play much of a role in the manufactured housing market.
There is a secondary market for manufactured housing. It is hard to know the extent of involvement by the GSEs because they have no HMDA reporting requirements. It is possible to conclude that the benefits of securitization are closed to most owners of homes sited in land-lease parks. The GSEs are still exploring how to serve personal property land-lease homes.

The HMDA data shows that more than 150,000 loans were purchased in 2004. Remember that the country only originated 242,460 loans for manufactured housing properties during the same year. If more than 3 of every 5 mortgages are sold on the secondary market, then liquidity for manufactured housing mortgages approaches levels accorded to site built housing, where approximately 7 in 10 mortgages are resold[xvi].

Advocates have pointed to the lack of secondary market financing as one of the biggest obstacles to reform in the manufactured home sector. The numbers in the preceding paragraph belie those claims. There does appear to be liquidity for manufactured home mortgages. More liquidity means more new money available for loans. Most likely, such a change would lower some of the interest rates faced by borrowers.

The secondary market is largely left to private institutions. The table below shows who is participating in the secondary market for loans.

Rank	Purchaser	Number	Corporate Parent
1	JP Morgan Chase, NA	99,736	Same
2	Vanderbilt Mortgage	13,858	Berkshire Hathaway
3	Wells Fargo Funding	12,957	Wells Fargo
4	Countrywide	4,788	Same
5	Washington Mutual	4,086	Same
6	Residential Funding Corp.	2,905	General Motors
7	Lehman Brothers Bank	1,238	Same
8	Green Tree Servicing	1,029	Cerberus Capital/GE
9	Homecomings Financial Network	871	General Motors
10 (tie)	US Bank, NA	822	Same
10	Greater Pittsburgh Police Credit Union	822	Same

It would be fair to question the level of competition in this market. The majority of loans on the secondary market are purchased by one institution – J.P. Morgan Chase Bank. In 2004, Chase purchased 99,736 manufactured home mortgages. This represents approximately two-thirds of the entire secondary market for manufactured housing. In some states, notably Alabama and Mississippi, JP Morgan Chase Bank accounts for more than 90 percent of secondary purchases. Among states with large manufactured housing markets, these are the two states whose mortgage portfolios bear the highest average interest rates – fully 6.36 percentage points above Treasury Notes in Alabama and 6.19 percentage points in Mississippi.

Lagging behind with the second and third largest presences in the secondary market are Vanderbilt (13,858 purchases), a subsidiary of Berkshire Hathaway, and Wells Fargo Funding (12,957 purchases). Both JPM and Vanderbilt buy conventional mortgages. They do not purchase FHA, FSA and VA mortgages.

Yet while there is a secondary market (first part of the myth is "True"), the GSEs remain on the sidelines. HMDA data cannot confirm the absence of the GSEs. They do not have the same reporting requirements as other financial institutions. Their activities are not reported in HMDA data. Nevertheless, the restrictions that the GSEs put on purchases of manufactured housing mortgages guarantee that few loans will fit into their profile.

Fannie insists that manufactured housing meet a high standard before it will purchase loans. Property must be classified as real property, with HUD certified building standards, sited on resident-owned or cooperative-owned land with a permanent foundation and permanent utilities, among other requirements[xvii].

Fannie and Freddie buy some manufactured housing loans. One estimate indicates that their portfolios capture more than 100,000 homes annually[xviii]. Those loans only constitute a small fraction of their overall portfolio. For example, less than one-half of one percent of Fannie Mae's portfolio consists of manufactured housing loans[xix]. However, since those do not include ones classified as personal property, securitization does not benefit the least well-off.

The industry, consumers, and lenders would all benefit from more GSE loan purchases. Retail banks and consumer finance groups benefit from secondary market purchasing through increased liquidity. Those benefits go to institutions that serve site built lending. Indirectly, those benefits go to residents of site build lending as well.

Some private financial institutions have entered the market for securitization without the leadership of the GSEs. The dominant player is JP Morgan Chase. Although it is not the place or the ability of this paper to make an investment analysis, these numbers at least suggest that several private financial institutions believe that the rewards outweigh the risks.

