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GAO

Report to Congressional Requesters

August 2007

FEDERAL HOUSING ADMINISTRATION

Agency Should Assess the Effects of Proposed Changes to the Manufactured Home Loan Program

GAO

Accountability * Integrity * Reliability

GAO-07-879

August 2007

FEDERAL HOUSING ADMINISTRATION

Agency Should Assess the Effects of Proposed Changes to the Manufactured Home Loan Program

GAO Accountability·Integrity·Reliability

Highlights

Highlights of GAO-07-879, a report to congressional requesters

Why GAO Did This Study

Pending legislation to the Federal Housing Administration's (FHA) Title I Manufactured Home Loan program would increase loan limits, insure each loan, incorporate stricter underwriting requirements, and set up-front premiums. GAO was asked to review (1) selected characteristics of manufactured housing and the demographics of the owners; (2) federal and state consumer protections for owners of manufactured homes; and (3) the potential benefits and costs of the proposed changes for borrowers and the federal government. In addressing these objectives, GAO analyzed select Census data; researched federal laws and laws in eight states; interviewed local, state, and federal officials; and analyzed various scenarios that might affect Title I program costs.

What GAO Recommends

GAO recommends that the Secretary of Housing and Urban Development (HUD) direct FHA to assess the effects of the proposed changes to the Title I program and develop an approach for collecting the information needed to effectively manage the program. HUD agreed with these recommendations.

www.gao.gov/cgi-bin/getrpt?GAO-07-879.

To view the full product, including the scope and methodology, click on the link above. For more information, contact William B. Shear at (202) 512-8678 or shearw@gao.gov.

What GAO Found

According to 2005 American Housing Survey data, most manufactured homes (factory-built housing designed to meet the national building code) were located in rural areas in southern states, and most were occupied by lower-income owners rather than renters. Although the market for new manufactured homes declined substantially from 1996 to 2005, buyers increasingly bought larger homes and placed them on private property rather than in manufactured home parks. In addition, some states are experiencing park closures, with the properties being converted to other uses. Overall, manufactured homes can be an affordable housing option, with monthly housing costs lower than for other housing types.

Owners of manufactured homes generally have more consumer protections if their homes are considered real rather than personal property, but protections provided by laws in the states GAO examined vary. Consumer protections extending to lending and settlement processes for personal property loans are not as broad as those for real property loans (mortgages). Also, delinquent Title I borrowers can be subject to repossession or foreclosure, but the consumer protections for repossession are often less extensive than those for foreclosure. State laws give owners of manufactured homes on leased land varying levels of notice, protection, and compensation related to length of leases, rent increases, evictions, and park closures.

According to some FHA and lending officials, potential benefits of the proposed changes for borrowers include loans big enough to buy larger homes and more financing as more lenders participate in the program. The program insured about 24,000 loans in 1990 but only about 1,400 loans representing $54 million in mortgage insurance in 2006. While the changes could benefit borrowers, according to FHA and the Congressional Budget Office, the potential costs could expand the government's liability. To gain an understanding of the effects of the proposed changes, GAO presented various scenarios. Although risk factors unique to manufactured home lending (such as placement on leased land) as well as commonly used predictors of loan performance (such as credit scores) are associated with default risk, these data were not available. Instead, GAO modeled different variations of borrower default risk and other factors (such as premiums and lender recovery) that were based on the experience of FHA loans to illustrate how variations in these key factors could affect potential gains and losses to FHA's General Insurance Fund. The analysis suggests that in all instances where borrowers had medium or high default risk, the fund would experience a loss. However FHA has not articulated which borrowers would be served, how the loans would be underwritten and priced under a risk-based structure, or collected data on credit scores and land ownership type. FHA explained that among other reasons, it had not done so because the Title I program was currently a low-volume program. As a result, the effects of the proposed changes are unclear.

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Abbreviations

AHS	American Housing Survey
CBO	Congressional Budget Office
FHA	Federal Housing Administration
HUD	Department of Housing and Urban Development
MHS	Manufactured Homes Survey
RESPA	Real Estate Settlement Procedures Act
TILA	Truth in Lending Act

United States Government Accountability Office
Washington, DC 20548

August 24, 2007

The Honorable Christopher J. Dodd
Chairman
Committee on Banking, Housing,
and Urban Affairs
United State Senate

The Honorable Charles E. Schumer
Chairman
Subcommittee on Housing, Transportation,
and Community Development
Committee on Banking, Housing, and Urban Affairs
United State Senate

The Honorable Jack Reed
United States Senate

Manufactured housing (factory-built housing designed to meet the Department of Housing and Urban Development's (HUD) national building code) provides affordable housing for approximately 17 million Americans. Relative to other forms of housing (generally referred to as site-built housing), a manufactured home can be more affordable, particularly when a home is purchased without the cost of the land. In such a purchase, the home generally is not titled as real property, but is considered personal property or chattel, which denotes property that is movable and personal, such as an automobile or furniture. Consequently, lending for manufactured homes differs from other home lending because prospective buyers can receive either a real estate or a personal property loan.

Currently, the Federal Housing Administration (FHA) of HUD offers the only active federal loan guarantee program that includes an option for a "home-only" product; that is, a personal property loan for the purchase of a manufactured home without the land on which the home will be located. However, FHA officials explained that the purpose of the Title I Manufactured Home Loan Program (Title I)—to protect mortgage lenders against the risk of default through insurance or a guarantee—is not currently being met because the current design of the program passes the majority of the insurance risk to the lenders who in turn charge borrowers higher interest rates. In addition, the lending market associated with manufactured homes has undergone significant changes over the last 15 years. Market growth in the 1990s was followed by a large number of repossessions from 2000 to 2002. Because of the amount of origination fees manufactured home lenders received, some lenders focused on increasing sales volume to the detriment of assessing borrowers' creditworthiness. As a result, officials and literature suggest that the quality of the manufactured home loan pool began to deteriorate and less creditworthy borrowers began to default on their loans, causing a high number of repossessions (personal property is repossessed rather than foreclosed). Subsequently, many lenders exited this market, resulting in a decrease in the availability of private financing for manufactured homes. Furthermore, loan volume generated through Title I declined by 94 percent from 1990 to 2006, with 1,438 loans insured in 2006 representing $54 million in mortgage insurance.

In addition to the relative scarcity of financing for manufactured homes, the owners of manufactured homes are in a unique position relative to other homeowners in terms of the federal and state consumer protections applicable when they buy, finance, and occupy the housing. That is, whether the manufactured home is considered real or personal property affects what consumer protections apply and what recourse is available. For example, consumer and tenant protections, particularly at the state level, are especially pertinent for owners of manufactured homes who lose leases to their underlying ground because they lived on land sold for commercial or other residential development. Some owners of manufactured homes found that their homes lost most or all of their value in such situations. And, according to state and local officials, the loss of manufactured housing parks, particularly in growing metropolitan areas, has exacerbated the shortage of affordable housing.

Legislation has been introduced to make changes to the Title I program that may increase the demand for and availability of loans for manufactured homes.[1] With the potential expansion of the program, you asked us to review the proposed legislation and consumer protections available for owners of manufactured homes. Specifically, this report (1) describes selected characteristics of manufactured housing and the demographics of the owners, (2) compares federal and state consumer and tenant protections for owners of manufactured homes, and (3) describes the proposed changes to FHA's Title I Manufactured Home Loan program

[1] S.1741, 110th Cong. (2007) and H.R. 2139, 110th Cong. (2007).

and assesses potential benefits and costs to borrowers and the federal government.

To determine selected characteristics of manufactured housing and the demographics of the owners, we analyzed Census data from the Manufactured Housing and American Housing Surveys. Specifically, we used Manufactured Housing Survey data from 1996 through 2005 to examine changes in the manufactured housing industry, such as the number of homes placed and the size of these homes. We relied on 2005 American Housing Survey data to provide information on the demographics of the manufactured homeowner. We did not use earlier years of American Housing Survey data because the sample of manufactured homes in the survey changed in 2005.[2] However, in both the Manufactured Housing and American Housing Surveys, data about the ownership of the land (that is, owned or leased) on which the home is placed are limited. We assessed the reliability of the Manufactured Housing and American Housing Surveys by reviewing information about the data, performing electronic data testing to detect errors in completeness and reasonableness, and interviewing knowledgeable officials regarding the quality of the data. We determined that the data were sufficiently reliable for the purposes of this report. To compare federal and state consumer and tenant protections available for owners of manufactured homes, we researched relevant federal laws and laws in the eight states (Arizona, Florida, Georgia, Missouri, New Hampshire, North Carolina, Oregon, and Texas) that we selected for our review. The eight states were selected based on a combination of factors including the volume of FHA Title I loans in the state from 1990 through the first quarter of 2007; the concentration of manufactured housing as a percentage of housing units in the state; information from our interviews of industry and consumer officials; and previous studies conducted on manufactured housing. In each state, we conducted semistructured phone interviews with the state regulator, representatives of the manufactured housing industry, and a consumer group, such as the state manufactured homeowners association.[3] To assess the potential costs and benefits of the proposed changes to the Title I program, we conducted a literature review; interviewed FHA officials, FHA lenders, Ginnie Mae officials, and officials

[2]The American Housing Survey uses building permit data to draw its sample and the sample was changed in 2005 since it appeared manufactured homes were undercounted in previous years.

[3]At one of the states, Georgia, we conducted interviews on-site.

from federal and other lending programs, such as Fannie Mae, Freddie Mac, U.S. Department of Agriculture Rural Housing Service, and the Department of Veterans Affairs; and reviewed policies and procedures from programs that provide financing for manufactured homes to determine what additional factors, such as default risk and the location of the manufactured home, could be considered to mitigate risk for lending for manufactured housing. To illustrate potential costs and other effects of the proposed legislation, we conducted an analysis of different scenarios of potential loan performance that incorporated these additional factors. We used this approach because we did not have sufficient data on the credit scores of FHA borrowers or the location of the homes to perform a more in-depth analysis. Appendixes I and II contain additional information about our methodology. We conducted our work in Washington, D.C., Atlanta, and Chicago, from October 2006 through June 2007 in accordance with generally accepted government auditing standards.

Results in Brief

Available data on selected characteristics of manufactured homes and their owners in 2005 indicate that most manufactured homes were located in rural areas, more were located in southern states than in other regions, and most were occupied by lower-income owners rather than renters. For example, according to data from the American Housing Survey, almost 50 percent of all owners of manufactured homes earned less than $30,000 compared with 23 percent of owners of site-built homes in 2005. Although the market for new manufactured homes declined significantly, from about 332,000 manufactured homes sold in 1996 to about 118,000 homes in 2005, buyers increasingly bought larger homes and placed them on private property rather than in manufactured home parks. According to local officials we interviewed, few new manufactured home parks have been built since the early 1980s, largely as a result of local zoning issues, and some states are experiencing park closures with the properties being converted to other uses. But overall, manufactured homes can be an affordable housing option, with monthly housing costs considerably lower than other housing types. For example, according to 2005 American Housing Survey data, more than 50 percent of the owners of manufactured homes had monthly housing costs of $100 to $499.[4] In comparison, a little

[4]The American Housing Survey definition of monthly housing costs encompasses electricity, gas, fuel oil, other fuels, garbage and trash, water and sewer, real estate taxes, property insurance, condominium fees, homeowner's association fees, mobile home park fees, land or site rent, other required mobile home fees, rent, mortgage payments, home equity loan payments, other charges included in mortgage payments, and routine maintenance.

more than 25 percent of owners of site-built homes paid $100 to $499 in monthly housing costs in 2005. However, while manufactured homes can be more affordable than other housing types and are often thought to be mobile, few placement opportunities and the high cost of moving the homes limits their mobility.

Owners of manufactured homes generally have more consumer protections if their homes are considered real rather than personal property, but the laws in the states we visited provide varying protections. Consumer protections that extend to the lending and settlement process for Title I personal property loans are not as broad as those for real property loans (mortgages). For example, Title I borrowers who obtain a home-only loan (that is, a personal property loan) are not entitled to the settlement cost disclosures of the Real Estate Settlement Procedures Act. Further, delinquent borrowers can be subject to repossession (if the loan was for personal property) or foreclosure (if for real property), but the consumer protections for repossession are often less extensive than those for foreclosure. In addition, state laws give owners of manufactured homes on leased land varying levels of notice, protection, and compensation related to length of leases, rent increases, evictions, and park closures. For example, in the states we reviewed, notice requirements for rent increases range from 60 to 90 days, but not all the states have provisions on rent increases. Further, states vary in what programs or tools are available to help or compensate tenants displaced because of park closures. For instance, the states of Arizona, Florida and Oregon offer financial help through relocation funds or tax credits, but the remaining five states we reviewed do not offer such aid. As a result, purchasers of manufactured homes who do not own the land underneath their home and experience adverse conditions over which they have no control, such as rent increases or park closures, have differing degrees of recourse depending on the state in which they live.

Legislative proposals to change FHA's Title I program would increase loan limits, insure each loan made, incorporate stricter underwriting requirements, establish up-front insurance premiums, and adjust the annual premium; however, the effects of the proposed changes remain unclear. For instance, limits for a home-only loan would rise from $48,600 to $69,678, loan guarantees would apply to individual loans rather than be capped at 10 percent of the value of a lender's portfolio, and underwriting requirements would be revised with the stated intent of strengthening the financial soundness of the program. According to some FHA and industry officials, the potential benefits of proposed changes for borrowers include obtaining loan amounts sufficient to buy larger homes, additional financing as more lenders likely would participate in a program where a greater portion of their portfolios could be insured, and an expansion of the secondary market that could provide more liquidity for lenders to make more loans. However, the ability of the owner of a manufactured home to build equity may be limited when the land is leased, which also often increases the risks associated with the loan. For instance, if a borrower with a home on leased land were to default, lenders could face higher costs and lower recoveries (relative to site-built homes) in trying to repossess, move, and resell the personal property. To gain an understanding of the effects of the proposed changes, we developed various scenarios. Although risk factors unique to manufactured home lending (such as placement on leased land) as well as commonly used predictors of loan performance (such as credit scores) are associated with default risk, these data were not available. Instead, we modeled different variations of borrower default risk and other factors (such as premiums and lender recovery) that were based on the experience of FHA loans to illustrate how variations in these key factors affect potential gains and losses to FHA's General Insurance Fund.[5] The results of our analysis show that in all cases when borrowers had medium or high default risk, the fund experienced a loss. But FHA has not yet articulated which borrowers would be served if the program were expanded, specified changes in its underwriting requirements, developed a risk-based pricing structure for the proposed legislation, estimated costs to the General Insurance Fund, or collected data on credit scores and land ownership type. Our internal control standards for the federal government require that an agency identify risks that may be posed by new legislation.[6] FHA officials have stated that they have not made those risk assessments because the current volume of the Title I program is low and they did not know if the legislation would pass. They said they devoted their resources to making changes to the much larger Title II program, which guarantees loans for single-family home mortgages. As a result, the effects the proposed legislation may have on the volume of lending and claims and the overall financial soundness of the program are unclear.

[5]The General Insurance Fund is used to support several FHA insurance programs including the Title I Manufactured Home Loan, Property Improvement, Home Equity Conversion Mortgages, Mortgage Insurance for Condominium Units, and Rehabilitation Home Mortgage Insurance.

[6]GAO, *Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1 (Washington, D.C.: November 1999); and *Internal Control and Management and Evaluation Tool*, GAO-01-1008G (Washington, D.C.: August 2001).

GAO recommends that the Secretary of Housing and Urban Development direct FHA to assess the effects of the proposed changes to the Title I program and develop an approach for collecting the information needed to effectively manage the program.

We provided HUD with a draft of this report for review and comment. HUD provided comments in a letter from the Assistant Secretary for Housing—Federal Housing Commissioner (see app. III). HUD agreed with the recommendations in our report and described plans for implementing the recommendations.

Background

Manufactured homes differ from site-built homes based on how they are constructed, classified, financed, and appraised, with many differences resulting from the home's status as either real or personal property. Manufactured home parks have a variety of ownership models, ranging from sole to corporate ownership and including cooperative and nonprofit ownership as well. FHA's Title I program dates to 1969, where it has served primarily low-income individuals and the majority of the lending has been geographically concentrated.[7]

Differences between Manufactured, Modular, and Site-Built Homes

The National Manufactured Housing Construction and Safety Standards Act of 1974 set a national building code for the construction of manufactured homes, known as the HUD Code, which became effective on June 15, 1976.[8] For the purposes of this report, we define manufactured homes as factory-built housing units designed to meet the HUD Code. Manufactured homes can be single-wide, double-wide, or multi-wide (see fig. 1). The federal standards regulate manufactured housing design and construction, strength and durability, transportability, fire safety, and energy efficiency.[9] Units constructed and completed prior to June 15, 1976,

[7]Housing and Urban Development Act of 1969, Pub. L. No. 91-152, Title I, Section 103, 83 Stat. 379, 380 (December 24, 1969).

[8]42 U.S.C. §§ 5401-5426 with implementing regulations at 24 C.F.R. Parts 3280 and 3282.

[9]In the HUD Code, a manufactured home is defined as a transportable structure built on a permanent chassis and designed to be used as a dwelling on a building site. The HUD Code also defines a manufactured home as being a minimum of 320 square feet; however, the dimensions of a manufactured home will vary depending on the number of sections that make up the home and the state laws for transporting the sections.

are not considered HUD-approved and generally are considered mobile homes.

