

Withdrawal/Redaction Sheet

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| DOCUMENT NO. AND TYPE | SUBJECT/TITLE | DATE | RESTRICTION |
|--------------------------|--|----------|-------------|
| 001. note | To Carol Rasco from N.H. re: HUD (1 page) | n.d. | P5 |
| 002. list | Re: HUD-New Hampshire (1 page) | n.d. | P5 |
| 003. fax | To Nancy Hernreich from Hal Hunnicutt re: Florida lawsuit against HUD (1 page) | 03/22/94 | P5, P6/b(6) |
| 004. note | Re: HUD, Hal Hunnicutt (1 page) | n.d. | P5 |
| 005. letter | To POTUS from Hal Hunnicutt re: HUD (1 page) | 03/04/94 | P5 |
| 006. letter | To POTUS from Hal Hunnicutt re: HUD (3 pages) | 2/12/94 | P5, P6/b(6) |
| 007. note | For POTUS re: HUD, Hal Hunnicutt (1 page) | n.d. | P5 |
| 008. fax | To Nancy Hernreich from Hal Hunnicutt re: Henry Cisneros (1 page) | 05/12/94 | P5, P6/b(6) |

COLLECTION:

Clinton Presidential Records
Domestic Policy Council
Carol Rasco (Meetings, Trips, Events)
OA/Box Number: 5040

FOLDER TITLE:

Telephone Meeting: Secretary Cisneros (will call) 6-1-94 2:30-2:45

rw172

RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

- P1 National Security Classified Information [(a)(1) of the PRA]
- P2 Relating to the appointment to Federal office [(a)(2) of the PRA]
- P3 Release would violate a Federal statute [(a)(3) of the PRA]
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- P5 Release would disclose confidential advise between the President and his advisors, or between such advisors [(a)(5) of the PRA]
- P6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA]

C. Closed in accordance with restrictions contained in donor's deed of gift.

PRM. Personal record misfile defined in accordance with 44 U.S.C. 2201(3).

RR. Document will be reviewed upon request.

Freedom of Information Act - [5 U.S.C. 552(b)]

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- b(8) Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
- b(9) Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

9:45 6/2

Tentative call
from Cisneros

~~Roz -~~

If we don't have
a rescheduled
appt. w/ Cisneros
(see EMail to you)
by next Mon. make
sure I call him
on these items.

Be sure I bring
this up w/
Sec. Cisneros

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NEWS FROM



Florida Manufactured Housing Association, Inc.

March 16, 1994

Vol. 94, No. 5

FMHA GOES TO FEDERAL COURTS FOR REVIEW OF HUD STANDARDS, DELAY IN EFFECTIVE DATES

FMHA has gone to court in opposition to HUD wind safety standards that impose on manufactured homes higher requirements than those regulating site-constructed dwellings.

At a press conference in Tallahassee on Monday, March 14th, President Ken Cashin told the media that FMHA was filing that day in the 11th U.S. Circuit Court of Appeals in Atlanta a request for a Stay Pending Judicial Review in an effort to delay the July 13, 1994 effective date of the new HUD standard until it is reviewed by the courts.

In conjunction with the press conference, FMHA sent news releases to the state's major media,

explaining our opposition to the standards, and hoping to avoid the kinds of inaccurate news stories and biased editorial comment that surrounded HUD's January publication of the rule.

FMHA's decision to challenge the standards came during a 50-day window of opportunity (60 days from the date of publication) to begin litigation, or be forever foreclosed from legal opposition to the standards as published.

Facing such a "now or never" option, and standards that would put manufactured homes at such a disadvantage in Florida's highly competitive housing market, it was decided that FMHA couldn't afford not to "give it a shot"; i.e., take advantage of the last chance to have the standards modified, despite the odds.

These odds, according to advice of FMHA's attorneys, give us less than a 50-50 chance of success. They advise that we must meet an almost impossible standard of proof, which is that HUD's final standards are "arbitrary, capricious, an abuse of discretion, or otherwise not in accordance with law". It is not, as we laymen might think, a simple case of showing the unfairness of making our homes meet higher requirements than our site-built competition; or that HUD "cooked the books" to show an acceptable Cost/Benefit ratio in their Regulatory Impact Analysis (RIA) which is required by law for

THIS MONTH'S SPECIALS

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Triple-Section Home Featured In Jacksonville Show.....3

rules having a major economic impact.