A different set of institutions are active in the purchase of FHA and VA mortgages. Granted, this is a smaller market. FHA mortgages make up about one-tenth of the securitized manufactured home market, whereas VA loans are a rarity. Just 658 VA loans were purchased in 2004.

Wells Fargo Funding buys the most loans of any lender among both FHA and VA portfolios. Wells Fargo Funding owns half (49.9 percent) of all FHA purchased mortgages and about one-third (32.1 percent) of purchased VA mortgages sold in 2004. Washington Mutual Bank, FA and Countrywide Home Loans represent the second and third biggest players, respectively in both the FHA and VA sectors.

Myth Number Seven: Borrowers cannot take any money out for refinance. These properties do not retain equity.
Not true. Lenders made more than 86,972 refinance loans in 2004. There is strong demand. More than 269,000 applications for refinancing were made in 2004.

As if to further defy the stereotype, the average amount ($72,560) tops the average loan size for a new manufactured home purchase ($62,250).

Wells Fargo, the leading providing of refinance loans, made 5,890 refinance originations in 2004. Argent, a subsidiary of Ameriquest, followed closely with 4,723.

Most significantly, only about half (49.7 percent) were declined. Loan type makes essentially no difference in underwriting. Decision percentages are the virtually the same for home purchases (49.8 percent denial rate) and home improvement (49.3 percent denial rate) loans.

One characteristic about refinance loans is that they have to be made on old, or at least not new, homes. If the perception held that manufactured were truly depreciating assets, then underwriting on used manufactured housing should be strict. It appears that lenders are willing to take the risks associated with used manufactured housing.

Myth number Eight: Borrowers cannot take out any money to make home improvements. Lenders will not underwrite properties do not retain equity.
Not True. Lenders made 17,334 loans to owners of manufactured housing for home improvements. Borrowers made 45,058 applications and more than half (50.7 percent) were approved (although some were approved but not originated when borrowers declined the offer). The leading lender, with 2,335 originations, was Key Bank.. Beneficial, a subsidiary of HSBC, followed Key Bank with 520 home improvement loans.

The average loan size was $32,780.

Myth Number Nine: The majority of lenders are primarily made by four or five lenders who are simultaneously owned by manufactured housing manufacturers. Banks and credit unions do not make loans. Few banks or credit unions offer loans for manufactured housing.
This myth stems from the image of the aggressive dealer hawking homes off of a roadside lot in a manner akin to a car dealership. Unlike traditional site built lending, loans for manufactured housing were originally written through a vertically integrated model. A borrower could potentially transact with a dealer who acted in the role of home builder, realtor, lender, landlord, and property inspector simultaneously. Loans could be originated in an office on the site of the lot.

Today, some aspects of the vertical model remain. Clayton Homes, for instance, still offers loans through two mortgage subsidiaries Vanderbilt Mortgage and 21st Mortgage (also known as 21st Century Mortgage).

That is not the only alternative. Mortgage finance companies, banks, and even credit unions all make loans for manufactured housing.

The next table ranks lenders by their number of manufactured housing mortgages. It includes all types of mortgages and includes categorizations of the different loan purposes.

Lender Name	Corporate Name	rehab	purchase	refinance	total
Vanderbilt	Berkshire Hathaway	-	14,984	3,226	18,210
Wells Fargo	Wells Fargo	366	11,442	5,890	17,698
21st Mortgage	Berkshire Hathaway	-	7,283	1,011	8,294
Countrywide	Countywide	141	4,286	3,001	7,428
Argent Mortgage	Ameriquest	448	2,237	4,723	7,408
Chase Manhattan Mort	JP Morgan Chase	19	4,299	1,732	6,050
Origen Financial	Origen	-	4,745	-	4,745
Ameriquest Mortgage	Ameriquest	225	8	3,097	3,330
Wachovia Bank	Wachovia	127	1,853	1,170	3,150
Beneficial	HSBC	520	4	2,520	3,044
Key Bank	Key Bank	2,335	95	431	2,861

This table shows a few things. Subsidiaries are not the only participants in lending on manufactured housing. Vanderbilt and 21st Mortgage are part of the Clayton Homes subsidiary of Berkshire Hathaway. The rest consist of banks (Wachovia, Key Bank, Chase Manhattan) and mortgage finance companies. The mortgage finance companies, like Countrywide and Ameriquest, lend for properties other than manufactured housing. If anything, Berkshire Hathaway's presence is both a legacy and an exception to the new rules that appear to govern the market.