Figure 1: Examples of Manufactured Homes, Single-Wide and Double-Wide

Example of two single-wides.

Example of a double-wide.

Source: GAO.

Every home built to the HUD Code is identified with a red metal tag, known as the HUD certification label.[10] This distinguishes manufactured homes from modular homes. Both types of homes are factory-built, but modular home “modules” are then assembled on a site. And, unlike manufactured homes that are federally regulated under a national building code, modular homes must meet the state, local, or regional building codes where the home is to be sited. Finally, site-built housing is constructed on a lot and must meet local building codes (see table 1).

[10]The label indicates that the manufacturer certifies that the home meets the HUD Code and has an identification number stamped on it.

Table 1: Differences between Manufactured, Modular, and Site-Built Homes

	Type of building code	Production method	Qualifies as: Personal property	Qualifies as: Real property
Manufactured home	HUD Code (1976)	Factory built. Single/multiple sections transported to site for installation.	√	√
Mobile home	Pre-HUD Code (built prior to June 15, 1976)	Factory built, to voluntary industry standards later enforced by most states.	√	√
Modular home	State, local or regional codes	Factory built. Modules are transported to site for assembly.		√
Site-built home	Local codes	Built on-site.		√

Source: GAO.

Manufactured Homes Can Be Considered Personal or Real Property, with Corresponding Differences in Financing and Appraisals

Unlike site-built homes, which are titled as real property and usually financed through a mortgage, a manufactured home may be financed as personal property or as real property. When a homebuyer purchases a manufactured home without tying the purchase to land and does not title the home as real property, the home is generally considered personal property, or chattel, which denotes property that is movable and personal, such as an automobile or furniture. Private sources—such as national consumer-finance companies and manufactured home lending specialists who work directly with manufactured home dealers and also through FHA Title I approved lenders—provide home-only or personal property financing, which is more akin to a consumer loan such as an automobile loan than a mortgage. Typically, these loans have higher interest rates than mortgages due to factors such as quick credit approval and their availability to those with marginal credit histories. To begin the process, a customer submits a credit application to the manufactured home lending specialist, who may or may not be affiliated with the dealership. The credit application also may be sent to a local bank. The lender reviews the applicant's credit and makes a decision on whether to approve a loan. Manufactured homes not considered real property do not undergo market-based appraisals. Instead, they undergo a loan-to-invoice appraisal, where the manufacturer's certified invoice, in effect, substitutes for an appraisal.

In contrast, when a manufactured home is attached to the underlying land by a permanent foundation and the home and the land are treated as a single real estate package under state law, the home is generally considered real property and borrowers can obtain conventional real estate mortgages, which include conventional and government-assisted mortgage financing obtained through traditional mortgage lenders. Home and land financing for manufactured homes is similar to conventional mortgage lending for site-built housing. Manufactured homes that are financed using a conventional real estate mortgage undergo an appraisal that factors the location into the appraised value and also includes comparable prices of manufactured homes.

Ownership Types of Manufactured Home Parks

Manufactured homes can be placed on either private property where the homeowner typically owns the land or in a manufactured home park. In a manufactured home park, also known as a mobile home park or a land-lease community, owners of manufactured homes pay rent for the land underneath the homes in addition to the loan payments they make for the units (the homes).[11] The park owner typically provides sewer, water, electrical systems, landscaping, and maintains the roads and other common areas.

Manufactured home parks have a variety of ownership models. Investors, ranging in size from small family operations to large conglomerates that own several properties across the country, own most of the manufactured home parks. Tenants of these parks may or may not have a lease and have no control over rent increases. According to officials we interviewed, in states such as Florida, California, and New Hampshire, resident-owned communities are more prevalent; that is, park tenants collectively purchased their community by forming either a for-profit or nonprofit cooperative corporation.[12] Cooperative ownership allows residents to control the land by buying memberships or shares in the corporation and have more control over membership dues increases. Another ownership model involves a land trust, typically run through a nonprofit organization, in which the nonprofit owns the land and ensures against the possibility of sale or foreclosure of the land.

Title I Manufactured Home Loan Program

FHA first insured loans for manufactured housing in 1969, under a program that came to be known as the Title I Manufactured Home Loan Program. The program was created to reduce the risk to lenders through

[11]Homes placed in rented parks are typically financed as personal property because conventional single-family mortgage programs usually require that the land and property be bundled to qualify.

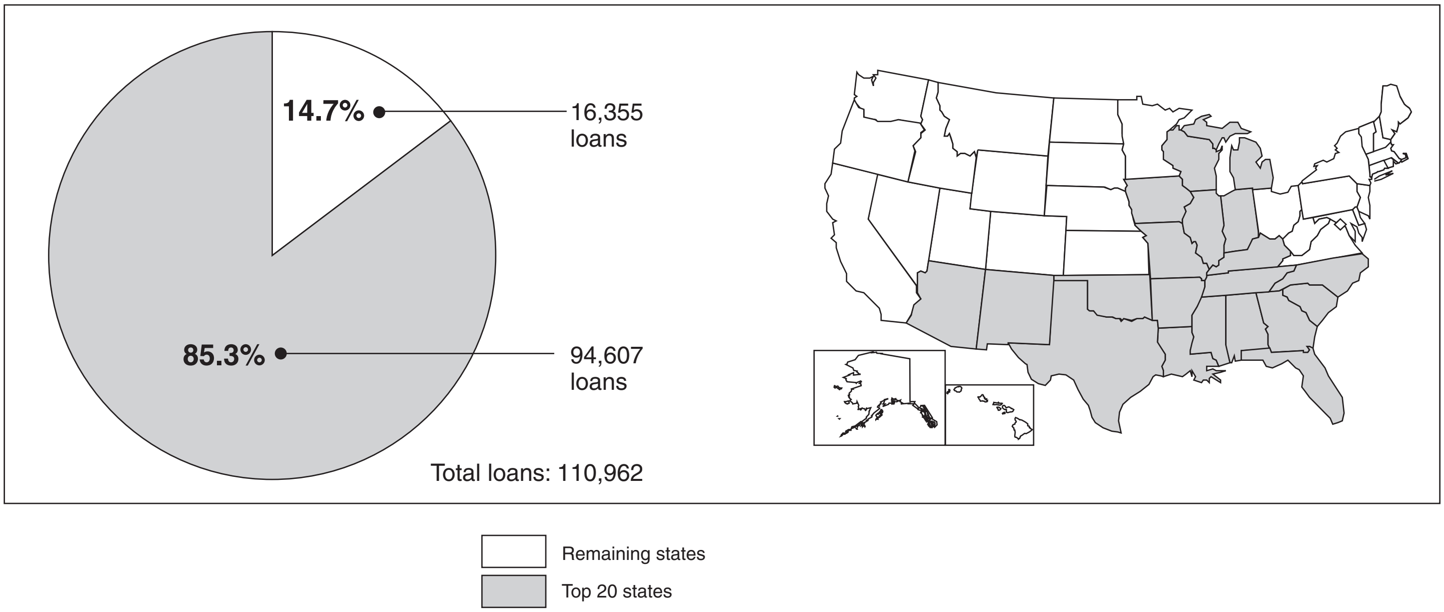
[12]For example, while state laws vary, in a for-profit cooperative, the manufactured home park returns any profits made, in full, to the members of the association; or, in a nonprofit cooperative, the manufactured home park returns any profits to the cooperative and not to individual members.

insurance or a guarantee and encourage lenders to finance manufactured homes, which had traditionally been financed as personal property through comparatively high-interest, short-term consumer installment loans. Under Title I, FHA can guarantee loans for manufactured homes, for manufactured homes and the property on which they are located, or for the purchase of a manufactured home lot. FHA insures Title I manufactured home loans under the General Insurance Fund, which is supported by lenders' insurance premiums (currently an annual premium of 1 percent, based on the initial loan amount). Since 1998, three lenders have originated the majority of Title I loans.

Almost all of Title I loans are for the manufactured home-only loans rather than for home-and-land or land-only loans. In 2005, FHA Title I Manufactured Home lending accounted for only 2.8 percent of the personal property loan market; conventional lending accounted for the remainder. According to data from FHA, from 2004 to mid-2007, 66 percent of FHA Title I borrowers were 34 years or younger compared with 2.7 percent who were 65 years or older.[13] From 2004 to mid-2007, the majority (73 percent) of the borrowers had a monthly income from $1,000 to $3,000 (or approximately $12,000-$36,000 annually). From 1990 to 2005, the majority of FHA Title I lending has been in southern states. Twenty states, primarily in the South, Southwest, and the Midwest, received more than 85 percent of the FHA Title I loans (see fig. 2).

[13]FHA began collecting demographic data (such as age, race, and monthly income) for the Title I Manufactured Home Loan program in 2004. No demographic data are available prior to this time.

Figure 2: FHA Title I Loans Received by Top 20 States, 1990-2005



Sources: GAO analysis of FHA data; Art Explosion (map).

FHA's Insurance Operations Division administers the Title I program, as well as a property improvement program.[14] The majority of the staff and budget allocations are for the property improvement program. In fiscal year 2006, the division had a staff of nine and a total budget of $1.1 million, approximately $350,000 of which supported the manufactured home loan program.

[14]The FHA Title I property improvement program insures loans to finance the light or moderate rehabilitation of properties, as well as the construction of nonresidential buildings on the property. This program may be used to insure loans on either single- or multifamily properties for up to 20 years. The maximum loan amount is $25,000 for improving a single-family home or improving or building a nonresidential structure. For improving a multifamily structure, the maximum loan amount is $12,000 per family unit, not to exceed a total of $60,000 for the structure. FHA insures private lenders against the risk of default for up to 90 percent of any single loan.

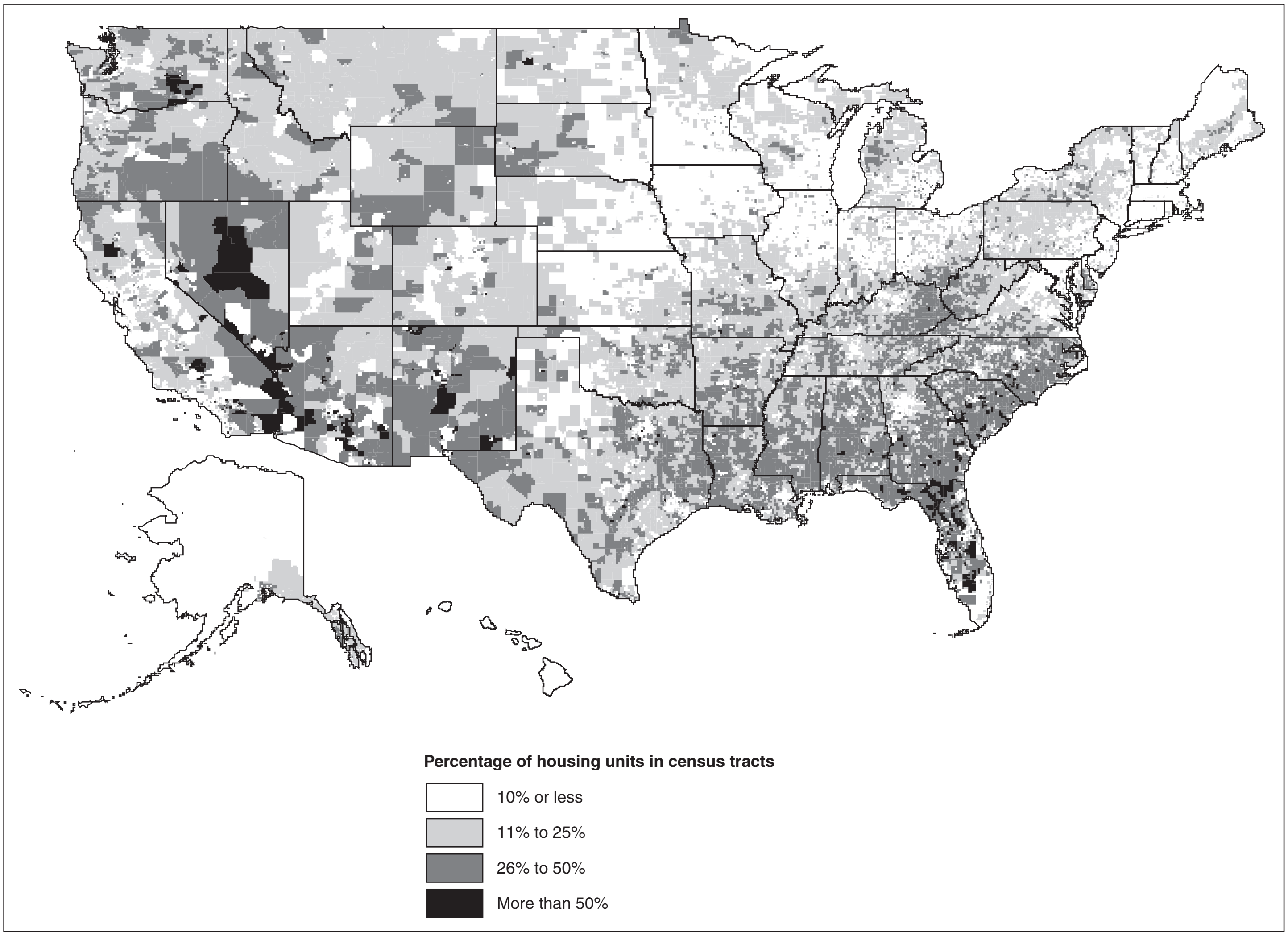
Manufactured Homes Were More Likely to Be Located in Rural Areas in the South, Owned by Lower-Income Individuals, and Cost Less Than Other Types of Housing

Available data on geographic and demographic characteristics of manufactured homes and their owners indicate that most manufactured homes were located in rural areas of the South and were occupied by lower-income earners who owned, rather than rented, the homes. The market for new manufactured homes declined significantly from 1996 to 2005, but homes that were purchased were larger in size and more often placed on private property. Although limited data were available on the number of manufactured home parks, regulatory, industry, and consumer officials from seven of the eight states in which we conducted interviews told us that manufactured home parks were closing because rising land values were driving redevelopment. Housing costs for manufactured homes were lower than costs for other housing types; however, the costs of moving manufactured homes were relatively high and options for placing homes in new locations were few, which affected owners' mobility.

The Majority of Manufactured Homes Were Found in Rural Areas, Mainly in the South, and Owned by Low-Income Earners

Manufactured homes were located in every state, but were most often located in rural areas. According to 2000 Census data, manufactured homes were more concentrated in rural areas, particularly in the South and desert Southwest, as a share of total housing units (see fig. 3). In 2005, according to data from the American Housing Survey, approximately 6 percent of occupied homes in the U.S. are manufactured homes. The majority of the occupied manufactured homes (68.5 percent) were located in rural areas, while 31.5 percent were found in suburban areas and central cities. State, industry, and consumer officials in more than half of the states we reviewed also told us that manufactured homes were more likely to be located in either rural or suburban parts of their states.

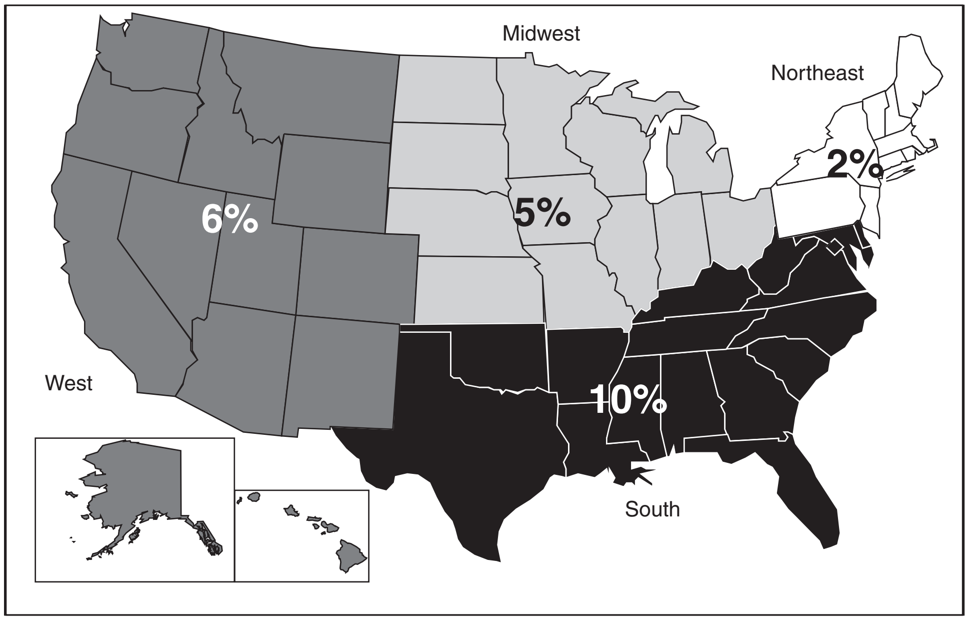
Figure 3: Concentration of Manufactured Housing, by Census Tract, 2000



Sources: 2000 Census (data); MapInfo (map).