Announcement of the litigation was preceded by an FMHA memo advising all members that when the story "breaks", they may be contacted by the media, and asking that they refer all such calls to Executive Director Frank Williams at the Tallahassee office. This is to ensure, as far as possible, that industry comment not be conflicting, as uniform as possible, and that the most current information be provided.

We repeat that suggestion here for emphasis: Please refer any calls from reporters to the Tallahassee office.

Support for FMHA has been gratifying. To date, financial support has been pledged by the seven other state associations most heavily impacted: Texas, Louisiana, Mississippi, Alabama, Georgia, South Carolina, and North Carolina.

In addition, three manufacturers have volunteered to join FMHA as plaintiffs in the case -- Nobility, Homes of Merit and Jacobsen.

Among FMHA's arguments to HUD and to the court are:

---The new HUD standards arbitrarily impose stricter construction requirements on manufactured homes than for site-built housing, and subject both the industry and consumers to unreasonable economic burdens.

---HUD's regulatory impact analysis (RIA) is grossly flawed. In an updated review of the RIA, Dr. Carol Meeks of the University of Georgia said that if the true costs of the HUD standard are double HUD's estimates---as FMHA expects---the Benefit/Cost ratio declines from \$1.62 in benefits for every dollar in cost, to \$0.38 in benefits for every dollar in cost.

---The RIA also contends that only

36% of the increased construction costs will be passed on to the consumer, with the manufacturers picking up the 44% balance. In reality, consumers in Wind Zone II would bear approximately 94% of the cost increase and consumers in Wind Zone III would bear approximately 99% according to Dr. Meeks' analysis.

*---HUD has failed to give adequate consideration to the expert views of responsible private organizations and state and local governments. A blue-ribbon task force assembled by the Florida Department of Community Affairs after Hurricane Andrew recommended that the SBC may be used in lieu of ASCE 7-88 for residential structures less than 60 feet in height. Likewise, the Florida legislature defeated legislation in 1993 requiring all homes to be built to ASCE 7-88. Most inexcusable is the fact that HUD ignored the formal recommendations of the National Manufactured Home Advisory Council created pursuant to federal law to represent the interests of consumers and governmental entities as well as the manufactured housing industry.

IMPORTANT MILESTONE REACHED IN PUTNAM COUNTY

On March 8, the Putnam County Board of County Commissioners unanimously adopted several revisions to Ordinance 92-13, the county's Mobile/Manufactured Home Ordinance. The changes bring Putnam County installation standards in line with recently revised state Chapter 15C-1 standards.

County Commission action represented the final stage in a six month-long process of ordinance review involving the staffs of FMHA, DMV, and Putnam County.

The Mobile/Manufactured Home Ordinance changes satisfy FMHA concerns about excessive county installation regulation and requirements that were in conflict with the manufacturers set-up

THE WHITE HOUSE
OFFICE OF THE CHIEF OF STAFF

Raslo

Nancy,

FYI.

Mark

MARK MIDDLETON
SPECIAL ASSISTANT TO THE
CHIEF OF STAFF

MAR 24 REC'D

THE WHITE HOUSE
WASHINGTON

March 15, 1994

MEMORANDUM FOR MARK MIDDLETON

FROM: Karen Ewing

RE: Hal Hunnicutt/Spirit Homes Inc.

Just to update you on Mr. Hunnicutt: he was offered a meeting with Frank Wing (Senior Advisor to Secretary Cisneros) at HUD, but declined to meet with anyone except the Secretary.

The issue involves windzone rules that take effect on July 13, 1994. I spoke with Rick Mendlen at HUD who explained to me that windzone rules focus on the hurricane belt. Basically, the ruling sets a building code (HUD has set all the building codes for manufactured housing since June 1976) that all single section (one-family) mobile homes must be able to withstand 110 mph winds. As you know, Hurricane Andrew destroyed mobile homes in Florida. This ruling would create a higher safety standard for these homes. However, it would increase the building costs.

Manufactured housing associations in five states (FL, GA, MS, LA, TX) filed a claim in circuit court in Atlanta on Monday. HUD must now answer their claim that HUD didn't fully measure the economic impact of this ruling. (A copy of the ruling published in the Federal Register is in the mail to us.)