There are specialists. Neither Berkshire Hathaway unit makes any home improvement loans. Institutions like Beneficial (mostly refinance) or Key Bank (home improvement) focus on one subset of lending.

Credit unions do make loans on manufactured housing. In fact, some make a lot of loans for manufactured housing. In 2004, the San Antonio Federal Credit Union originated 1,174 mortgages. The North Carolina State Employees Credit Union originated 706. In all, credit unions agreed to 8,815 mortgages in 2004.

Conclusion

All of these disparate points should contribute to larger conclusion: that more opportunity and more challenges await advocates of affordable housing in this sector.

Manufactured housing finance is neither all bad nor all good. The facts turn out to be more nuanced than the simple stereotypes that often accompany public perceptions.

HMDA data shows that while most manufactured housing residents are white, they are often not living in rural areas and they are generally not poor. The majority live in urban areas and with incomes that fall only slightly short of metropolitan medians.

HMDA data should make it clear that getting loan from a lender remains difficult. Approximately three in seven loans bear a high cost interest rate. Nevertheless, four in seven do not have a high cost interest rate.

While the glut of foreclosed homes puts a strong curb on resale, borrowers are still able to tap their homes for refinance or for home improvements. This suggests, however anecdotally, that some value remains in their property. As long as the cost of owning a manufactured home can stay equivalent to renting, then the ability to retain any equity puts this form of tenure on a higher standard than the alternative of renting.

Lending is generally no longer part of the multiple functions assumed by manufactured housing manufacturers. Subsidiaries of manufacturers still make loans to residents. They are joined by consumer finance companies like Countrywide and Ameriquest. Some traditional banks such as Wells Fargo, Key Bank, Wachovia, and JP Morgan Chase originate loans. Even credit unions have engaged in the sector. In other words, a broad and diverse set of companies see manufactured housing lending as an investment with a favorable risk/reward profile. It is not just for originations, either, but also in the secondary market where private firms have determined that manufactured housing loans are a legitimate investment.

Solutions to building wealth through manufactured housing cannot conform to a one-size fits all approach. What is true for real estate markets in California does not hold for Mississippi, for example. In California, for example, price pressures on site built housing impact the market. In communities with rent control ordinances on lot rents, homes have appreciated consistently. Industry analyst Steve Hullibarger maintains an empirical record of appreciation among 1,500 properties in California.

If advocates want to make a real difference in helping low-income people build assets, they must engage with the private marketplace. There are notable successes in some places, but not everywhere[xx]. The footprint of manufactured housing lending is greatest in some of the nation's most impoverished regions.

Research speaks clearly about home ownership. There are many non-financial benefits of home ownership such as more neighborhood stability and greater civic participation. Yet the ownership of a home is not enough. To an extent, the type of home also matters. Some housing arrangements have negative impacts. [xxi]