Compared regionally, manufactured homes represented a larger share of occupied homes in the South than in other areas of the nation. For instance, 10 percent of occupied housing in the South consisted of manufactured homes, compared with 6 percent in the West, 5 percent in the Midwest, and 2 percent in the Northeast (see fig. 4). Overall, in 2005, 57 percent of occupied manufactured homes were located in the South, 19 percent in the West, 17 percent in the Midwest, and 7 percent in the Northeast.[15]

Figure 4: Manufactured Housing as a Percentage of All Occupied Housing, by Region, 2005



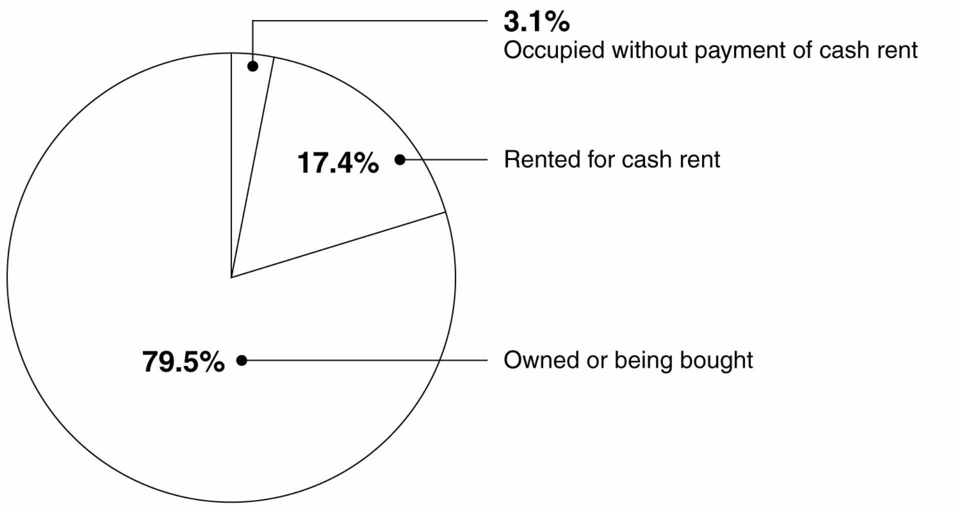
Sources: GAO analysis of AHS 2005 data; Art Explosion (map).

Our analysis of 2005 American Housing Survey data showed that more occupants of manufactured homes were owners than renters (see fig. 5). A majority (79.5 percent) of those living in manufactured homes owned their homes, compared with 17.4 percent who rented their manufactured homes.[16]

[15]Census regions are groupings of states that subdivide the United States for the presentation of data. There are four Census regions—Northeast, Midwest, South, and West.

[16]At the time of the survey, the respondents either owned a home or were in the process of obtaining homeownership.

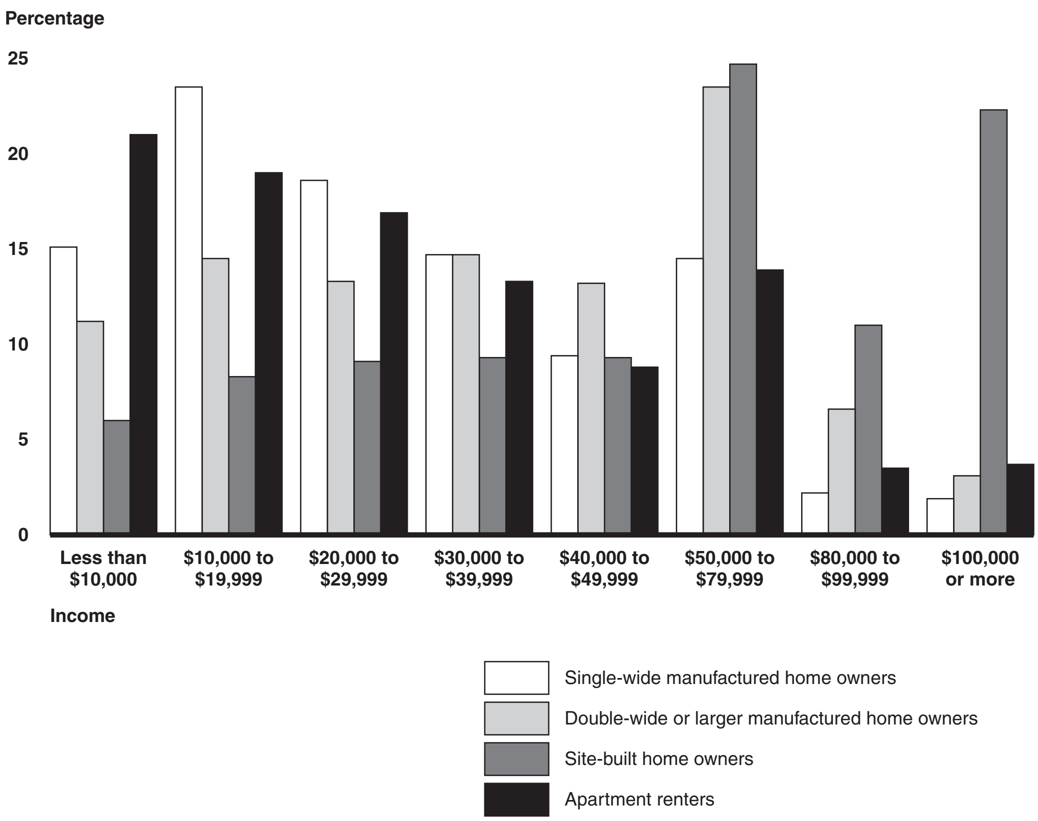
Figure 5: Percentages of Manufactured Home Occupants Who Were Owners and Renters, 2005



Source: GAO analysis of AHS 2005 data.

Although those who lived in manufactured housing were more likely to own their homes, they tended to have lower annual incomes (see fig. 6). More owners of single-wide and double-wide homes earned less than $49,999 compared with owners of site-built homes, who were more likely to earn $50,000 or more. For example, in 2005, of all owners of single-wide homes, 15.1 percent earned $10,000 or less annually and 23.6 percent earned from $10,000 to $19,999. In comparison, 6 percent of owners of site-built homes earned $10,000 or less and 8.3 percent earned from $10,000 to $19,999.

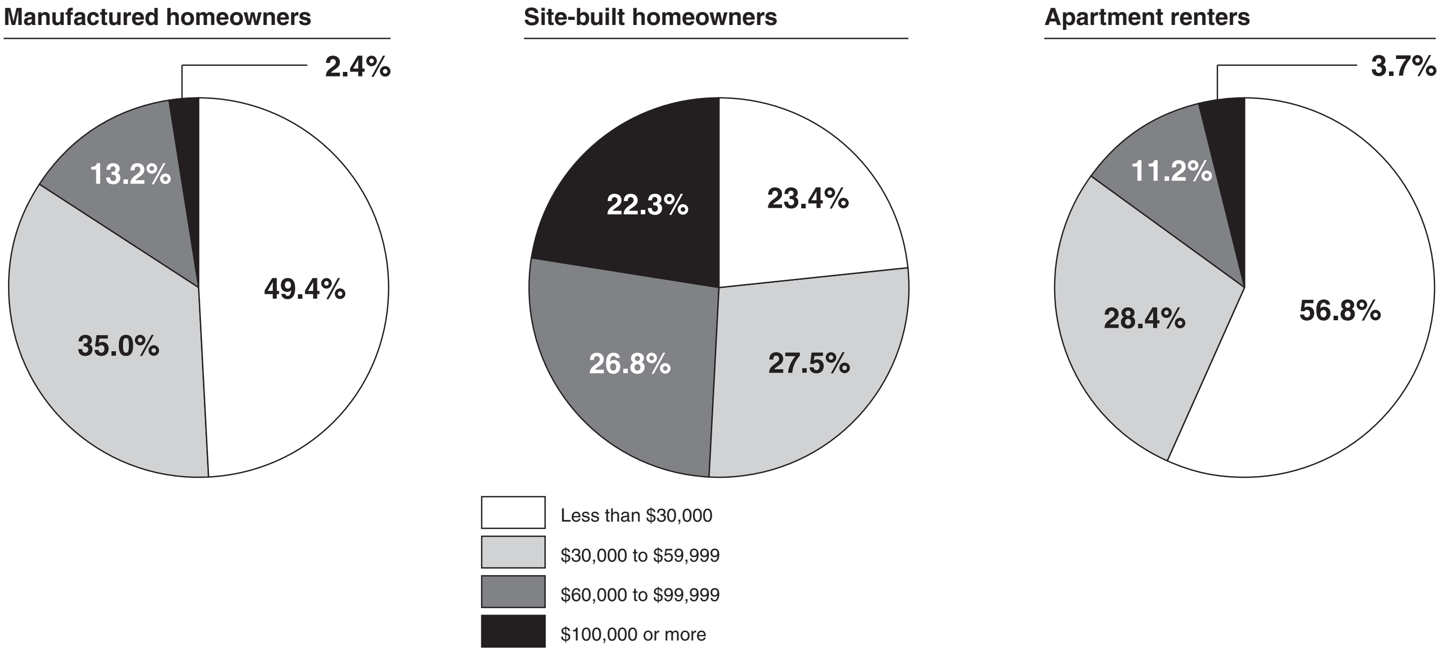
Figure 6: Income Characteristics of Owners of Manufactured and Site-Built Homes and Apartment Renters, 2005



Source: GAO analysis of AHS 2005 data.

Almost half of all owners of manufactured homes earned less than $30,000 in 2005 (see fig. 7). More specifically, 49.4 percent of owners of manufactured homes earned this amount compared with 23.4 percent of owners of site-built homes. Officials we interviewed from six states told us that owners of manufactured homes were more likely to be low-income individuals. Apartment renters also were proportionally lower-income than owners of site-built homes, with 56.8 percent earning less than $30,000.

Figure 7: Percentage of Owners of Manufactured and Site-Built Homes and Apartment Renters in Selected Income Categories, 2005



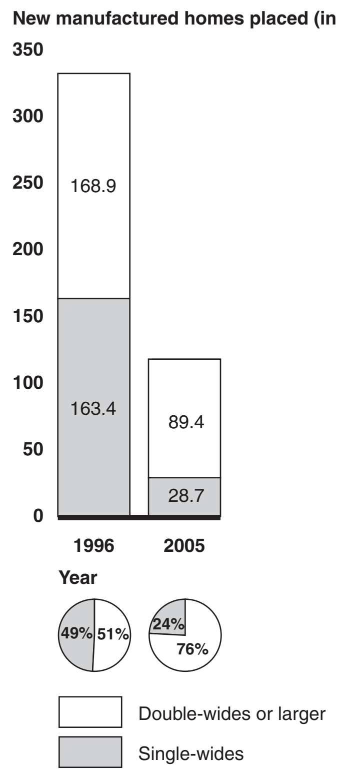
Source: GAO analysis of AHS 2005 data.

Fewer, but Larger, Homes Were Sold and Placed on Private Property, but the Number of Manufactured Home Parks Is Unknown

The total number of new manufactured homes sold decreased from 1996 to 2005. According to Census data from the Manufactured Housing Survey, 332,000 new manufactured homes were sold in 1996 compared with 118,000 sold in 2005, a net decrease of 64.5 percent. California and Florida had the highest number of new manufactured home units sold in 2005, a change from 1996 when North Carolina and Texas reported the highest number sold. According to officials that we interviewed, several factors may have contributed to the decrease in manufactured home sales, such as lower interest rates available for site-built homes, the decrease in available financing for manufactured homes due to consolidation experienced in the industry, and a large number of repossessions that flooded the market with units and increased the supply of manufactured homes. For example, as a result of the decrease in financing options for manufactured homes, industry officials explained that manufacturers lowered production of manufactured homes and instead built more modular homes, because more financing options were available. Modular homes can often be built in the same factory as manufactured housing but are not required to meet the HUD Code.

Although consumers purchased fewer new manufactured homes in 2005 than in 1996, according to the Census data from the Manufactured Housing Survey, they bought more double-wide or multisection homes. In 2005, 76 percent of the manufactured homes purchased were double-wides or larger, compared with 51 percent in 1996 (see fig. 8). However, FHA data shows 82 percent of the loans originated through FHA's Title I Manufactured Home Loan program for fiscal years 2005 and 2006 were for the purchase of single-wide homes. Officials we interviewed attributed this trend to FHA loan limits that were too low to enable borrowers to purchase larger, multisection homes using guaranteed loans.

Figure 8: Number of Manufactured Homes Purchased and Placed, by Size, 1996 and 2005

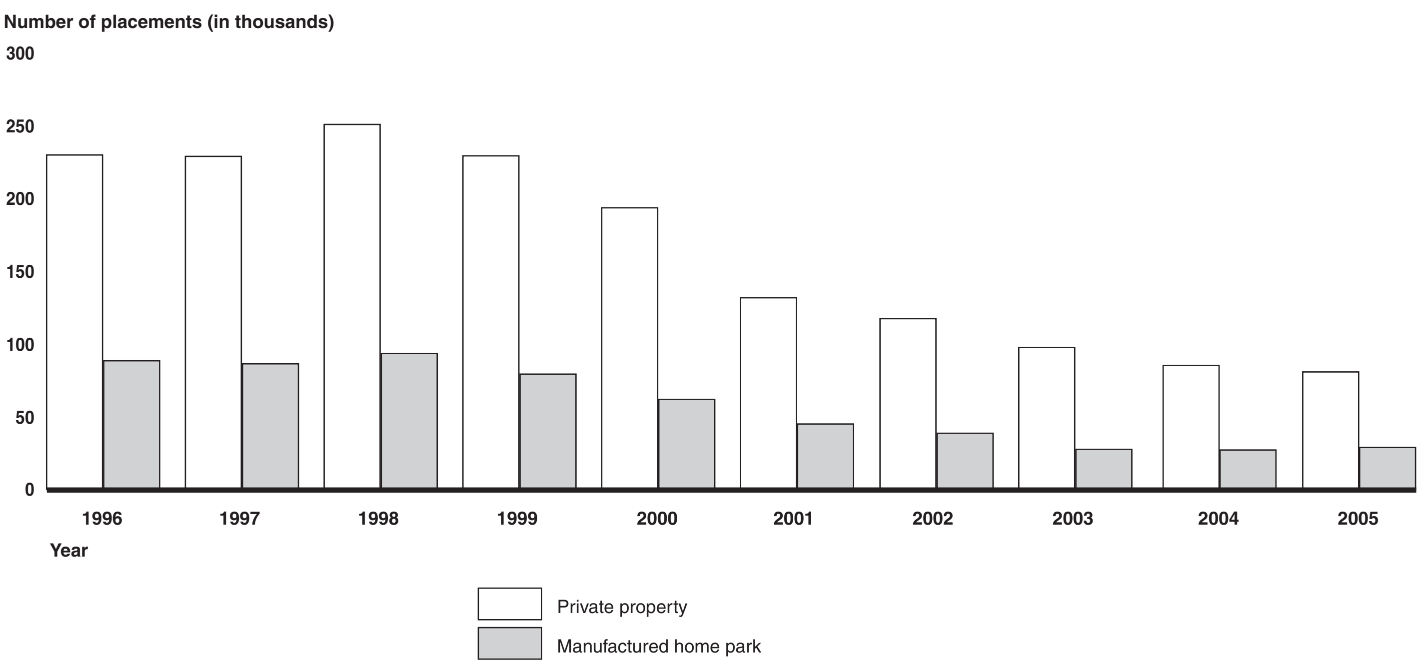


Source: GAO analysis of Census MHS data.

Manufactured homes were more likely to be placed on private property. From 1996 to 2005, more new manufactured homes were placed on private property than in manufactured home parks, even though placements overall (in both parks and private property) decreased since 1996.

According to data from the Manufactured Housing Survey, in 1996, 229,790 new manufactured homes were placed on private property compared with 88,420 homes placed inside a manufactured home park. In 2005, 80,757 manufactured homes were placed on private property and 28,850 were placed inside a manufactured home park (see fig. 9). Because FHA does not collect placement data, it is unclear where manufactured homes purchased with FHA Title I loans were located—on owned or leased land. However, FHA officials told us that, based on their review of lender insurance claims, most of the Title I loans are for manufactured homes on leased land.

Figure 9: New Manufactured Home Placements, Owned versus Leased Land, 1996-2005



Source: GAO analysis of Census MHS data.

Similarly, officials we interviewed from five states reported that more placements were occurring on private property than in manufactured home parks. The officials cited a variety of reasons why new manufactured homes were more likely to be placed on private property. First, the lack of financing available for manufactured homes to be placed on leased land decreased the likelihood of units being placed in a manufactured home park. For example, one official stated that the lack of manufactured home financing resulted in more manufactured homes being placed on private land because of the increased availability of financing for homes that are considered real property. Second, the increase in the size of manufactured homes to double-wides or multisection could prevent the homes from fitting into park spaces designed for smaller units. Third, both industry and consumer officials suggested that the quality and style of new manufactured homes had improved, allowing them to blend in with other site-built homes on private property. Developers have created affordable housing opportunities by using manufactured homes in infill lots located in urban areas or subdivisions. For example, in Seattle, a community development corporation used manufactured homes to create affordable single-family and town homes in a development called Noji Gardens. In Kentucky, Frontier Housing, an affordable non-profit housing developer, built affordable housing communities using a combination of manufactured, modular, and site-built homes (see fig. 10).

Figure 10: Examples of Affordable Manufactured Homes in New Subdivisions That Look Similar to Site-Built Homes

Example from Frontier Housing.

Example from Noji Gardens.

Source: Frontier Housing and Homesite.