Hunnicutt met with the President last week and discussed this matter. The ruling can be recalled only if the President issues an Economic Impact Study. Hunnicutt feels HUD is unfairly discriminating against manufactured housing and that thousands of jobs will be lost by this ruling.

He appreciated our follow-up. No need to return call.



HAL HUNNICUTT

P.O. Box 1207
550 Amity Road
Conway, AR 72032

Office (501) 327-1108
WATS (800) 872-0150
FAX (501) 327-7151

FAX COVER SHEET

DATE: 2/23/94

TO: Frank Wing

COMPANY: HUD

FROM: Hal Hunnicutt

NUMBER OF PAGES INCLUDING COVER SHEET: 1

After thinking this over, I have decided to wait on releasing this study. I will be in Washington next week, Mar 3, 4, & 5. I would entertain hand carrying a copy of this document to the Secty himself, with you present. I also would like to have three other people present with me. They are better qualified to answer some of the questions, which I am sure you will have. As I stated, Bill Clinton has always been Pro Industry. This knee jerk reaction by career HUD employees is NOT GOOD! IF you are able to arrange a short (10 minutes or less) meeting with your Secty Cisneros one of those days next week - I promise your eyes will be opened, and thousands of jobs will be saved. Thanks for your time & cooperation on this matter.

CONFIRMATION REQUESTED: YES NO

Hal Hunnicutt

P.S. I am convinced the Secty will be grateful to us after the dust settles.



Mark Muddleton
Can you follow up on this?

FAX COVER SHEET

DATE: 2/23/94

TO: Nancy Herrreich

COMPANY:

FROM: Hal Hunnicutt

NUMBER OF PAGES INCLUDING COVER SHEET:

Nancy - We are not having total luck in seeing Cisneros in person. I am faxing you a letter I faxed to one of his top assistants. Thousands of jobs will be lost in manufactured housing industry - but the 2 main reasons 1) American Dream goes down the toilet 2) HUD continues to discriminate against

CONFIRMATION REQUESTED:

YES

NO

Mfd. Housing.

REGISTER

Friday
January 14, 1994

Part II

Department of Housing and Urban Development

Office of the Assistant Secretary for
Housing-Federal Housing Commissioner

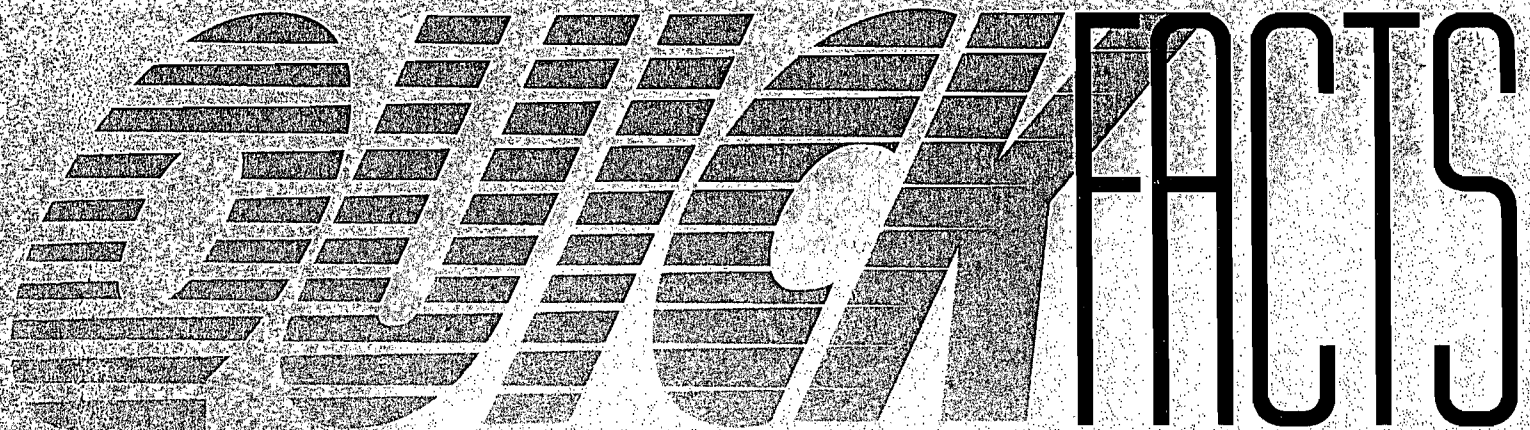
24 CFR Parts 3280 and 3282
Manufactured Home Construction and
Safety Standards on Wind Standards;
Final Rule

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Of The Latest Trends And Information On The Manufactured Housing Industry

QUICK LOOK

Manufactured homes represented more than 1 out of every 4 (26%) of new single family homes sold in 1992, and 17% of all new single-family housing starts.