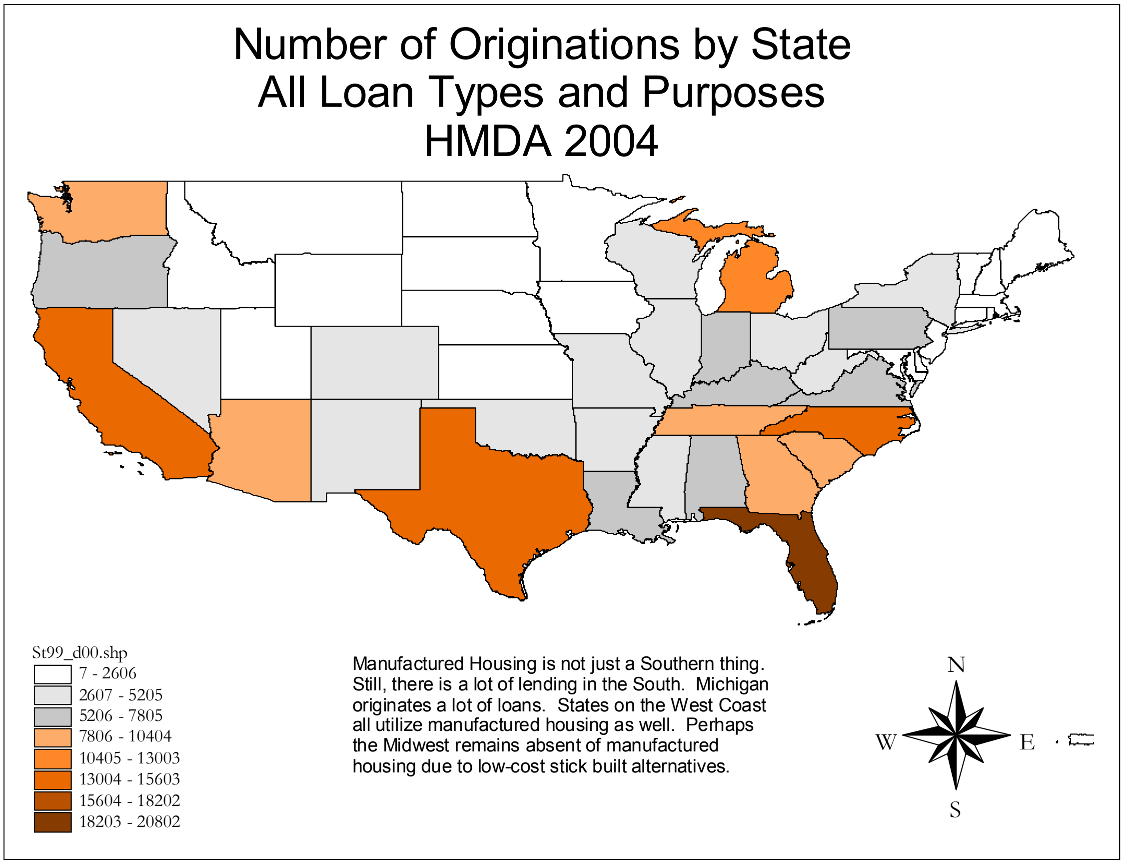
Consider what the engagement of nonprofits to this field could mean for low income residents. Could consumer counseling bring the same results to low income residents of manufactured housing as it has for people living in affordable site built properties? Could recognition of manufactured housing as an accepted CRA-related investment spur new access to capital for low-income borrowers? What difference would it make if more states adopted rules to classify manufactured housing as real estate? Could standardization of underwriting by GSEs contribute to liquidity?

Spend time in any land-lease community and you will soon recognize that there are three basic problems: Residents in most states have little recourse to protect themselves from the threat of park closure. Park owners, knowing that "mobile" homes are actually rarely moved, can demand rent increases. Finally, many parks have inadequate infrastructure. All undermine the ability of the owners of manufactured housing to build equity in their homes.