Variability of State Requirements Makes It Difficult to Use State Data to Determine the Number of Manufactured Home Parks

Data were not available on the number of manufactured home parks because states define and license them differently (see fig. 11).[17] For example, the definition of a manufactured home park in New Hampshire is a parcel of land that accommodates two or more homes; however, in Florida, certain provisions apply to manufactured home parks with 10 or more homes. Moreover, most states do not require manufactured home parks to be licensed; this is typically done at the local level. As a result, data on the number of manufactured home parks in each state and at the national level are limited. Anecdotally, several officials we interviewed suggested that the creation of new manufactured parks was uncommon, with few parks being developed since the early 1980s. The officials suggested that local zoning restrictions prevented manufactured home parks from being built and that localities often preferred to promote other land use options to attract development with greater potential to raise the tax base. Officials from most of the states that we reviewed told us that most manufactured home park closings were caused by rising land prices and subsequent pressure to redevelop the site.

[17] The American Housing Survey only collects data on structure and tenure (whether the home itself is owned or rented), but does not ask survey respondents whether the land on which the home is sited is owned or leased. Moreover, the American Housing Survey does not ask respondents whether the manufactured home is located in a manufactured home park. The Manufactured Housing Survey does collect data on the location of the home (park, court, subdivision, or private property) but the data do not indicate whether the land is owned or not. Thus, data are limited on land ownership.

Figure 11: Definition of How Many Homes Constitute a Manufactured Home Park and Presence of Licensing Requirements, for the States We Reviewed, 2007

	Definition of a manufactured home park (minimum number of homes or spaces)	License or registration with state
Arizona	4	
Florida	10	● [a]
Georgia	NA [b]	
Missouri	NA [b]	
New Hampshire	2	
North Carolina	5	
Oregon	4	●
Texas	4	

Source: GAO analysis of select state statutes on landlord/tenant law.

[a] In Florida, in a park with 26 or more lots, park owners are required to file a prospectus, which includes the park bylaws and other information, with the state for its approval.

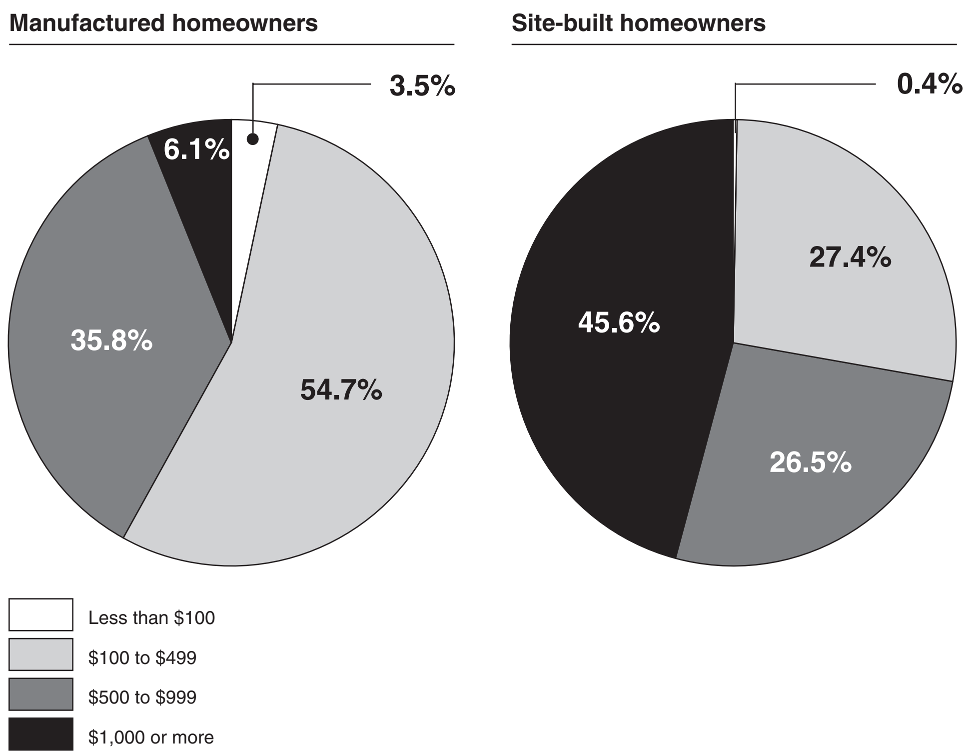
[b] Georgia and Missouri do not have provisions in place that define what number of homes or spaces constitute a manufactured home park.

Although anecdotal data indicate a number of manufactured home parks have closed, the extent to which closures have occurred is unknown. Through a database search of national and local newspapers, we found closures had occurred in 18 states between May 2005 and May 2007. In some cases, other types of housing (such as condominiums, town homes, and single-family homes) were built on the former park sites, while in other cases the parks were converted to commercial use. A few parks also were converted from investor-owned parks to resident-owned parks. In some instances, local municipalities tried to curb the number of closures by placing a moratorium on park owners selling to developers.

Costs of Living in a Manufactured Home Were Lower Than for Other Home Types, but High Costs of Moving and Few Placement Options Limit Mobility of Homes

Manufactured homes can be more affordable than other housing types. According to 2005 American Housing Survey data, monthly housing costs for manufactured homes generally were lower than for site-built homes (see fig. 12).[18] More than half of the owners of manufactured homes (54.7 percent) had monthly housing costs from $100 to $499. In comparison, a little more than a quarter (27.4 percent) of owners of site-built homes had monthly housing costs from $100 to $499.

Figure 12: Monthly Housing Costs of Owners of Manufactured and Site-Built Homes, 2005



Source: GAO analysis of AHS 2005 data.

[18]The American Housing Survey definition of monthly housing costs encompasses electricity, gas, fuel oil, other fuels, garbage and trash, water and sewer, real estate taxes, property insurance, condominium fees, homeowner's association fees, mobile home park fees, land or site rent, other required mobile home fees, rent, mortgage payments, home equity loan payments, other charges included in mortgage payments, and routine maintenance.

The costs of moving manufactured homes can be high, and, according to state, industry, and consumer officials we interviewed, the cost-prohibitive nature of moving manufactured homes was one reason why owners moved them infrequently. Officials explained the price could range from $3,000 to $25,000. According to officials, a variety of factors influence moving costs, including distance of the move and the size of the home. In addition, moves involve set-up and dismantling costs, such as utility and other work to prepare the land. Several officials suggested that homeowners, particularly those on fixed incomes, could not afford the cost of moving their manufactured homes because they did not have the financial means to do so. As discussed later, in cases of park closures, some states have a relocation fund and, sometimes, property owners or developers might provide some funds for displaced residents to move their manufactured homes, assuming the displaced residents can find a place to move.

Owners of Manufactured Homes Have More Consumer Protections If Homes Are Considered Real Rather Than Personal Property, and Protections Provided by States Vary

Borrowers with loans for real property are generally entitled to a broader set of protections under a federal law governing the loan settlement process than borrowers with personal property loans. For instance, borrowers taking out loans for real property receive uniform settlement statements, as well as escrow statements. Additionally, although state law for situations of foreclosure (real property) and repossession (personal property) varies, consumer protections for foreclosure are generally broader than for repossession. Finally, tenant protections—involving issues such as the length of leases for land, requirements for notice and frequency of rent increases, notice of eviction, and park closures—vary across the eight states we reviewed, as did state aid for displaced residents of parks that closed.

Fewer Federal Protections Apply to Loan and Settlement of Personal Property Than Real Property

Generally, borrowers with personal property loans are entitled to fewer consumer protections under federal laws than borrowers with real property loans. Under the Truth in Lending Act (TILA), borrowers (including Title I borrowers) who purchase homes using personal property loans receive certain disclosures. For instance, creditors generally are required to provide the amount financed; the finance charge and the finance charge expressed as an annual percentage rate; the number, amount, and due dates or periods of payments; and the provisions for new payment, late payment, or prepayment. The disclosures are intended to make borrowers aware of the cost of the loan and policies for paying the loan, so that lenders cannot charge arbitrary rates or implement policies that are not disclosed to the borrower.

Borrowers who take out loans for the purchase of real property are entitled to additional protections under the Real Estate Settlement Procedures Act (RESPA), which is intended to ensure that consumers receive information on the nature and costs of the real estate settlement process and are protected from unnecessarily high settlement charges caused by certain abusive practices. RESPA also protects Title I borrowers or other buyers of manufactured homes if their federally related mortgage loans are secured by land on which a manufactured home sits or on which a manufactured home will be placed within 2 years. Borrowers are entitled to receive a good faith estimate of settlement costs within 3 days of submitting a loan application. At settlement, RESPA requires a uniform settlement statement that shows all charges in connection with the settlement both before and at the time of the settlement. RESPA also requires an initial escrow statement that itemizes the estimated taxes, insurance premiums, and other charges expected to be paid from the escrow account in the first year.[19] RESPA generally prohibits kickbacks and unearned fees for settlement services and charges for the preparation of certain documents. Additional disclosure requirements—an annual escrow statement that summarizes deposits and payments and a servicing transfer statement if the loan is transferred to a different lender—apply after the loan is settled.

States Generally Provide More Protections for Borrowers in Foreclosure Than Repossession; However, Federally Insured Borrowers Are Entitled to Additional Protections

State law generally provides more consumer protections in connection with foreclosures of real property than in connection with repossessions of personal property; however, borrowers in certain federally insured loan programs receive additional protections. Depending on state law and the mortgage contract, the two most common methods of foreclosure are judicial foreclosure and nonjudicial foreclosure by power of sale.[20] The level of protections to the homeowner in case of a foreclosure varies by state.

All states let the homeowner redeem the mortgage by paying off the total outstanding debt before the sale. However, only some states let a

[19]Escrow is the holding of funds, documents, securities, or other property by an impartial third party for the other two participants in a business transaction. When the transaction is completed, the escrow agent releases the entrusted property.

[20]Judicial foreclosures are processed through court actions, but nonjudicial power of sale foreclosures are processed without court involvement, based on the lender's exercise of the power of sale contained in the mortgage or deed of trust.

homeowner cure a default by paying the installments due and the costs to reinstate the loan prior to the resale of the home. Some states may allow the homeowner time to redeem the property from the purchaser, which often is the lender, after the foreclosure sale by paying the purchase price for the home, plus related costs and interest. For example, in North Carolina, a homeowner has 10 days to redeem the property after the foreclosure sale.

Personal property loans typically are subject to repossession rather than foreclosure. As with real property, the procedures can be judicial or nonjudicial. Generally, creditors use judicial action procedures to repossess manufactured homes. The Uniform Commercial Code, a model code adopted by states in various forms, also authorizes a secured party, upon default, to take possession of the collateral without judicial process—self-help repossession—if that can be done without breach of the peace. Because it may be difficult to avoid breaching the peace when repossessing manufactured homes, this process is not likely to be used often with manufactured homes.[21] Time frame and notice requirements for repossession can be less stringent than the corresponding requirements for foreclosures. For example, the Uniform Commercial Code does not prevent a creditor from immediately accelerating the note and repossessing the collateral; however, some states do impose restrictions on acceleration of repossession. Of the eight states we reviewed, five have provisions in place that permit acceleration of repossession in certain transactions only when the borrower is in default or in breach of the agreement or when contract terms permit it under certain conditions. In addition, some state statutes provide a right to cure a default prior to the acceleration or repossession of a manufactured home and for other consumer transactions in certain cases.

However, Title I Manufactured Home Loan borrowers are entitled to additional protections under FHA regulations. For instance, lenders may not begin the process of repossession or foreclose on a property securing a Title I loan in default unless the property has been serviced in a timely manner and with diligence and reasonable and prudent measures have

[21]A breach of peace is a generic term that includes violations or disturbances of public peace or order. Although the use of self-help repossession is not common, when it is employed it can place the homeowner at a significant disadvantage because the home can be removed from the land without much notice and still containing possessions of the owner.

been taken to get the borrower to bring the loan account current.[22] Title I borrowers, like borrowers in certain other federally-insured loan programs, are entitled to receive written notice of their default. For Title I borrowers, this notice includes a description of the lender's security interest, a statement of the nature of the default and the amount due, a demand upon the borrower to either cure the default or agree to a modification agreement or a repayment plan, and a statement that if the borrower fails to either cure the default or agree to a modification or a repayment plan within 30 days of the notice, the maturity of the loan is accelerated and full payment is required. Further, for federal home loans that HUD, the Department of Veterans Affairs, and Rural Housing Service guarantee, a lender cannot start foreclosure proceedings for a default in payment until at least three full monthly installments are past due.

States Give Manufactured Homeowners Varying Levels of Notice, Protection and Compensation Related to Length of Leases on Land, Rent Increases, Evictions, and Park Closures

Tenant protection issues affecting owners of manufactured homes include the length of the leases for land, rent increases, requirements for eviction, and park closures. We analyzed state laws in eight states and found varying written lease requirements (see fig. 13). For instance, five of eight states have provisions for written lease requirements. The terms range from any amount of time agreed upon by the landlord and tenant to a minimum of 2 years. However, officials in some states with whom we spoke suggested that enforcing this requirement was difficult. Notice of rent increases range from 60 to 90 days; however, some states do not have notice requirements on rent increases, such as Georgia, Missouri, North Carolina, and Texas.[23] States also qualify the rent increase provisions in varied ways. Arizona provides that rents generally can only increase upon renewal or expiration of the lease and the owner has to give 90 days notice. New Hampshire requires 60 days notice to raise rents but is silent on the number of times the rent can increase in a given year. Industry and consumer officials suggested the lack of ability to control monthly payments created additional risk for both lenders and borrowers.

[22]For FHA Title I loans, before acting to accelerate the maturity of the loan, the lender generally must contact the borrower in person or by telephone to discuss the reasons for the default and seek its cure. Unless the borrower cures the default or agrees to a modification of the loan terms or a repayment plan, the lender can proceed to take action by providing written notice to the borrower. During this time, the borrower is given a second chance to cure the default.

[23]In the states where the law permitted a rent increase during the lease term, it did not appear that this would override the terms of a written lease agreement.

Figure 13: Requirements for Written Leases and Notices of Rent Increases in the States We Reviewed, 2007

	Written rental agreement		Rent increases	
	Required	Minimum terms	Rent can be increased within lease terms	Notice of increase
Arizona	●	Any term agreed upon (12 months if no agreement)	●[a]	90 days
Florida		1 year	●	90 days
Georgia	●	Less than a year (can be oral); More than a year (must be written)		
Missouri[b]				
New Hampshire	●[c]	No specifics on term	●	60 days
North Carolina[b]				
Oregon	●	Month-to-month or two-year fixed term tenancy minimum	●	90 days (month-to-month); 60 days before term ends for new agreement (fixed-term)
Texas	●	Minimum 6 months (initial lease only); Variations must be mutually agreed upon		

Source: GAO analysis of select state statutes on landlord/tenant law.

[a]Arizona law provides the landlord is entitled to a rent increase effective at the expiration or renewal of a lease. However, it also states that the landlord can increase the rent immediately to account for the actual costs of certain expenses if the written agreement so provides.

[b]Missouri and North Carolina do not have requirements for minimum lease terms or rent increases.

[c]New Hampshire law does not use the term “written rental agreement,” but requires that landlords disclose in writing all terms and conditions of the tenancy including rental, utility, and service charges, prior to entering into a rental agreement with a prospective tenant.

Unlike owners of site-built homes, owners of manufactured homes living on leased land can be subject to eviction for nonpayment of rent or noncompliance with terms in lease agreements. Additionally, nonpayment of rent can be a signal that the homeowner is behind on loan payments as well. All states that we reviewed require good cause for eviction; however, the amount of time that the affected party has to cure the cause for the eviction (that is, to bring the late rent payments current) ranges from 7 to

30 days from receipt of notice.[24] Failure to cure an eviction for an owner of manufactured home on leased land could require the homeowner to move from the manufactured home park. However, as mentioned earlier, such a move may be cost-prohibitive.

Homeowners also can be forced to move because parks close. Notice requirements for those residents that had to move for this reason vary from 120 to 545 days in the states we reviewed (see fig. 14). But the states we reviewed also have a range of tools to aid the displaced owner of a manufactured home, such as offering the park residents the right of first refusal (the first opportunity to bid on the purchase of the park) and also offering relocation funds or tax credits for displaced residents. For example, one of the eight states we reviewed offers residents the right of first refusal. However, although Arizona, New Hampshire, and Oregon do not have a right of first refusal law, the states do have laws that provide notice of the park sale and time in which to prepare a bid.[25] In New Hampshire, state law requires both the park tenants and state financing agency receive notice when a manufactured home park is sold. The New Hampshire Community Loan Fund then works with the park tenants to form a nonprofit cooperative in which the tenants would own both the land and their homes.[26] Three states we reviewed have a relocation fund or tax credit for displaced residents (Arizona, Florida, and Oregon). Some interviewees suggested that in some park closures, especially those with a lot of publicity, the developer or buyer of the land would partially compensate the displaced residents.

[24]Good cause eviction means that eviction must be based upon a legally sufficient ground, which might include actions such as noncompliance with a provision of the rental agreement, nonpayment of rent, or change in use of land.

[25]At the time of our review, North Carolina and Oregon had introduced legislation to pass similar laws.

[26]Since 1984, the New Hampshire Loan Fund has converted 86 manufactured home parks to nonprofit cooperative ownership.