\$\$\$

Today's manufactured homes range in size from 700 square feet to well over 2,500 square feet.

%/%/%

Approximately 7% of the U.S. population—more than 15 million people—live in more than 7 million manufactured homes across the nation.

\$\$\$

The average cost of a new manufactured home in 1992 was \$28,400.

%/%/%

In 1992, 210,787 manufactured homes were shipped—up approximately 23.5% from 1991.



Manufactured Homes Represent An Important Segment Of Market

Today's manufactured home, built in a factory in compliance with the U.S. Department of Housing and Urban Development's Manufactured Home Construction and Safety Standards (better known as the HUD Code), offers a unique combination of quality and value to homebuyers in a wide range of income levels.

Approximately 15.4 million people—7 percent of the U.S. population—live in more than 7 million manufactured homes across the nation, according to the 1990 U.S. Census. Since 1980, some 3 million manufactured homes have been built, representing 17 percent of all new single-family housing starts and approximately 27 percent of all new single-family homes sold.

In 1992, 210,787 manufactured homes were shipped—up 23.5 percent from 1991 shipment figures and the first year-to-year shipment increase since 1982-83. Manufactured homes represented 26 percent of all new single-family homes sold in 1992, and 17 percent of all new single-family housing starts.

Today's manufactured home is appealing to an expanding market because of quality, value, design innovations, enhanced amenities, improved siting, and financing availability.

Today's manufactured home comes in a wide variety of architectural styles and interior decors. Homebuyers have the option of most any amenity they demand for comfortable living. Many manufactured homes are indistinguishable from their site-built counterparts in construction and appearance.

The diversity of today's manufactured home and the amenities available means that there is a manufactured home to meet practically every lifestyle. Homes range in size from 700 square feet to well over 2,500 square feet.

The cost of the average new manufactured home sold during 1992 was \$28,400, without land. The price range of a new manufactured home sold during 1992 ranged from approximately \$14,000 to \$75,000, excluding the cost of land. The advantage of being built in a factory using the latest construction technologies produces significant cost savings for manufactured homes.

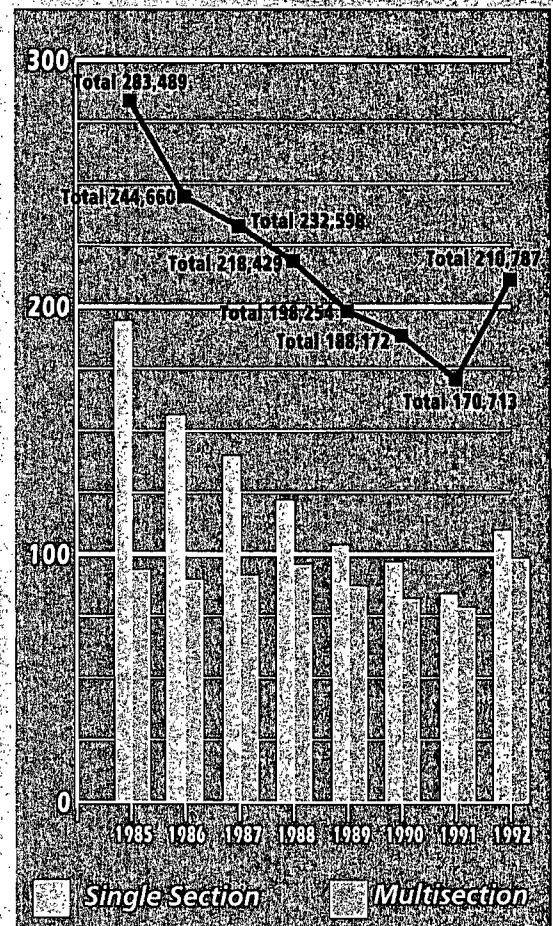
First-time homebuyers and "empty nesters" comprise the majority of those purchasing manufac-

tured homes, although an increasing number of single-parent families are moving into the market.