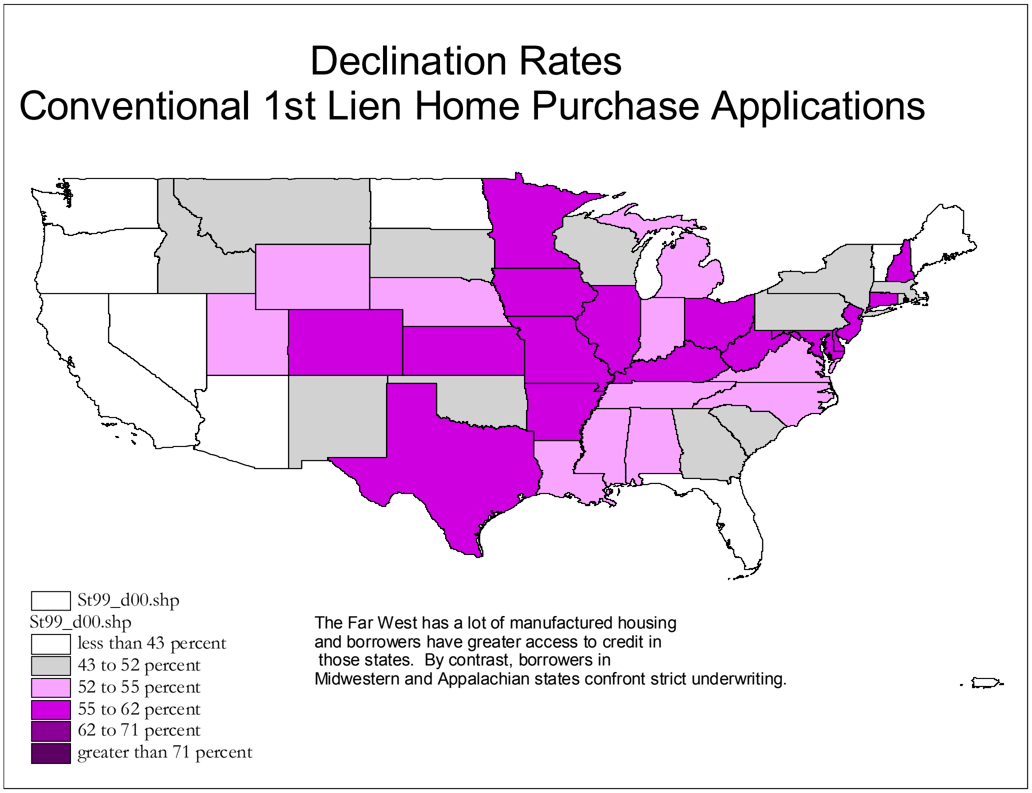
Nevertheless, manufactured housing is nothing if not affordable. Manufactured housing represents an opportunity for low-income residents to access homeownership. Manufactured housing represents approximately half of the housing stock priced under $100,000 in America, according to Census 2000. The average cost of a manufactured home sold in 2000 was $46,400. Average prices for site built homes reached $159,524[xxii].

The space within that conflict, where residents weigh unresolved problems against the prospect of an affordable home, represents the opportunity that housing advocates must consider.