Figure 14: State Provisions for Displaced Occupants of Manufactured Homes in the States We Reviewed, 2007

	Number of days notice required to move when park converted	Tenant protections on conversion issues: Right of first refusal		Tenant protections on conversion issues: Relocation fund for rent increase/ conversions
Arizona	(180)		(Tenant association can give notice of interest to buy)	●
Florida	(180)	●	45 days to execute contract to buy	●
Georgia[a]				
Missouri	(120) or to end of lease, if longer			
New Hampshire	(545)		60-day notice provided to tenants and housing finance authority to bargain in good faith	
North Carolina	(180)			
Oregon	(365)[b]		Park owner must bargain in good faith with tenant association if given notice of interest 14 days after tenant association is notified park owner intends to sell	Tax credit available for involuntary move
Texas	(120)			

Source: GAO analysis of select state statutes on landlord/tenant law.

[a]Georgia has no provision for such a notice.

[b]In Oregon, the notice requirement can be 180 days if the landlord finds acceptable space for the tenant to move and pays moving expenses, up to $3,500.

Although a few states offer relocation funds for displaced manufactured home residents, officials from all states we reviewed cited potential barriers in finding a place to relocate the homes, such as a lack of vacancies in nearby parks, age requirements that park owners or municipalities place on units, and costs associated with moving and relocating homes. For instance, many parks will not allow homes built before 1976, and localities in some states may have laws prohibiting placement of homes that are more than 5 or 10 years old. Further, in states such as Florida, wind zone requirements for certain areas may prevent the relocation of a home not rated (certified) to withstand winds of certain speeds.[27] In addition to costs, officials also cited potential damage to the home as a barrier to movement.

More Information Is Needed to Determine the Impact of Proposed Changes to the Title I Program

Legislative proposals to change the Title I program would increase loan limits; insure each loan made; incorporate stricter underwriting requirements; and establish up-front premiums and adjust annual premiums; but the potential effects of the changes on the program and the insurance fund are unclear. According to some FHA and industry officials, the potential benefits for borrowers include larger loans with lower interest rates to buy larger homes. Also, increased access to financing for borrowers could occur since more lenders would be more likely to participate in the program because individual loans could be insured. Industry officials also identified several factors unique to manufactured home lending, such as the decreased ability of borrowers to build equity, the location of the home (owned or leased land), and the cost of recovery to the lender after defaults that can increase the risks of manufactured home lending. To illustrate the effects of the proposed changes, we developed an approach that used variations of unique risk factors associated with manufactured home lending, as well as commonly used predictors of loan performance, such as credit scores, to illustrate default scenarios. Our analysis suggests that loans for homes on leased land and to borrowers with poor credit have greater risk of default. And, in all instances where borrowers had medium or high default risk, we show the fund experiencing a loss. However, FHA has not yet assessed risks associated with the proposals or detailed changes to its underwriting requirements. The agency also has not yet collected data needed to help assess risks such as credit scores and land type. FHA officials explained that it had not done so because the Title I program was low-volume and because they were unsure if the legislation would pass. FHA officials said that they chose to devote their resources to changing the much larger Title II program. As a result, the effects of the proposed changes to the Title I program are unclear.

[27]The HUD Code requires that homes be designed and constructed to conform to one of three wind load zones. Wind Zone I equates to a 70-mph fastest-mile wind speed (i.e., the fastest speed in miles per hour within a specified period, usually 24 hours), Wind Zone II equates to a 100-mph fastest-mile speed, and Wind Zone III to a 110-mph fastest-mile speed. The appropriate wind zone used in design is dependent on where the home initially will be installed. Homes designed and constructed for a higher wind zone can be installed in a lower zone (a zone III home can be installed in a zone I or II location). However, a zone I home cannot be installed in a zone II or III location.

Proposals to Change the Title I Program Would Increase Loan Limits, Insure Each Loan Made, Incorporate Stricter Underwriting Requirements, and Set Premiums

Several bills introduced in Congress from 2005 to 2007 detailed proposed changes to the Title I Manufactured Home Loan program, but the majority of the bills contained similar provisions.[28] For example, all would increase the loan limits of the program and index them annually. In the latest bill that passed the House in May 2007, the loan amount for a home-only loan would increase from $48,600 to $69,678. For the land-only loan, the loan limit would increase from $16,200 to $23,226 and for combined home and land loans, the loan limit would increase from $64,800 to $92,904.[29]

All but one of the bills would require a change to the mechanism that FHA uses to insure against its insurance risk.[30] Currently, FHA accounts for its insurance risk by insuring only a portion (10 percent) of a lender's Title I Manufactured Loan portfolio. For example, if a lender's portfolio in a given year totaled $1,000,000, FHA's guarantee to the lender would not exceed $100,000. The proposed legislation removes the portfolio cap and insures each loan on an individual basis. However, the current risk-sharing mechanism on individual loans between FHA and lenders (where FHA covers 90 percent of the loss if there is a claim on a defaulted loan and the lender absorbs the remaining 10 percent) would not change.

Moreover, FHA would be required to establish specific underwriting criteria to ensure the financial soundness of the program within 6 months of the passage of the legislation. Currently, Title I regulations require a lender to exercise prudence and diligence in underwriting a loan to determine whether the borrower is an acceptable credit risk, such as requiring lenders to conduct a credit investigation and obtain a credit report. But the Title I regulations do not contain provisions that would address other factors specific to manufactured homes, such as whether the home is placed on owned or leased land. For Title I, FHA reviews the lender's underwriting only when a default occurs within the first 2 years of the loan and a lender submits a claim for insurance. FHA then has 2 years to deny a claim for insurance even after FHA has certified the claim for payment. The proposed legislation also would require FHA to provide incontestable insurance endorsements, meaning that no claim could be

[28]Proposed legislation included S. 2123, 109th Cong. (2005), H.R. 2803, 109th Cong. (2005), S. 3535 109th Cong. (2006), H.R. 4804, 109th Cong. (2006), S.1741, 110th Cong. (2007), and H.R. 2139, 110th Cong. (2007).

[29]In 2005, the average price of a single-wide was $33,800 and a double-wide was $68,600.

[30]S.3535 would not change the mechanism that FHA uses to insure against risk.

denied because of underwriting issues—absent fraud or misrepresentation.[31]

All but one of the bills would establish up-front mortgage insurance premiums, not to exceed 2.25 percent of the loan amount and adjust the annual insurance premiums up to 1 percent of the remaining unpaid principal balance, rather than the original loan amount as stipulated in current law.[32] The remaining bill would give the agency flexibility to establish premiums through risk-based pricing. If such a provision were made law, FHA officials told us that they would provide a range of premiums based on historical analysis of FHA loan data.

Furthermore, all but one of the bills would require operations at negative subsidies—that is, without cost to the government. Currently, the Title I program is operated at a positive subsidy, meaning that the present value of estimated cash outflows (such as claims) to FHA's General Insurance Fund exceed the present value of the estimated cash inflows (such as borrower premiums). According to the Federal Credit Supplement, FHA's Title I Manufactured Home Loan program is expected to require a $487,000 subsidy in fiscal year 2007 and a $76,000 subsidy in 2008. FHA officials state it is unlikely the program could generate negative subsidies because of the proposed premium structure and potential for depreciation of the assets underlying the loans (the manufactured homes).

Some of the bills also would require that the claim and disposition of property for the Title I program be similar to the Title II program, where FHA disposes of the used homes once the lender receives insurance benefits. FHA opposes this change to the bill and proposes to continue having the lenders dispose of the property. As discussed later, recovery cost for manufactured housing are higher than for other types of housing and lenders require strong recovery practices, such as a network for selling homes in place, to recoup more than half the loan balance after a default.

[31] In contrast, in the Title II program, FHA endorses a loan if it meets all applicable regulations and instructions. FHA then issues a certificate of insurance, which creates a contract of mortgage insurance subject to the regulations in effect at the time. In Title I, FHA does not endorse manufactured home loans. That is, it does not contractually guarantee payment of eligible claims; rather, it acknowledges the insurance through the issuance of premium billing statements.

[32] S. 3535 does not specify the premium amount; rather, it states that the Secretary of HUD can establish a mortgage insurance premium structure.

According to FHA and Industry Officials, Potential Benefits of Proposed Changes Include Increasing the Number of Borrowers, More Lender Participation, and Expansion of the Secondary Market

FHA and lending industry officials with whom we spoke cited benefits that could accrue to borrowers, the industry, and the Title I program if the proposed legislation were enacted. These officials suggested that increasing the loan limits would allow more borrowers to buy manufactured homes at lower interest rates and also larger homes. As noted earlier, in recent years buyers have expressed a heavy preference for purchasing double-wide or multisection units.

FHA, Ginnie Mae, and lending industry officials also suggested that increasing the limits and eliminating the portfolio cap would increase lender participation and demand for Title I loans, which in turn could increase competition and decrease borrower interest rates. In particular, Ginnie Mae officials stressed that eliminating the portfolio cap would be central to their decision to expand their participation in the secondary market for manufactured home loans.[33] This, in turn, could provide more liquidity to lenders and greater access to credit for borrowers. Ginnie Mae was the main guarantor of securities backed by FHA Title I loans on the secondary market up until 1989 when Ginnie Mae placed a moratorium on new manufactured housing issuers because of the high risks associated with the product. Currently, Ginnie Mae has four lenders in its manufactured home program with just one active. According to Ginnie Mae officials, it imposed the moratorium because structural features of the Title I program, such as the portfolio cap and the nonspecific underwriting requirements, exposed Ginnie Mae to greater risk and losses. According to Ginnie Mae, once claim amounts were reached on troubled portfolios, lenders had little incentive to continue servicing the portfolios and make payments to security holders. Ginnie Mae then sustained substantial losses when it assumed the portfolios of lenders that reached FHA coverage limits. In addition, one lending official suggested more stringent underwriting requirements would be beneficial to the industry, which still

[33]Ginnie Mae defines its mission as expanding affordable housing in America by linking capital markets to the nation's housing markets, largely by serving as the dominant secondary market vehicle for government-backed loan programs. Ginnie Mae does not buy or sell loans or issue mortgage-backed securities. Rather, it provides guarantees backed by the full faith and credit of the U.S. government that investors will receive timely payments of principal and interest on securities supported by pools of government-backed loans, regardless of whether the borrower makes the underlying mortgage payment or the issuer makes timely payments on the securities. All mortgages in the Ginnie Mae pool must be insured or guaranteed by a government agency and have eligible interest rates and maturities.

is recovering from the defaults and repossessions of the early 2000s.[34] Industry officials suggested that federal agencies, such as FHA, and the government-sponsored enterprises could help facilitate changes in the industry, such as improving underwriting requirements.

However, according to FHA and the Congressional Budget Office (CBO), the elimination of the portfolio cap could increase significantly the amount of claims paid and expand the government's liability under the program since each loan would be insured on an individual basis. FHA officials also said that they believed risk-based pricing would help compensate FHA's insurance risk. The extent to which risk reduction would occur and what borrowers would be excluded would depend on underwriting requirements, such as the ranges of credit scores allowed.

Lending Officials Identified Factors Unique to Manufactured Home Lending That Can Affect Loan Performance

Industry officials identified several risk factors unique to manufactured home lending, such as the decreased ability of borrowers to build equity, the lack of consistency and transparency in appraising and pricing homes, the location of the home (owned or leased land), the cost of recovery to the lender after defaults, and issues related to the installation of the home. Based on our review of literature and interviews with lending industry officials, owners of manufactured homes generally have less ability to build equity than the owners of site-built homes. As assets, manufactured home can depreciate in value after purchase, similar to automobiles. For example, officials explained that manufactured homes bought with personal property loans generally depreciated in value if not attached to land. The officials emphasized that, even after years of making payments, a borrower could choose to default on a loan if the home was worth less than the loan balance.

In general, manufactured homes are appraised differently when considered real property compared to personal property. When a home is placed on real property, the value of the home is determined based on comparable homes in the vicinity. When a home is considered personal

[34] As a result of poor performance in the manufactured home portfolios in the early 2000s, government–sponsored enterprises (GSEs), such as Fannie Mae and Freddie Mac, changed their underwriting requirements to only purchase loans located on owned land. In addition, each of the GSEs put size requirements on the type of homes for which they would provide guarantees. For example, Fannie Mae underwriting guidelines require a manufactured home to be 660 square feet or more, while Freddie Mac requires the home to be a double-wide.

property, the value is based on the price that the manufactured home dealer had determined for the unit. However, lending officials with whom we spoke suggested prices varied by dealers and that pricing of manufactured homes was not transparent because dealers are not mandated to display a manufacturer's suggested retail price. In addition, states conduct little or no recording of sales data. Further, the officials suggested that the lack of transparency resulted in some consumers overpaying for the manufactured home, particularly in instances where the dealer would present the price in monthly payment terms. One lender identified California as a model state, because it requires all manufactured home purchases to go through escrow, whether real or personal property, which helps to monitor sales prices.[35] This lender's loans performed significantly better in California than in other states, and the lender suggested that California's transparent pricing was one of the main reasons.

Furthermore, industry officials suggested that the location of the home on owned or leased land is a predictor of loan performance. According to our review of literature and interviews with industry officials, loans for manufactured homes placed on owned land (titled as real property) tend to perform better than loans for homes on leased land (titled as personal property), as they tend to appreciate more. Some officials suggested appreciation could occur on leased land, but that appreciation would be dependant on location and amenities available (such as pools, club houses, or golf courses).

In contrast to other housing types, many lending industry officials suggested that the cost of recovery for lenders when a loan defaulted was greater with manufactured homes. For instance, for manufactured homes the costs to the lender in a foreclosure or repossession (which may involve the movement of the home) would be proportionately higher

[35]Under California law, when a contract, purchase order, or security agreement for the retail sale of a new or used manufactured home (one installed on a nonpermanent foundation) is signed, the dealer must put the entire down payment or deposit in an escrow account within 5 days of receipt. The conditions of sale are written into mandatory escrow instructions and require the buyer's signature. The instructions specify the conditions of delivery for a manufactured home. For instance, if the home is located in a manufactured home park, escrow cannot close until the manufactured home owner has signed the park rental agreement. Further, the escrow account should not close until the home has been delivered and passes inspection. These rules only apply to the retail sale of manufactured homes. Manufactured homes sold for installation on permanent foundations are subject to escrow requirements similar to those of site-built homes.

relative to the loan amount than for more expensive site-built housing. Some states have lien holder statutes in place that may help the lender protect its collateral in cases of borrower default by requiring notification of lenders in case of abandonment or eviction. Of the states we reviewed, Arizona, New Hampshire, Oregon, and Texas have such a statute.[36] Some lending industry officials suggested that losses and high recovery costs could be mitigated by selling the home in place. They suggested that lease agreements between lenders and community owners should ensure that manufactured homes located on leased land could be sold in place if borrowers defaulted.

According to some of lending officials we interviewed, the size of the home also was a predictor of performance. Loans for larger manufactured homes (double-wides or multisection units) tend to perform better than loans for single-wides. The officials with whom we spoke suggested that these loans performed better because the income level of those borrowers tended to be higher. However, the majority of Title I loans have been for single-wides, which according to FHA and industry officials was because of the current loan limits.

In addition, many industry officials suggested the type and quality of installation of the home affects the value of the home and that, in theory, states with stronger inspection programs help maintain the value of the home for the consumer. The Manufactured Housing Improvement Act of 2000 set standards for installation inspections across the country, but states continue to differ in how they monitor installation of homes.[37] Until recently, many states did not have a program to inspect the installation of manufactured homes. In our review of eight state installation programs, we found the level of inspections varied by state (see fig. 15). For example, five of eight states require 100 percent inspection (Arizona, Florida, New Hampshire, North Carolina, and Oregon). All of those that require 100 percent inspection had installation programs in place prior to the implementation of the Manufactured Housing Improvement Act, except

[36]The current Title I formula for calculating FHA's payment of claims limits the amount of the claim to 90 percent of the loan and is based on the best price attainable, which is either the net sale price or appraisal value, whichever is higher, and then includes the subtraction of the unpaid balance of the loan.

[37]According to HUD officials, a proposed rule is currently under review to require a consistent installation program across the states.

for New Hampshire, whose requirement went into effect in July 2006.[38] The remaining states relied on state officials inspecting from at least one manufactured home installer in Georgia or from 10 to 35 percent of manufactured homes in Missouri and Texas, but Georgia and Missouri made changes to their installation programs after the passage of the act. Prior to these changes, the two states inspected installations on a consumer complaint basis. Further, state programs differ in how they conduct installation inspections. For instance, Florida, New Hampshire, and North Carolina rely on local jurisdictions to conduct the inspections; Arizona and Oregon use a combination of both state and local officials; while Georgia, Missouri, and Texas use only state officials.

Figure 15: Comparison of Installation Inspection Programs in the States We Reviewed, 2007

		Arizona	Florida	Georgia	Missouri	New Hampshire	North Carolina	Oregon	Texas
Percentage of homes inspected		100%	100%	Not specified	10-15%	100%	100%	100%	25-35%
Inspection by officials	Local	●	●			●	●	●	
	State	●		●	●			●	●
Installation standards' start date		Pre-1980s	1967	2005 (Jan.)	2005 (July)	2006 (July)	1981-1982	1990	1997

Source: GAO analysis of select state MH installation programs.