Outdated land-use and zoning policies which had previously excluded manufactured homes continue to be revised to reflect the home's improved quality of construction and an increasing recognition that today's manufactured home should have equal treatment with other forms of single-family housing.

Continued on page 3

Manufactured Home Shipments



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DO NOT QUOTE OR USE
WITHOUT PERMISSION.

**AN ECONOMIC ANALYSIS OF HUD'S NEW WIND STANDARDS
FOR MANUFACTURED HOUSING**

by

LOUIS DE ALESSI, Ph.D.

and

KENNETH W. CLARKSON, Ph. D

22 February 1994

LAW AND ECONOMICS CENTER

University of Miami
Coral Gables, Florida

**Association For Regulatory Reform
1331 Pennsylvania Ave., N.W.
Suite 508
Washington, D.C. 20004**

EXECUTIVE SUMMARY

On January 14, 1994, the Department of Housing and Urban Development (HUD) issued its Manufactured Home Construction and Safety Standards on Wind Standards; Final Rule (the "wind rule"), amending the National Manufactured Housing Construction and Safety Standards Act of 1974. The wind rule generally follows the Minimum Design Loads for Buildings and Other Structures, Standard 7-88 (November 1990), developed by the American Society of Civil Engineers (ASCE) and generally described as ASCE 7-88. The wind rule requires that manufactured homes be designed by a professional engineer or architect to withstand winds up to 110 mph in Wind Zone III (coastal sections of Florida, Louisiana and North Carolina) and up to 100 mph in Wind Zone II (the rest of Florida and large areas of all other states bordering the Gulf of Mexico and the Atlantic Ocean).

HUD's Regulatory Impact Analysis of Improved Wind Standards for Manufactured Housing (RIA), dated 14 January 1994, presents the case for the wind rule. The justification for the rule is weak at best and not well supported by the benefit cost analysis. The costs of implementing the wind rule are estimated at \$51.7 million and the benefits at \$83.8 million, yielding net benefits of \$32.1 million and a benefit-cost ratio of 1.62. Unfortunately, the analysis contains several errors and omissions, with the result that costs are grossly underestimated and benefits grossly overestimated.

Studies by experts in the manufactured homes industry suggest that the private costs of implementing the wind rule may be twice as great as those estimated by HUD. Moreover, according to the analysis in this paper, HUD's estimate that only 56 percent of the additional construction costs will be passed on to consumers is incorrect: the percentage is much higher (up to 100% in Wind Zone III). As a result, HUD's underestimates the decrease in sales of manufactured homes and the impact on consumers and producers. HUD also underestimates public costs. For example, it assumes that enforcement of the wind rule is costless.

HUD grossly overestimates the benefits from the wind rule. HUD estimates private benefits using data from Hurricane Andrew: insurance payments to manufactured housing residents provided by Allstate Insurance Co. and loans for uninsured losses to housing extended by the U.S. Small Business Administration (SBA). These payments, however, appear to be largely for replacement; thus, they could be as much as three times greater than the market value of actual damages. Public benefits are also overestimated. HUD's own estimates yield private costs roughly equal to private benefits; public benefits set the benefit-cost ratio greater than 1.

A more rigorous analysis is likely to show that costs may be two to three times greater than benefits and will rest largely on consumers. Moreover, HUD fails to recognize the limitations inherent to any benefit-cost analysis. It also fails to fully appreciate the adverse impact of the wind standards on the welfare of many consumers, producers, retailers, and park owners.

The wind rule will raise the price and affect the quality of manufactured homes. First, many consumers, especially lower-income Americans living in Wind Zones II and III, will be worse off. Some will be priced out of the market and those who pay the higher price will have to reduce their consumption of other commodities, including food, clothing, and medical care. Second, many producers of manufactured homes, especially those manufacturing more affordable homes intended for consumers in Wind Zones II and III, will be worse off. Some will go out of business and others will lose some of their capital. Third, retailers of manufactured homes in Wind Zone III and, to a lesser extent, those in Wind Zone II, will lose some of their capital; some may go bankrupt. Fourth, many manufactured homes' parks in Wind Zone III and, to a lesser extent, in Wind Zone II, will either go bankrupt or lose some of their capital. Fifth, the overall quality of some manufactured homes, as perceived by consumers, will deteriorate. Sixth, the wind rule will have many undesired and unintended consequences. For example, the rule will reduce competition within the manufactured home industry; HUD does not even consider the resulting effects on the nature of the industry, including the price and quality of manufactured homes.