Map One: Number of Originations by State

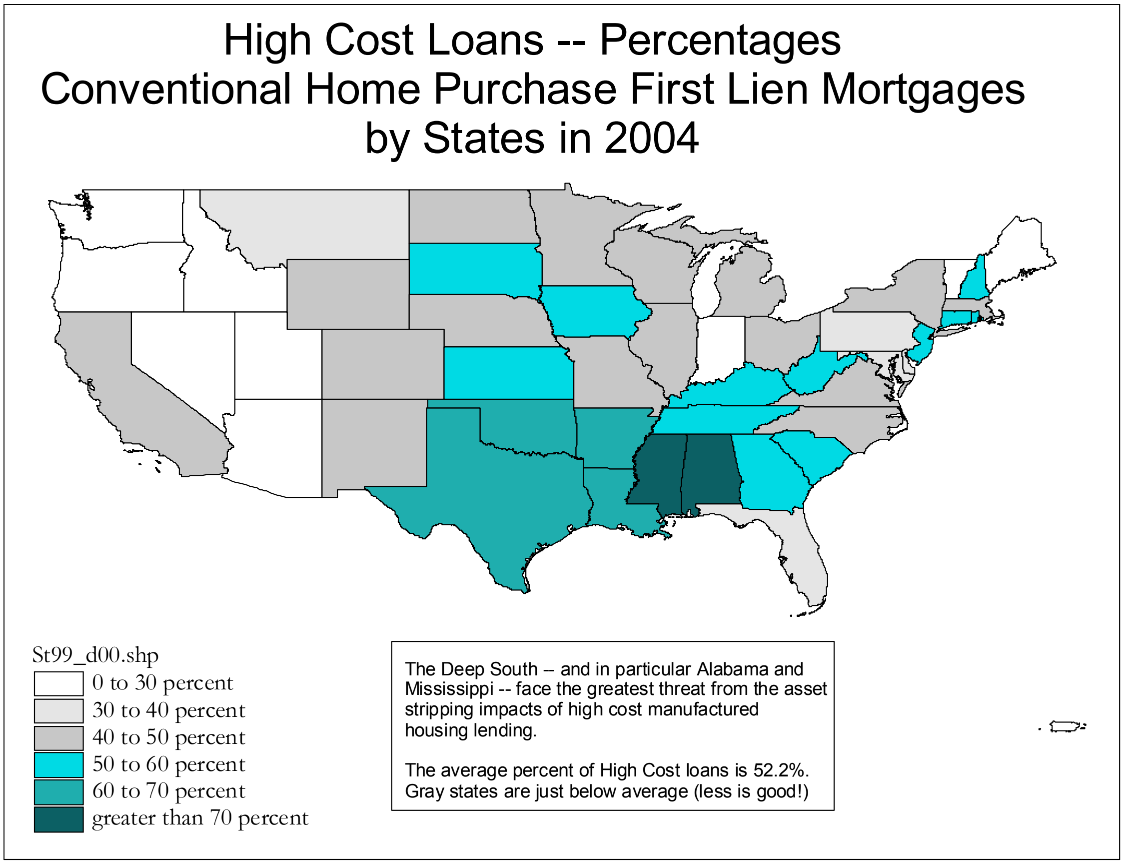


Map Two: Declination Rates



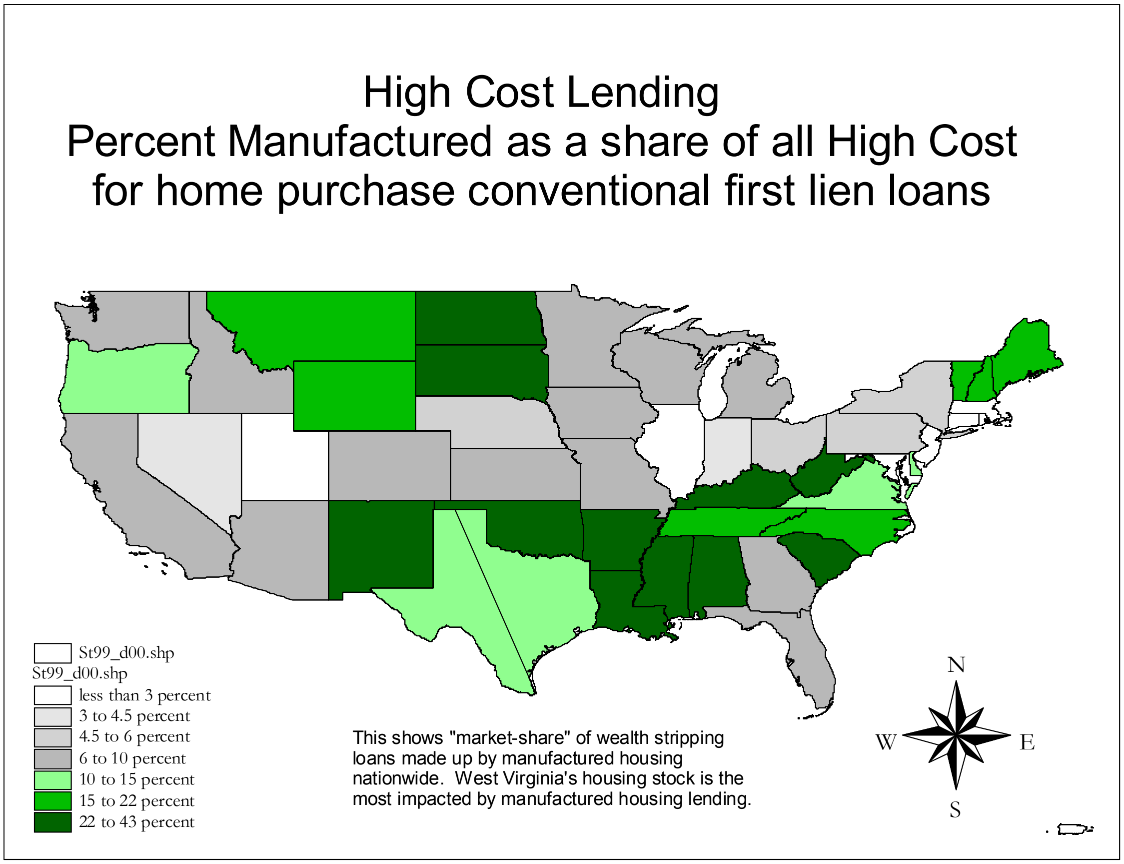
Home purchase, conventional first lien loans.