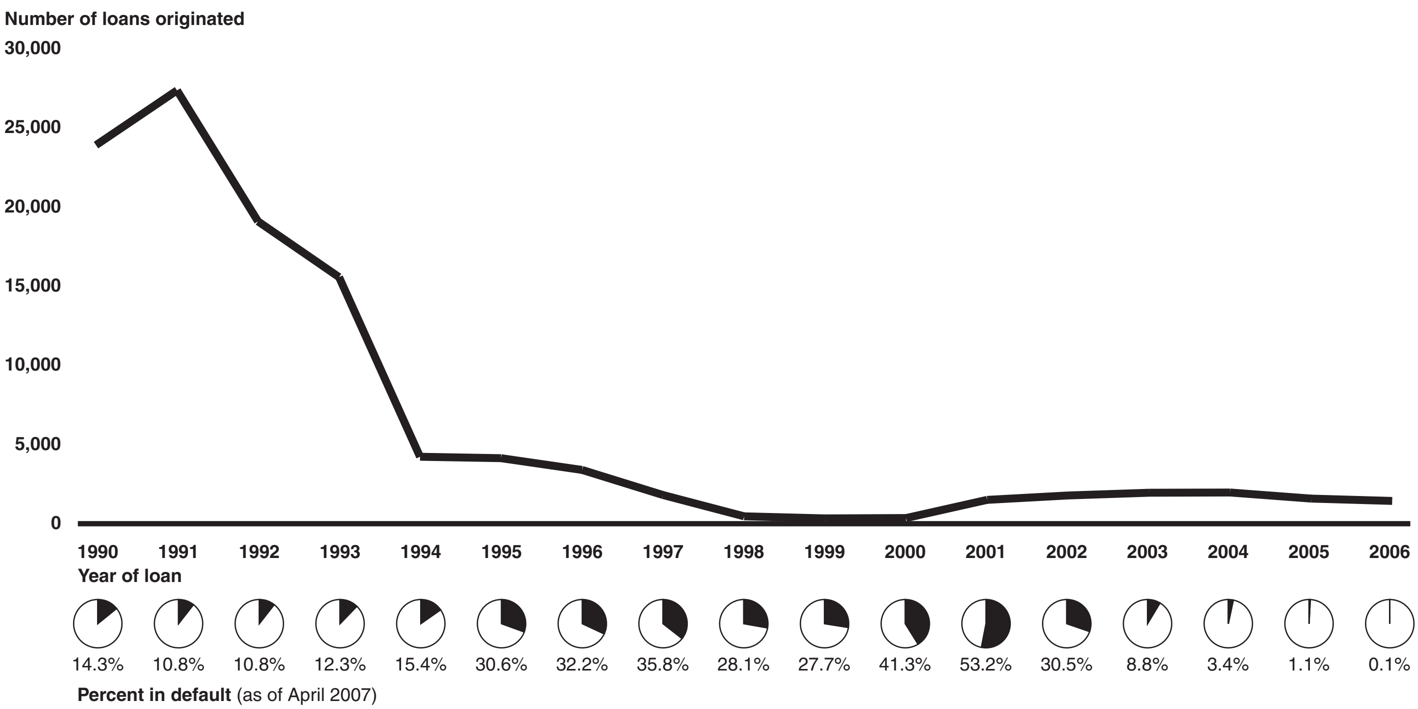
Note: Georgia does not specify a percentage of manufactured homes to be inspected. Rather, each installer is inspected once annually. If a problem is found with a particular manufactured home installer, the state office conducts multiple inspections of the installer.

[38] The Manufactured Housing Improvement Act of 2000 changed methods for establishing construction, safety, and installation standards for manufactured housing and created a dispute resolution program administered by the states. HUD's Manufactured Housing program, which is administered through state or third-party agencies, such as the Department of Housing and Community Affairs in Texas, the State Fire Marshall's office in Georgia, and the Department of Motor Vehicles in Florida, monitors these standards. Depending on the state, the state or third-party agencies act as (1) design approval and primary inspection agencies to check and approve the designs and calculations used in the construction of manufactured homes; (2) in-plant inspection agencies to certify and inspect manufactured homes during the manufacturing process to ensure that the manufacturer is in compliance with the standards and with approved designs; and (3) state administrative agencies to handle consumer complaints, conduct inspections, make enforcement determinations, and conduct hearings.

Our Analysis Suggests That Poor Credit and Homes Placed on Leased Land Are Key Factors Associated with Greater Risk of Defaults of Loans for Manufactured Homes

In the absence of available data on the credit of FHA borrowers and the location of the homes (owned or leased land), we developed scenarios using assumptions based on various risk factors, such as the default risk of borrowers and the ability of lenders to recover losses. In addition, we considered the experience of FHA's Title I program since 1990 and of non-FHA personal property manufactured housing loans. For example, from 1990 to 2002, FHA's cumulative defaults expressed as a percentage of originated loans, did not drop below 10 percent and have exceeded 25 percent in 8 of the 13 years (see fig. 16). However, loans from 2003 to 2006 may not be reflective of the default experience because they are recent loans and lending industry officials explained that the peak default period for these types of loans generally occurs from the third to the fifth year. Non-FHA manufactured housing loans also had high cumulative losses, typically above 15 percent for loans originated between 1997 and 2001, but lower than FHA's cumulative losses.

Figure 16: Number of FHA Title I Loans and Percentage of Loans in Default, 1990-2006



Source: GAO analysis of FHA data.

Our scenarios incorporate assumptions based on factors such as annual default rates for different yearly intervals, loan interest rates, and loan terms.[39] Once we established these parameters, we included additional factors, such as variations on the lenders' ability to recover their losses in cases of default and the borrowers' insurance premium schedule (based on the premiums suggested in the proposed legislation). Our assumptions about default rates reflect an important characteristic of home-only manufactured housing loans. Even after years of loan payments, a borrower may not have enough equity in the home to avoid a default in the face of adverse financial conditions or may choose not to pay off a loan if the home is worth less than the loan balance.

Based on discussions with lending industry officials and our review of available manufactured home lending data, we assumed three variations of

[39]The annual default rates consisted of different yearly intervals: years 1 and 2, years 3 through 5, years 6 through 9, and years 10 and after.

default: a low default experience, a moderate default experience, and a high default experience. In general, the low default experience would reflect conditions in which borrowers possessed good credit quality (credit score), lenders used high-quality underwriting requirements, and lenders' security interests in the collateral were well protected in terms of those factors that are associated with the preservation of value, such as placement of the home (owned versus leased land) and installation. The high default experience would reflect conditions in which borrowers had poorer credit quality, and collateral values and lenders' security interests also were lower.

The following assumptions in our analysis were based on discussions with lending industry officials on possible recovery outcomes and possible legislative changes regarding FHA's upfront and annual premiums:

- If lenders had a strong recovery program (which may include a good network of dealers who resell manufactured homes) they would achieve a net recovery of 50 percent per claim. Alternatively, we assumed a moderate recovery rate would be 33 percent of the claim, and a low recovery rate would be 25 percent.

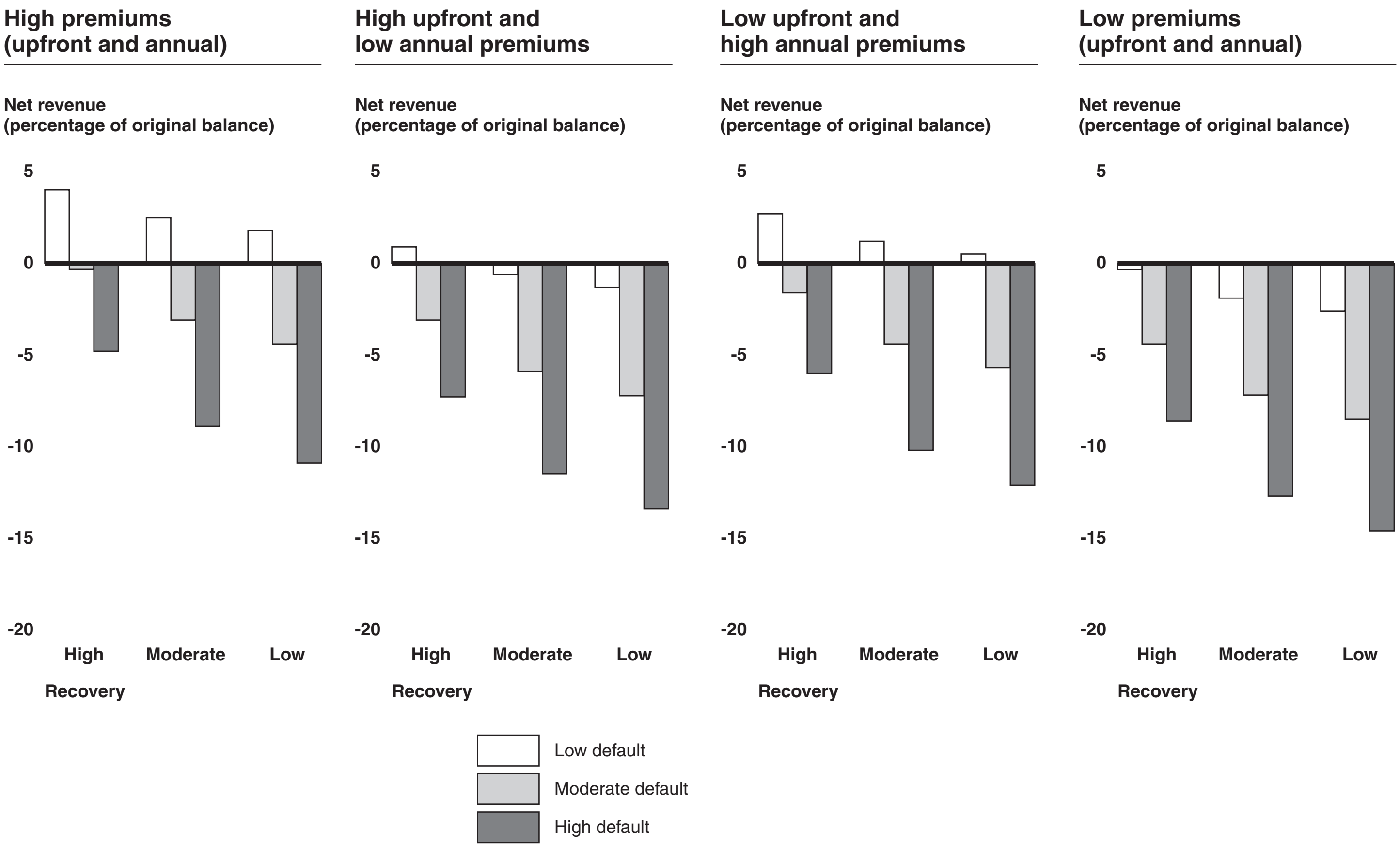
- Two different potential up-front premium amounts—a high up-front premium of 2.25 percent of the original loan amount and a low up-front premium of 1 percent of the original loan amount.

- Two different annual premiums—a high annual premium of 1 percent of the declining loan balance and a low annual premium of 0.5 percent of the declining loan balance.

To determine the potential impact on FHA's General Insurance Fund, we used the above assumptions to calculate the relationship between the amount and timing of both expected claims and premiums to FHA. Similar to a subsidy calculation, we estimated the present value of estimated cash outflows (such as claims) net of the present value of the estimated cash inflows (such as premiums) to FHA's General Insurance Fund.

The results of our analysis show that in all instances where borrowers had moderate or high default risk, the fund experienced a loss—that is, the present value of estimated cash outflows exceeded the present value of cash inflows (see fig. 17). The range of the loss was determined by the lender's ability to recover its losses and the premiums the borrower paid. For instance, in cases where the borrower paid high up-front and annual premiums (2.25 percent and 1 percent, respectively) and was a moderate default risk, and the lender had a high net recovery rate (50 percent), the loss to the fund was less than 1 percent. However, if we varied the scenario to lower the recovery rate for lenders (25 percent), the potential loss to the fund was 4.4 percent. Similarly, when the borrower paid low up-front and annual premiums (1 percent and 0.5 percent) and had moderate default risk, the losses ranged from 4.4 percent if the lender had a high net recovery rate to 8.5 percent if the lender had a low recovery rate. The fund had the potential to experience gains in instances where the borrower had low default risk, premiums were higher, and lenders had a higher probability of high recovery of losses.

Figure 17: Results of Scenarios Based on Variations in Default Risk, Lender Recovery Costs, and Premiums Paid by Borrowers



Source: GAO.

Our analysis also showed that there is potential for FHA's General Insurance Fund to experience a wide variation in the level of losses but little potential for gains. The results suggested that there is greater risk of loss from borrowers who have either moderate or high default risk. Typically, these are loans where the borrower may not have a high credit score, and the property is located on leased land—in which case the lender's security interest may be uncertain because of the variability associated with rent increases, lease terms, and the potential for the manufactured home park to be sold. In addition, the amount of the loss was influenced by the amount of premiums paid. For instance, where borrowers paid the highest up-front and annual premium, the loss was 11 percent in cases where the borrower also had high default risk and the lender had low recovery, compared with a 15 percent loss in instances where the borrower paid a low up-front and annual premium. However, since FHA does not currently collect data on credit score or where the property is located—owned or leased land—it is unclear how these scenarios may actually affect the General Insurance Fund. See appendix II for a more detailed discussion of our scenario analysis methodology.

Effects of the Proposed Changes Are Unclear Because FHA Has Not Yet Articulated Which Borrowers Would Be Served, Assessed Its Insurance Risks, or Developed Underwriting Requirements

FHA has not yet assessed the effect of the proposed changes to the Title I program. More specifically, it has not developed criteria or models to assess the potential effects of the proposed premiums or risk-based pricing or developed specific underwriting requirements. Such assessments and requirements are central to effective operation and oversight of a revised Title I Manufactured Home Loan program. Our internal control standards for federal agencies state that effective management involves comprehensively identifying risk as part of short- and long-term planning.[40] Such planning would encompass the identification of risks posed by new legislation or regulations. The results of our scenario analysis also suggest that FHA could use modeling to illustrate, in a general way, potential gains and losses to FHA's General Insurance Fund and that premium structures play a key role in determining these outcomes.

Although the purpose of the Title I program is to serve low- to moderate-income families, it is unclear which borrowers a revised program would serve because FHA has not yet shared the specifics as to how it plans to compensate for risk, including how the premiums would be set. According to FHA officials, they do not plan to develop criteria for assessments of proposed premiums or risk-based pricing until the program is approved by Congress. FHA officials told us that they have begun to analyze a range of up-front premiums and a maximum premium amount based on a historical analysis of receipts and claims, but that they had not yet reached any conclusions. In addition, FHA has not conducted an analysis to determine under what conditions the program could operate at a negative subsidy if the proposed changes were enacted. As mentioned earlier, FHA's Title I Manufactured Home Loan program is expected to require a $487,000

[40]GAO, *Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1 (Washington, D.C.: November 1999); and *Internal Control and Management and Evaluation Tool*, GAO-01-1008G (Washington, D.C.: August 2001).

subsidy in fiscal year 2007 and a $76,000 subsidy in 2008.[41] According to HUD officials, they expect to calculate the new subsidy rate based on projected defaults, interest and fees, and loan characteristics (such as loan maturity, default and recovery rates, and up-front and annual fees) for the 2009 budget. CBO estimated that, if the legislation were enacted, FHA could achieve a near zero subsidy for the Title I program assuming default rates would be at 9.5 percent or lower. CBO also acknowledged that because of the uniqueness of FHA's program and lack of comparative programs in the private market, the potential costs of the program are uncertain. The results of our analysis suggest that, in almost all situations, there is potential for loss except when borrowers have lower default risk (based on credit scores and other information). While credit score is one of the key factors used to determine default risk, FHA does not collect this information (discussed further below).

FHA officials also stated they have not yet developed specific underwriting requirements for a revised program. Although industry and FHA officials with whom we spoke discussed the unique risks for manufactured home loans, the information FHA provided us about any changes to its underwriting criteria have not addressed the specific characteristics of manufactured housing. FHA officials did explain they would like to establish review procedures when a loan is submitted for insurance, similar to the procedures in FHA's Title II loan program. In Title II, FHA conducts post-endorsement reviews of 10 percent of its loans, with FHA staff going over the lender's underwriting decisions and calculations.

In explaining the agency's limited assessments, FHA officials noted that the agency is focusing its resources on assessing the impact of proposed changes to the much larger Title II Mortgage Insurance program. As of May 2007, FHA's risk-based pricing proposal for the Title II program established six different risk categories, each with a different premium rate, for purchase and refinance loans. FHA used data from its most recent actuarial review to establish six risk categories and corresponding premiums based on the relative performance of loans with various combinations of loan-to-value ratio (the ratio of the amount of the mortgage loan to the value of the home) and credit score.[42] Further, since

[41]As discussed in previous work, historically, FHA has been known to underestimate the subsidy rate. GAO, *Federal Housing Administration: Modernization Proposals Would Have Program and Budget Implications and Require Continued Improvements in Risk Management*, GAO-07-708, (Washington, D.C.: June 29, 2007).

[42]GAO-07-708.

the current volume of the Title I program is low, FHA officials did not anticipate large losses for the fund. However, the programmatic changes in the proposed legislation are designed to increase the demand for Title I manufactured home loans. FHA officials told us that once the legislation is passed, it would take up to a year to implement changes to the program and to work on developing the risk-based pricing strategy; however, they were unsure if they would implement the program in stages or all at once.