AN ECONOMIC ANALYSIS OF HUD'S NEW WIND STANDARDS FOR MANUFACTURED HOUSING

INTRODUCTION

On January 14, 1994, the Department of Housing and Urban Development (HUD) issued its Manufactured Home Construction and Safety Standards on Wind Standards; Final Rule (the "wind rule"), amending the National Manufactured Housing Construction and Safety Standards Act of 1974. The wind rule generally follows the Minimum Design Loads for Buildings and Other Structures, Standard 7-88 (November 1990), developed by the American Society of Civil Engineers (ASCE) and generally described as ASCE 7-88. Among other considerations for adopting ASCE 7-88, HUD notes that the Dade County Grand Jury, meeting in the aftermath of Hurricane Andrew, recommended that the standard be made part of the South Florida Building Code.

The wind rule requires that manufactured homes be designed by a professional engineer or architect to withstand winds up to 110 mph in Wind Zone III (coastal sections of Florida, Louisiana and North Carolina) and up to 100 mph in Wind Zone II (the rest of Florida and large areas of all other states bordering the Gulf of Mexico and the Atlantic Ocean).¹ The wind rule raises the performance standards and some specific methods of construction applicable to structural assemblies, components, windows, connectors, and fasteners as well as to the fastening of the roof and wall coverings to sheathing and framing members. It also affects the ground anchor and tie-down system and, indirectly, the foundations necessary to support the structure.

HUD's Regulatory Impact Analysis of Improved Wind Standards for Manufactured Housing (RIA), dated 14 January 1994, presents the case for the wind rule. HUD estimates the costs of the wind rule at \$51.7 million and the benefits at \$83.8 million, yielding net benefits of \$32.1 million and a benefit-cost ratio of 1.62. Unfortunately, the analysis contains several errors and omissions, with the result that costs are grossly underestimated and benefits grossly overestimated. Preliminary estimates suggest that costs may be two to three times greater than benefits. Moreover, HUD fails to recognize the limitations inherent to any benefit-cost analysis. It also fails to fully appreciate the adverse impact of the wind standards on the welfare of many MH consumers, producers, retailers, and park owners.

The wind rule will raise the price and affect the quality of manufactured homes (MHs). First, many consumers, especially lower-income Americans living in Wind Zones II and III, will be worse off. Some will be priced out of the market and those who pay the higher price will have to reduce their consumption of other commodities, including food, clothing, and medical care. Second, many producers of MHs, especially those manufacturing more affordable homes intended for consumers in Wind Zones II and III, will

be worse off. Some will go out of business and others will lose some of their capital. Third, retailers of MHs in Wind Zone III and, to a lesser extent, those in Wind Zone II, will lose some of their capital. Fourth, many MH parks in Wind Zone III and, to a lesser extent, those in Wind Zone II, will either go bankrupt or lose some of their capital. Fifth, the overall quality of some MHs, as perceived by consumers, will deteriorate. Sixth, the wind rule will have undesired and unintended consequences. For example, the rule will reduce competition within the MH industry; HUD does not even consider the resulting effects on the nature of the industry, including the price and quality of MHs.

This paper analyzes some of the economic consequences of the wind rule. Section I examines HUD's justification for the wind rule. Section II probes HUD's benefit-costs estimates, and discusses the impact of the wind rule on the prices and sales of manufactured homes. Section IV offers a few concluding comments on the consequences of the wind rule on the welfare of consumers, manufacturers, retailers, and parks.

I. JUSTIFICATION FOR THE WIND RULE

The wind rule is designed "... to ensure adequate safety and durability [of manufactured housing] with respect to high winds." (RIA, p.1). The implicit assumption is that the existing levels of safety and durability are inadequate in the sense that they are below the standards that consumers would be willing to buy. That is, there is a so-called market failure. The RIA explicitly makes this claim (RIA, p. 21) but, as shown below, merely asserts it without any supporting evidence.