Map Three: High Cost Loans – Percentages



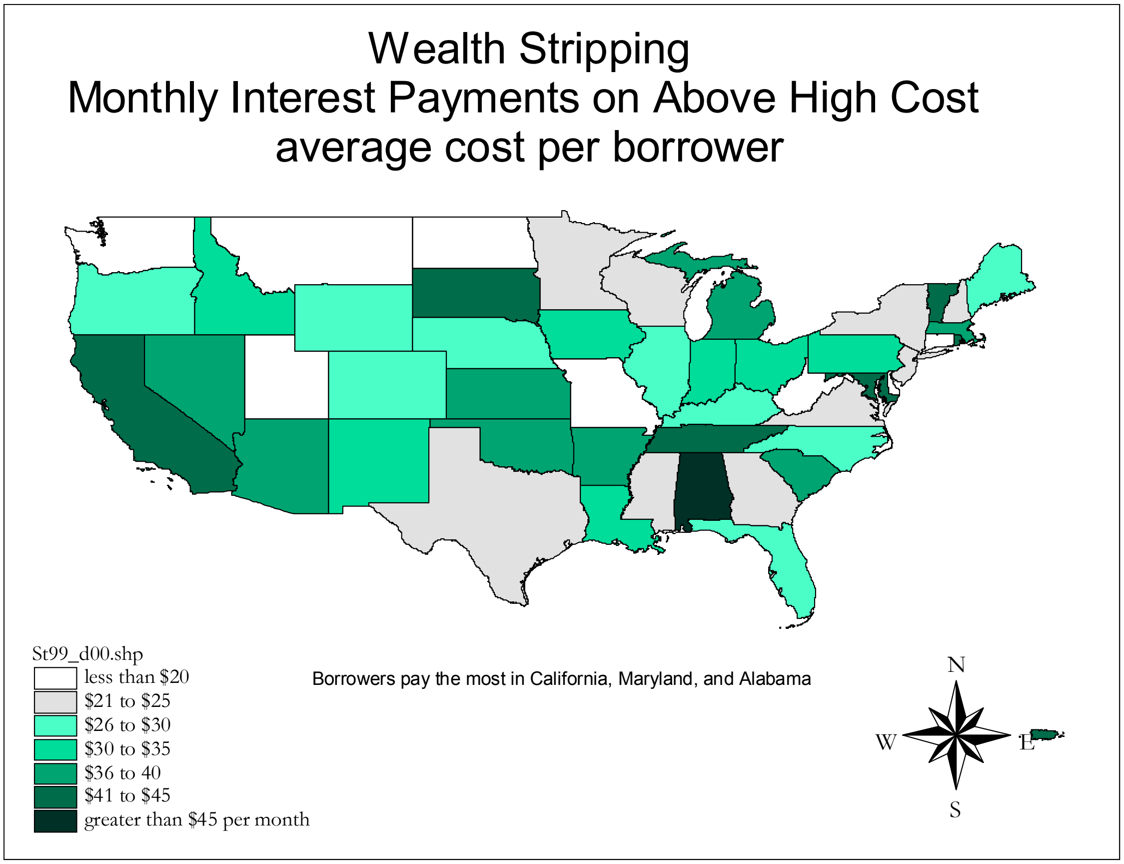
Home purchase, conventional first lien loans.

Map Four: High Cost Lending: Percent Manufactured as a Share of All High Cost Loans



Home purchase, conventional first lien loans.

Map Five: Wealth Stripping



All loan types, all lien categories, and all loan purposes. (Conventional, FHA, VA, FSA) and (home improvement, home purchase, and refinance).

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