As a result of FHA not conducting risk assessments or determining underwriting requirements, potential effects of changes to the Title I program remain unclear. Without such risk identification, FHA's planning may be adversely affected. In particular, the agency may lack timely indications of whether the program could generate positive or negative subsidies, which in turn would affect decisions about pricing premiums.

FHA Also Has Not Yet Developed an Approach for Collecting the Information Needed to Manage the Program

Currently, FHA does not collect information on the credit scores of borrowers or the type of land on which manufactured homes are placed. Our internal control standards for federal agencies state that an agency must have relevant, timely, and reliable information to run and control its operations. Of the factors identified as risks affecting manufactured home lending, FHA maintains data only on the size and condition (that is, new or existing) of the manufactured home. In 2004, FHA started to collect information on borrower demographics, such as gender, address, birth date, and monthly income. And, because FHA currently monitors a lender only when a claim is filed for insurance and not before the loan is originated, the information collected is not as thorough as would be generated if the program required review prior to the endorsement of the loan.

FHA officials told us it would like lenders to electronically capture more information about borrowers during the underwriting process, but that the current information system for the Title I program would need to be updated to accommodate expanded data fields. FHA officials also told us that they plan to collect more detailed borrower, property, and loan-level data to improve tracking and performance measurement, but did not have specific details as of July 2007. However, our interviews with lending officials and the results of our scenario analysis both suggest that credit score and the location of the home (on owned or leased land) are important predictors of loan performance. Without more comprehensive data on its borrowers and lenders, FHA may not be able to successfully estimate default risks in its portfolio, mitigate risks to the insurance fund, and, thus, effectively manage the program.

Conclusions

Manufactured homes are an affordable housing option, but they differ from site-built homes in the way they are financed, sold, and the consumer protections available. These differences create additional risks for both the borrowers and lenders of manufactured homes. For example, the ability for the homeowner to build equity is constrained if the property is located on leased land and the land ownership also affects the ability of the lender to recover its losses relative to other types of lending. These risks are reflected in the performance of the Title I program, which has a history of high default rates, as does the manufactured home lending industry. However, the Title I program also provides a unique product as the only active federal program offering insurance for home-only (personal property) loans. According to recent FHA data, the majority of its borrowers are younger and lower-income, suggesting that Title I helps them achieve homeownership.

But changing and expanding a lending program can introduce new risks and increase existing risks. FHA only insured slightly more than 1,400 loans in 2006. Changes to the Title I program are expected to increase loan volume, which could generate the desirable outcome of providing more lower-priced loans to lower-income individuals desiring to purchase a home. Yet, both FHA and CBO suggest proposed changes can increase FHA's insurance risk and expand the government's liability. The extent of gains or losses to FHA's General Insurance Fund will depend on a variety of factors, such as the borrower's default risk, the lender's ability to recover losses, and the amount of premiums paid. However, FHA has not articulated which borrowers would be served, how the loans would be priced under a risk-based structure and the expected increase in risk to the General Insurance Fund, how the loans would be underwritten, and the additional data it plans to collect to manage the program. Thus, the agency lacks vital information for implementing any changes to the program. If FHA were to conduct such risk identification, it could plan to anticipate changes to the program, target new borrower populations, and more effectively manage existing loan portfolios. In particular, with indications of whether the program could generate positive or negative subsidies, the agency could make appropriate and well-informed decisions about pricing premiums. For example, an analysis similar to the one we performed would provide at least an indication of what scenarios would produce the highest risks for losses to the fund. Finally, more comprehensive data on its borrowers and lenders could allow FHA to mitigate the risks inherent with the manufactured home product.

Recommendations for Executive Action

In light of the growth that a revised Title I program could spur and previous experience in the manufactured home loan industry that included a high number of defaults and repossessions, prior to the implementation of a revised program, we recommend that the Secretary of Housing and Urban Development direct the Assistant Secretary for Housing and Urban Development—Federal Housing Commissioner to assess the effects of the proposed changes. At a minimum, this action should

- articulate which borrowers would be served if the program were expanded, including the financial conditions and creditworthiness of the served borrowers;
- develop criteria or economic models to assess the potential effect of the proposed changes including risk-based pricing; that is, determine what circumstances or pricing structures would most likely result in a positive or negative subsidy if the proposed changes were enacted; and
- develop detailed proposed changes to its underwriting requirements that account for unique attributes of manufactured housing and the characteristics of FHA's targeted borrower population.

We also recommend that the Secretary of Housing and Urban Development direct the Assistant Secretary for Housing and Urban Development—Federal Housing Commissioner to develop an approach for collecting the information needed to manage the program, including the credit scores of borrowers and whether the manufactured homes are on owned or leased land.

Agency Comments and Our Evaluation

We provided HUD with a draft of this report for review and comment. HUD provided comments in a letter from the Assistant Secretary for Housing—Federal Housing Commissioner (see app. III). HUD agreed with the recommendations in our report and described plans for implementing these recommendations. More specifically, HUD agreed with our recommendation to assess the effects of the proposed changes prior to the implementation of a revised program. FHA noted that it recently initiated a review of the credit subsidy calculation for the Title I Manufactured Home Loan program and that the results of the study will be used to develop models to test underwriting and premium pricing options. As we noted in our report, this type of analysis or an analysis similar to the one we performed could provide an indication of the risks for losses to FHA's General Insurance Fund.

HUD also agreed with our recommendation to develop an approach for collecting the information needed to manage the program. As we mentioned in our report, HUD stated it began collecting additional data, such as borrower information on age and income in 2004. HUD stated that it did not collect information on the location of the homes (owned or leased land) because the program requirements for both types of homes were essentially the same; however, HUD plans to collect these data under a revised program to track loan characteristics. HUD also agreed to collect appropriate credit and application variables such as credit scores. Finally, the agency noted that it intended procedures for originating and underwriting Title I loans to mimic those of FHA's real estate financing programs.

As agreed with your offices, unless you publicly announce the contents of this report earlier, we plan no further distribution until 30 days from the report date. At that time, we will send copies of this report to the Ranking Member, Senate Committee on Banking, Housing, and Urban Affairs; Ranking Member, Subcommittee on Housing, Transportation, and Community Development, Senate Committee on Banking, Housing, and Urban Affairs; Chairman and Ranking Member, House Committee on Financial Services; and Chairman and Ranking Member, Subcommittee on Housing and Community Opportunity, House Committee on Financial Services. We will also send copies to the Secretary of Housing and Urban Development and will make copies available to other interested parties upon request. In addition, the report will be made available at no charge on the GAO Web site at http://www.gao.gov.

If you or your staff have any questions about this report, please contact me at (202) 512-8678 or shearw@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Key contributors to this report are listed in appendix IV.

William B. Shear

William B. Shear
Director, Financial Markets and
Community Investment

Appendix I: Objectives, Scope, and Methodology

The Chairmen of the Senate Committee on Banking, Housing, and Urban Affairs and its Subcommittee on Housing, Transportation, and Community Development and Senator Jack Reed requested that we evaluate the Federal Housing Administration's (FHA) Title I Manufactured Home Loan program. Specifically, the objectives of this report were to (1) describe selected characteristics of manufactured housing and the demographics of the owners, (2) compare federal and state consumer and tenant protections for owners of manufactured homes, and (3) describe the proposed changes to FHA's Title I Manufactured Home Loan program and assess potential benefits and costs to borrowers and the federal government.

In summary, to address our first objective we analyzed Census data from the Manufactured Housing Survey from 1996 to 2005 and the 2005 American Housing Survey. To address our second objective, we researched relevant federal laws and laws in eight states (Arizona, Florida, Georgia, Missouri, New Hampshire, North Carolina, Oregon, and Texas) and conducted semistructured phone interviews with state, industry, and consumer group officials in those eight states.[1] We also used the information gathered in the interviews to inform our discussion in the first and third objectives. For our third objective, we interviewed FHA officials and lending officials from programs that provide financing for manufactured homes. To learn about risk-mitigation practices, we also reviewed policies and procedures from the programs mentioned above. Finally, we conducted an analysis using different scenarios that incorporated assumptions of risk for manufactured housing lending to illustrate potential costs of the proposed legislation. We conducted our work in Washington, D.C., Atlanta, and Chicago, from October 2006 through June 2007 in accordance with generally accepted government auditing standards.

Selected Characteristics of Manufactured Housing and the Demographics of the Owners

To determine selected characteristics of manufactured housing, we analyzed Census data from the Manufactured Housing Survey. Census conducts the Manufactured Housing Survey on a monthly basis and samples approximately 350 manufactured home dealers or 1 in 40 of the manufacturers that ship manufactured homes each month. The sample of manufactured home dealers surveyed fluctuates based on the total number of manufactured homes shipped. Specifically, we used Manufactured

[1] At one of the states, Georgia, we conducted interviews on-site.

Housing Survey data from 1996 through 2005 to examine trends in the manufactured housing industry, such as the number of homes sold, average sales price, where the homes were placed (owned or leased land), and the size of these homes (single-wide versus double-wide units). To determine demographic characteristics of manufactured home owners, we relied on the 2005 American Housing Survey. Census conducts the American Housing Survey every 2 years, sampling approximately 55,000 housing units to gather data on apartments; single-family homes; manufactured or mobile homes; vacant housing units; age, sex, race and income of householders; housing and neighborhood quality; housing costs; equipment and fuels; and the size of the housing units. We choose to use 2005 American Housing Survey data since they were the latest available. We did not provide information on trends in earlier years because the sample of manufactured housing used in previous surveys (through 2003) changed, making it difficult to compare 2005 data with previous data. Data on land ownership for manufactured homes (that is, owned or leased land) was limited in the Manufactured Housing and American Housing Surveys; as a result, we could not report differences in the data for where the manufactured home was placed.[2] We assessed the reliability of the Manufactured Housing and American Housing Surveys by reviewing information about the data, performing electronic data testing to detect errors in completeness and reasonableness, and interviewing knowledgeable officials regarding the quality of the data. We determined that the data were sufficiently reliable for the purposes of this report.

Because Census data used in our American Housing Survey analyses are estimated based on a probability sample, each estimate is based on just one of a large number of samples that could have been drawn. Since each sample could have produced different estimates, we express our confidence in the precision of our particular sample's results as a confidence interval. For example, the estimated percentage of occupied manufactured homes located in the South was 56.7 percent, and the confidence interval for this estimate ranges from 56.6 percent to 56.8 percent, with a percentage point error of 0.1 percent. This is the interval

[2]The American Housing Survey only collects data on structure and tenure (whether the home itself is owned or rented), but does not ask survey respondents whether the land on which the home is sited is owned or leased. Moreover, the American Housing Survey does not ask respondents whether the manufactured home is located in a community or manufactured home park. In contrast, the Manufactured Housing Survey collects data on the location of the home (park, court, subdivision, or private property) but the data do not indicate whether the land is owned or not. Thus, data are limited on land ownership.

that would contain the actual population value for 95 percent of the samples that could have been drawn. As a result, we are 95 percent (or more) confident that each of the confidence intervals in this report will include the true values in the study population. All variables from American Housing Survey that are included in this report have 95 percent confidence intervals of plus or minus 5 percentage points or less.

We conducted a literature review and examined relevant studies on manufactured housing. We also conducted a review of newspaper articles from May 2005 to May 2007 to identify where manufactured home park closures occurred in the United States. Because states collect different types of information on manufactured home parks and even define them differently, the consequent variability of the state data makes determining the number of manufactured home parks extremely difficult. Thus, we relied on a database search of national and local newspapers to provide anecdotal information on park closures. We used several different search parameters and keyword searches and identified park closures in 18 states; however, it is possible that other closures occurred in other states during the period we reviewed, but were not identified in our searches.[3]

Federal and State Consumer and Tenant Protections for Owners of Manufactured Homes

To compare federal and state consumer and tenant protections for owners of manufactured homes, we reviewed federal laws relevant to manufactured housing, such as the Real Estate Settlement Procedures Act and the Truth in Lending Act. We reviewed prior work on state laws for manufactured housing conducted by the National Consumer Law Center and the American Association of Retired People and also interviewed officials from these organizations. We then selected eight states and reviewed statutes related to the consumer protections provided for foreclosure and repossession and the tenant protections applicable to contracts or acts, such as written lease requirements, rent increases, evictions, and park closures.

The eight states were selected based on a combination of factors including the volume of FHA Title I loans in the state from 1990 through the first quarter of 2007; concentration of manufactured housing as a percentage of

[3]To identify the newspaper articles, we used the newspaper databases in Nexis, which included a search of national newspapers and wire services, as well as a regional search of newspaper in the Southeast, West, Northeast, and Midwest. Our search parameters included terms such as manufactured home, mobile home, mobile home park, park closure, and conversion.

housing units in the state; information from our interviews of industry and consumer officials; and previous studies conducted on manufactured housing. The table below indicated the characteristics of the states we reviewed.

Table 2: Characteristics of Eight States Selected for Semistructured Interviews

State	FHA total loan volume from 1990-2007 (1st quarter)	Large concentration of manufactured homes in state	State identified as familiar with manufactured home park issues	State identified as active in manufactured housing policy development	Ownership model of manufactured home park (condo or co-op)	Officials interviewed cited policies in place for manufactured home parks and/or park closures occurring	Geographic representation
Arizona	1.7%	9% to 13%	Yes	No	--	No	West
Florida	3.3%	9% to 13%	Yes	Yes	Condo	Yes	South
Georgia	4.7%	9% to 13%	No	No	--	No	South
Missouri	3.6%	6% to 9%	No	No	--	No	Midwest
New Hampshire	< 1%	6% to 9%	No	No	Co-op	Yes	Northeast
North Carolina	11.2%	13% - 20%	No	No	--	Yes	South
Oregon	< 1%	9% to 13%	Yes	No	--	No	West
Texas	15.8%	6% to 9%	No	No	--	Yes	South

Source: FHA data and GAO.

Note: Concentration of manufactured homes illustrates the states with a high percentage of manufactured homes as part of their housing stock.

We also conducted semistructured interviews with regulatory, industry, and consumer officials in each state. We pretested our interview questions on-site in Georgia and conducted the remaining interviews by telephone. We used interview responses on state statutes to check our interpretation of the state statutes containing consumer and tenant protections applicable to manufactured home owners. In each of the states, we interviewed officials who represented (1) the state regulator for manufactured housing, (2) the state industry group who are affiliates of the National Manufactured Housing Industry group, known as the Manufactured Housing Institute, and (3) a consumer advocacy group, such as the state manufactured homeowner's association.[4] In total, we conducted 25 interviews across the eight states.

To synthesize interview data, we compiled the responses by interview question into a document for each state (state summary), which we reviewed for accuracy and completeness. Next, we identified themes among the interviews and created categories within a response, noting the state and type of official interviewed. For example, in our question on placement options for owners of manufactured homes when the park in which they live closes, we identified categories, such as a (1) a neighboring park, (2) private land, and (3) lack of space to move. We then identified the states that provided a response fitting with each category and totaled the number of states in each category. We also used this method to compare installation programs across eight states based on our interviews with state regulators.

Proposed Changes to Title I Program and Potential Benefits and Costs to Borrowers and the Federal Government

To describe the proposed changes to the Title I Manufactured Home Loan program, we reviewed current and proposed FHA regulations and legislation. Our review of proposed legislation included Senate Bills 2123 (109th Congress, 2005) and 3535 (109th Congress, 2006) and House of Representative Bills 2803 (109th Congress, 2005) and 4804 (109th Congress, 2006), House of Representative Bill 2139 and Senate Bill 1741 from the 110th Congress in 2007.

To assess the potential costs and benefits of the proposed changes to the Title I program, we interviewed FHA officials, FHA lenders, Ginnie Mae officials, and officials from federal and other lending programs, such as Fannie Mae and Freddie Mac, the U.S. Department of Agriculture Rural Housing Service and the Department of Veterans Affairs, community banks, industry and consumer groups, and a rating service. In addition, we interviewed officials from HUD's Inspector General Office. To learn about risk-mitigation practices, we also reviewed policies and procedures from programs that provide financing for manufactured homes at the above agencies and reviewed relevant literature. A few industry officials also provided information on loan performance for their manufactured home loan portfolio.

[4]Arizona and Oregon each had two separate industry groups, one that represented many industry constituents, such as lenders and insurers, and another that represented the owners of manufactured home parks.

We also conducted an analysis using different scenarios that incorporated assumptions of risk for manufactured housing lending to illustrate the potential benefits and costs of the proposed legislation. We incorporated various risk factors unique to manufactured home lending (such as site location and loss mitigation practices of lenders), as well as other commonly used predictors of loan performance such as credit scores, into a model to illustrate ways in which these key factors might affect the performance of manufactured housing loans and, thus, how variation in these key factors might affect potential gains and losses to FHA's General Insurance Fund.[5] Our estimates relied on assumptions concerning a few key inputs such as level of default risk, net recovery rate of lenders, and insurance premiums. See appendix II for a more detailed description of our scenario analysis methodology.

We also analyzed FHA data, housed in the F-72 database, on the manufactured home loan program. We used these data to review loan performance from 1990 to 2005, the size of the units purchased, and the states in which the loans were originated. We also used the data to generate demographic information on FHA Title I borrowers. However, FHA only began collecting demographic data in 2004, so our analysis was limited to the period from June 2004 through April 2007. In addition, we could not assess where the manufactured homes were placed and the credit scores of the borrowers because FHA did not collect these data. We assessed the reliability of the F-72 database by reviewing information about the data, performing electronic data testing to detect errors in completeness and reasonableness, and interviewing knowledgeable officials regarding the quality of the data. We determined that the data were sufficiently reliable for the purposes of this report.