The market could have failed because of a lack of competition, a lack of adequate information on the part of consumers, or a lack of incentive on the part of consumers to take external effects into account. None of these conditions hold.

The MH Market Is Competitive

The market can fail if a few firms monopolize the industry, producing a smaller output and a narrower range of quality than would prevail under competitive conditions. The MH industry, however, is highly competitive (De Alessi, 1981, pp. 208-211). At the end of 1992, there were 97 producers with 227 plants scattered throughout the United States; firms continually enter and exit the market as well open and close plants, as shown by the net changes over time in the number of firm and plants; see TABLE 1. There also are many retailers—reportedly about 5,500 in 1992. Moreover, legal barriers to entry are negligible for both producers and retailers, most of whom represent three or more producers; economies of scale are exhausted at relatively small levels of output; and the costs of entering the market by setting up a plant or opening a dealership are relatively small (De Alessi, 1981, p. 209). Thus, the MH industry is highly competitive. The RIA does not claim or offer any evidence to the contrary.

TABLE 1

MH MANUFACTURERS AND PLANTS

| | 12/1991 | 12/1992 | 11/1993 |
|---------------|---------|---------|---------|
| Manufacturers | 85 | 97 | 93 |
| Plants | 216 | 227 | 245 |

Source: National Conference of Building Codes and Standards (NCSBCS), *MHI Manufacturing Report*, January 1993.

Consumers Have Adequate Information

The market can fail if consumers lack adequate information. Because information is costly to acquire and to process, no rational individual seeks to obtain full information. The evidence indicates that buyers of MHs have adequate information. As noted in the preceding paragraph, the MH market is highly competitive. Most dealers represent at least three manufacturers, and provide customers with a broad range of choices regarding size, quality, and prices from competing manufacturers. Moreover, customers typically visit at least four dealerships before making a decision; thus, even first-time buyers are exposed to the product range of a dozen manufacturers. Repeat buyers, of course, benefit from their own experience as well as from those of their neighbors in MH parks. First-time buyers, however, also benefit from the experience of repeat buyers. Buyers typically arrange for a site in an MH park before completing a purchase; thus, they visit at least one site and have the opportunity to acquire more information at a relatively low cost from prospective neighbors and from MH park managers. In this environment, manufacturers have the incentive to provide the kind of MHs that consumers want to buy and dealers have the incentive to inform buyers about product characteristics. These comments suggest that consumers have adequate information.

Moreover, it is sufficient that *some* consumers be well informed. In a competitive market, the choices of consumers guide the decisions of producers. Repeat and other well-informed buyers choose those MHs with the price-quality combinations, including safety and durability, that they prefer. The shifting at the margin of dollar votes toward those MHs that offer a better price-quality combination—as the consumers themselves see it—drives the market. In a well-functioning market, there are broad variations in the quality of products. Some consumers choose to buy lower-priced MHs that are less durable and less safe in a wind storm while others choose MHs that are more durable and capable of sustaining higher winds.

The RIA observes that "Since the estimated private costs and private benefits of increased wind safety are so close, the question arises as to why the market does not provide a comparable level of safety without a government rule. The market does not provide

adequate safety because of a market failure due to asymmetric information" (RIA, p. 21). That is, producers have more information than consumers, who fail to appreciate design and other flaws that reduce safety and durability. The unit cost increases and unit benefits estimated in the RIA indeed are close, as TABLE 2 below shows. HUD, however, does not provide any independent evidence that asymmetric information is a problem. Thus, one can more readily infer that the benefit and cost data are incorrect: consumers are not buying more safety and durability because, as they see it, the additional costs are higher than the additional benefits. Indeed, as shown in the next section, HUD grossly overestimates benefits and underestimates costs.

TABLE 2

RIA'S ESTIMATE OF THE INCREASE IN PRIVATE COST AND BENEFITS
PER MANUFACTURED HOME

| Wind Zone | COST INCREASE | | BENEFITS | |
|-----------|----------------|----------------|----------------|----------------|
| | Single Section | Double Section | Single Section | Double Section |
| II | \$1,492 | \$1,813 | \$1,516 | \$2,062 |
| III | \$2,119 | \$2,722 | \$2,022 | \$2,750 |

Source: RIA, Table 8 (Costs) and Table 3 (Benefits).