Finally, we reported information provided by HUD using 2005 Home Mortgage Disclosure Act data on manufactured housing and the number of personal property loans originated by the FHA Title I program compared

[5]The General Insurance Fund, which is supported by insurance premiums, is used for several FHA insurance programs such as, Title I Manufactured Home Loan, Property Improvement, Home Equity Conversion Mortgages, Mortgage Insurance for Condominium Units, and Rehabilitation Home Mortgage Insurance.

with the rest of the market.[6] We also assessed the data reliability of this output and the computer program used to extract the information and determined the data were sufficiently reliable for our purposes.

[6]The Home Mortgage Disclosure Act requires lending institutions to collect and publicly disclose information about housing loans and applications for such loans, including the loan type and amount, property type, and borrower characteristics (such as ethnicity, race, gender, and income). These data are the most comprehensive source of information on mortgage lending. To determine the loans considered personal property loans, we determined any loan with a rate spread of 4 percent or higher was considered a personal property loan. We discussed this determination with HUD, which agreed with this threshold.

Appendix II: Scenario Analysis Methodology

To gain an understanding of the effects of the proposed changes to the Federal Housing Administration's (FHA) Title I Manufactured Home Loan program, we developed an approach that could illustrate potential effects of the changes on the program. Our model of different scenarios used assumptions to illustrate the importance of various risk factors unique to manufactured home lending (such as site location and loss mitigation practices of lenders), as well as other commonly used predictors of loan performance, such as credit scores. For instance, the ability of the owner of a manufactured home to build equity may be limited when the land is leased, which also often increases the risks associated with the loan. If a borrower with a home on leased land were to default, lenders could face higher costs and lower recoveries (relative to site-built homes) in trying to repossess, move, and resell the personal property.

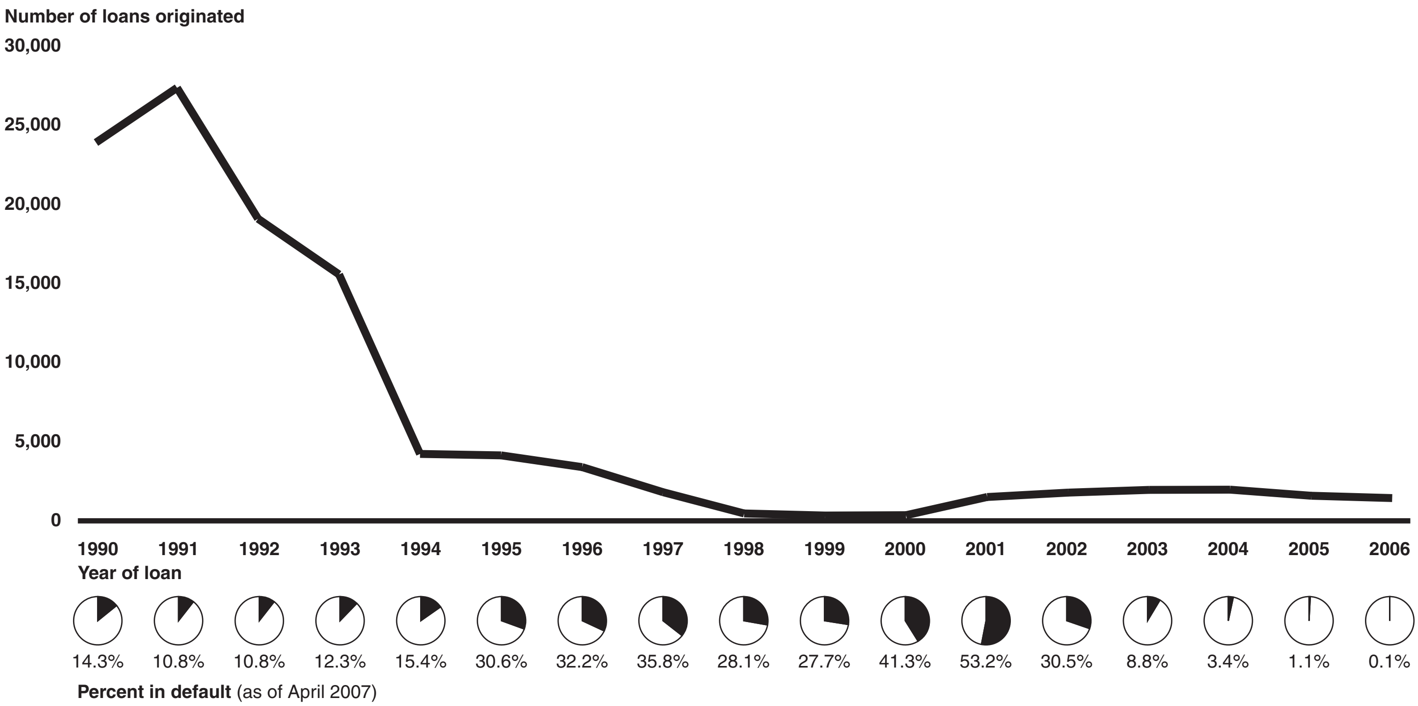
We developed a model to illustrate some of the ways in which these key factors may affect the performance of home-only manufactured housing loans, and, thus, how variation in these key factors may affect potential gains and losses to the FHA's General Insurance Fund, which is supported by insurance premiums and used for several FHA insurance programs, including the Title I program.[1] Based on examining some loan performance data from manufactured home lenders and discussions with officials with substantial manufactured housing lending experience, we identified some important characteristics of the performance of home-only manufactured housing loans.

Our estimates rely on assumptions concerning a few key inputs: annual prepayment rates, annual default rates (which vary over different time intervals), and the net recovery rate (which measures the portion of the loan balance recovered by the lender in cases of default). Further, because FHA has not yet developed its risk-based pricing criteria for the proposed legislative changes, we made different assumptions about the level of up-front mortgage insurance premiums and periodic insurance premium payments based on the amounts discussed in the proposed legislation. By varying the default rate, loss recovery, and premium rate assumptions, we were able to generate a variety of loan performance and recovery scenarios, and illustrate in a very general way the potential for gains and losses to FHA General Insurance Fund that characterize each scenario.

[1]The General Insurance Fund, which is supported by insurance premiums, is used for several FHA insurance programs, such as Title I Manufactured Home Loan, Property Improvement, Home Equity Conversion Mortgages, Mortgage Insurance for Condominium Units, and Rehabilitation Home Mortgage Insurance.

In the absence of available data on the credit of FHA borrowers and the location of the homes (owned or leased land), we attempted to benchmark these scenarios based on the experience of FHA's Title I program since 1990 and of non-FHA personal property manufactured housing loans. In terms of FHA Title I experience since 1990, while the number of loans originated dropped significantly from the early to mid-1990s, cumulative defaults expressed as a percentage of originated loans did not fall below 10 percent from 1990 to 2002 and have exceeded 25 percent in 8 of the 13 years (see fig. 18). However, loans from 2003 to 2006 may not be reflective of the default experience because they are recent loans and lending industry officials explained that the peak default period for these types of loans generally occurs from the third to the fifth year. In terms of non-FHA loan performance, cumulative losses typically have been above 15 percent for loans originated between 1997 and 2001.

Figure 18: Number of FHA Title I Loans and Percentage of Loans in Default, 1990-2006



Source: GAO analysis of FHA data.

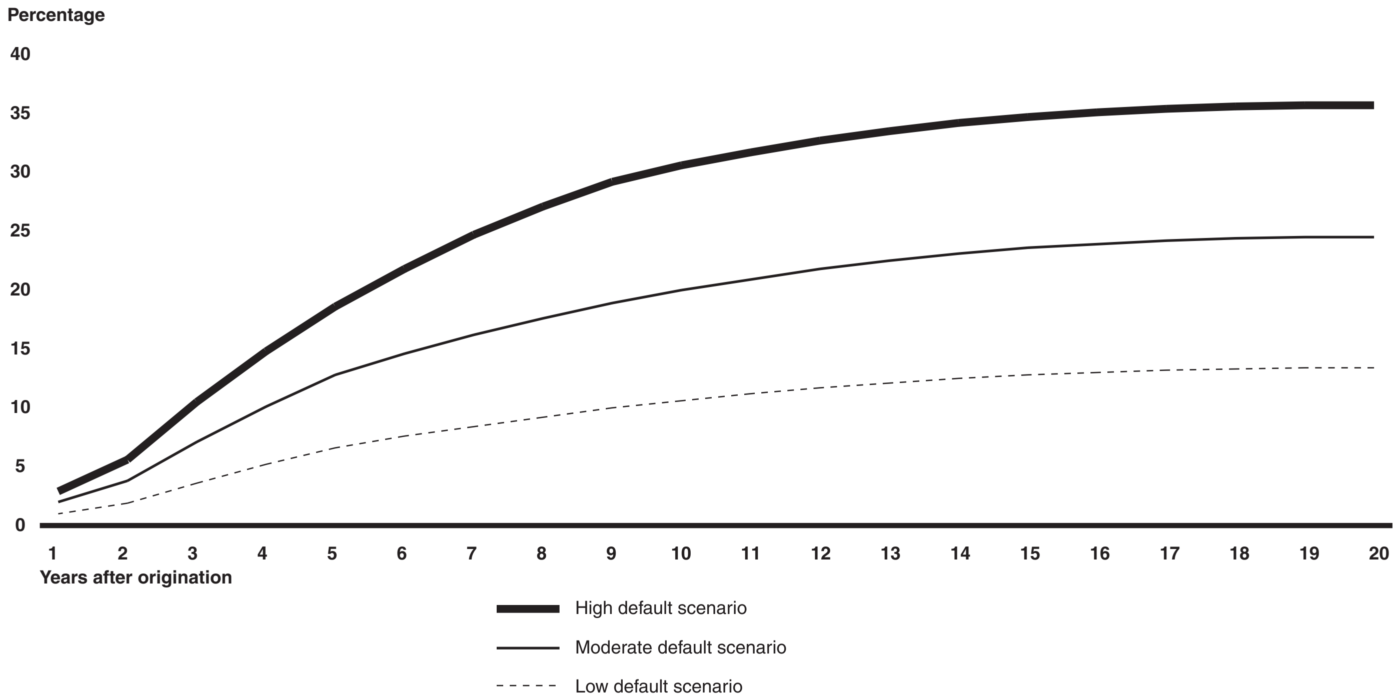
The scenarios incorporate assumptions based on factors such as annual default rates for different yearly intervals, loan interest rates, and loan terms.[2] Once we established these parameters, we factored in additional assumptions and variations for the net recovery rate of the lender and an insurance premium schedule for the borrower based on discussions with lending industry officials on possible default scenarios, recovery outcomes, and possible legislative changes regarding FHA's upfront and annual premiums. The discussion below provides more detailed information on our assumptions.

- *Assumptions on Annual Default Rates*. We characterized the peak period of default as years 3 through 5, and we described the default experience in years after this peak period in terms of a percentage of the default rate assumed to hold during the peak period. In general, and based on our discussions with lenders and others, we assumed that default rates in years after the peak period would be 75 percent of what they were during the peak period. In the high loss scenario, we assumed that the peak period default rate also held in years 6 through 9 before dropping to 75 percent of the peak value. Our assumptions about default rates reflect an important characteristic of home-only manufactured housing loans: Even after years of loan amortization, a borrower may not have enough equity in the home to avoid a default in the face of adverse financial conditions.

We present three variations of default: a low default experience, a moderate default experience, and a high default experience. In general, the low default experience would reflect conditions in which borrowers possessed good credit quality, lenders used high quality underwriting requirements, and lenders' security interests were well protected in terms of those factors that are associated with the preservation of value, such the placement of the home (owned land versus leased land) and installation. The high default experience would reflect conditions in which borrowers are of poorer credit quality, and collateral values and lenders' security interests are also poorer (see fig. 19).

[2]The annual default rates consisted of different yearly intervals: years 1 and 2, years 3 through 5, years 6 through 9, and years 10 and after.

Figure 19: Assumptions of Default Risk Used in Our Analysis



Source: GAO.

- *Assumptions Based on Annual Prepayment Rates*. We assumed that prepayments were constant at 4 percent per year. Modest changes in this level did not lead to much difference in our results. Based on our discussions with lenders and others, we believe manufactured home-only loan borrowers were not as likely as other homeowners to prepay in the face of favorable refinancing opportunities. As a result, some of these loans default in later years, but they also continue to generate annual insurance premiums.

- *Additional Scenario Assumptions*. Using the prepayment rates and default rates that we selected, we calculated the value of claims in a given year as the (unpaid) principal balance due in that year based on an amortization schedule relating the selected interest rate and loan term. Based on assumed prepayment and default patterns, we calculated cumulative defaults and losses, expressed as a percentage of the original loan balance, losses, and insurance premiums paid by year.

We also calculate the present value of FHA's share of losses and the present value of annual insurance premiums.[3]

- *Assumptions on the Net Recovery Rate of Lenders*. To provide variations in our analysis, we make different assumptions on the lenders' ability to recover losses when a loan defaults. Based on discussions with industry officials, we assume lenders that have a strong recovery program (which may include a good network of dealers who resell manufactured homes) may have a net recovery of 50 percent per claim. Those lenders who have moderate net recovery are assumed to receive 33 percent of the claim, and those lenders with a low net recovery may receive 25 percent of the claim.

- *Assumptions on the Insurance Premiums*. Insurance premiums may include an up-front payment and annual payment. FHA has not yet developed its proposed risk-based pricing for potential FHA Title I Manufactured Home Loan borrowers. However, several bills introduced in Congress suggests the up-front annual insurance premiums would not exceed 2.25 percent and the annual insurance premium would be 1 percent of the annual unpaid principal balance of the loan. For our analysis, we assumed two different potential up-front premium amounts: the highest up-front premium was 2.25 percent of the original loan amount and the lowest up-front premium was 1 percent of the original loan amount. We also assume two different annual premiums; the highest annual premium was defined as 1 percent of the declining loan balance and lowest annual premium was defined as 0.5 percent of the declining loan balance.

[3]The present value of a future stream of payments or expenses takes into account the time value of money. Describing cash flows in present value terms leads to better evaluations, particularly if they differ greatly in their timing.

Appendix III: Comments from the Department of Housing and Urban Development

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-8000

ASSISTANT SECRETARY FOR HOUSING-
FEDERAL HOUSING COMMISSIONER

AUG 10 2007

Mr. William B. Shear
Director
Financial Markets and Community Investment
Government Accountability Office
441 G Street NW
Washington, DC 20548

Dear Mr. Shear:

Thank you for the opportunity to comment on the GAO Draft Report entitled Federal Housing Administration: Agency Should Assess the Effects of Proposed Changes to the Manufactured Home Loan Program.

While the Department agrees that manufactured housing is one of the most affordable housing options available for low- and moderate-income families, HUD's overarching concern is that the financing options available to buyers of these homes are limited and costly. Because the Title I Manufactured Home Loan program is the only active federal loan insurance/loan guarantee program for manufactured housing, HUD wants to not only preserve this source of affordable housing but to also improve the program. We believe that the changes included in the pending legislation for this program are critical to this effort.

The Department also agrees that it is important to assess the effects of the proposed changes and will do so prior to implementing a reformed program. FHA's Office of Evaluation has recently initiated a study to determine if the loss recovery rates currently used to calculate credit subsidy should be increased. The result of this study will provide a credit subsidy baseline that FHA can use to develop models to test various underwriting and premium pricing options.

Ginnie Mae is willing to consider securitizing Title I Manufacture Home loans depending on the elimination of the portfolio cap, tightening underwriting standards and implementing individual loan insurance. Ginnie Mae's willingness to consider expanding the secondary market to include Title I manufactured home loans is key to adding liquidity to an otherwise tight manufactured home financing market.

As previously recommended by GAO, HUD has been collecting additional data regarding Title I manufactured home loans since 2004 including borrower information such as age and income. HUD intends to expand data collection concurrent with programmatic changes so that the procedures for originating and underwriting Title I loans will mimic those of FHA's real estate financing programs. HUD will collect appropriate credit and application variables including credit scores as part of its implementation of the proposed revised loan insurance process.

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HUD has not collected data on the placement of the home (i.e. owned vs. leased) in connection with home-only Title I manufactured home loans because the current program requirements are essentially the same for either scenario. HUD will begin collecting this data when it implements the revised program in order to better track loan characteristics.

Again, we appreciate the opportunity to comment on the Draft Report and will continue, as recommended by the GAO, to assess the effects of the proposed changes to the Title I program, and will collect additional information to effectively manage the program when we implement these changes.

If you have any questions regarding this letter, please contact Margaret Burns at 202-708-2121, extension 3989.

Sincerely,

Brian D. Montgomery
Assistant Secretary for Housing –
Federal Housing Commissioner

Appendix IV: GAO Contact and Staff Acknowledgments

GAO Contact

William B Shear, (202) 512-8678 or shearw@gao.gov

Staff Acknowledgments

In addition to the contact named above, Andy Finkel (Assistant Director), Steve Brown, Tania Calhoun, Nadine Garrick, Phil Herr, Alison Martin, John Mingus Jr., Marc Molino, Tina Paek, and Barbara Roesmann made key contributions to this report.

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