HUD's inference of market failure is inappropriate in any case. The averages provided in the RIA are based on very rough estimates of aggregate private costs and benefits, and the margins of error are wide: average costs could well be substantially greater than average benefits. Moreover, owners of lower-quality units would incur substantially higher costs and substantially lower benefits than the owners of higher quality-units; thus—on HUD's own data—they would not be willing to pay the additional cost of building MHs to the wind rule. That is, low income MH users would be incurring unit cost increases well in excess of any benefits they might hope to derive.

The RIA goes on to assert that consumers would be delighted to pay the higher price for the higher safety imposed by the wind rule once the information of higher quality is conveyed to them by government certification that the MHs are built to high wind safety standards. HUD's own data, as noted above, do not support that statement. If it were true, however, the government could simply allow MH manufacturers to produce whatever quality they thought consumers wanted to buy and then simply certify the wind safety actually provided. Then consumers could make their own choices. Although such an arrangement has its own drawbacks, it would impose fewer restrictions on consumers' choices.

External Effects

Finally, the market could fail because buyers do not take into account the costs that they visit on others: there are external effects. For example, the owners of MHs may not have incentive to take account of the damage that flying debris from their MHs causes to their neighbors. Such an argument, however, is not applicable. MHs typically are located in dedicated MH parks whose owners have the incentive to provide the environment that their customers are willing to pay for. Different parks provide different kinds of amenities, including degrees of protection from external effects. There are differences in the foundations and anchoring/tie-down systems, in the sizes and quality of homes, in distances between units, and so on. MH owners choose sites with the combination that suits them best, including protection from wind damage. After a hurricane some of them may wish that they had chosen otherwise, but that is always the case when the probability of a future event is less than 1. The RIA claims that the wind rule would reduce these external effects. However, it does not offer any evidence on the amount of damage attributable to external effects or on the extent, if any, that the damage exceeded the amount (implicitly) allowed for in the contract for the use of the site.

Why the Wind Rule?

If the market has not failed, what is the case for the wind rule? The documentation for the wind rule and the RIA suggest one possible explanation. The federal government, for a variety of political reasons, has established the Federal Emergency Management Administration (FEMA) and other programs to compensate victims of disasters. This policy is proving very costly, especially in a period of tight budgets, and there is incentive to require individuals to take precautions that will reduce federal expenditures in case of disaster. Indeed, without the public component, RIA's own benefit-cost analysis would hardly support the wind rule. Once the political process is underway, of course, there is opportunity for various groups—including government agencies such as HUD—to advance their private interests as well as their own views of the public interest.

The analysis so far suggest that the wind rule is not designed to correct a market failure. Even if there were a market failure, however, it does not follow that government regulation would be desirable. Government regulation can also fails. Thus, it would be necessary to show that government regulation, as implemented in practice, would yield a solution that, in some sense, is superior to the market solution. Benefit cost analysis does not address that issue—it assumes implicitly that the government solution will work flawlessly—and the RIA provides no other evidence.

II. HUD'S ESTIMATE OF THE BENEFITS AND COSTS OF THE WIND RULE

The benefits and costs developed in the RIA, summarized in TABLE 3 below, raise

some general as well as some specific issues. Accordingly, it is useful to review how these benefits and costs were estimated and identify major flaws.

TABLE 3

HUD'S ESTIMATE OF TOTAL BENEFITS AND COSTS

| | BENEFITS | COSTS |
|----------------------|---------------|--------------|
| PRIVATE - Consumers | \$52, 297,621 | \$27,362,882 |
| PRIVATE - Producers | 0 | \$21,890,305 |
| PUBLIC | \$30,374,414 | \$ 2,438,590 |
| Reduced Death/Injury | \$ 1, 122,218 | 0 |
| TOTALS | \$83,794,253 | \$51,690,778 |

Source: RIA, Table 15 (Benefits), Tables 11-14 (Costs)

COSTS

The RIA estimates two categories of costs: private and public. These will be examined in turn, beginning with the size and incidence of private costs.

Size of Private Costs

Private costs are the estimated increase in production costs that will be incurred by those MH manufacturers who choose to meet the wind rule; MH retailers and park owners are ignored. These costs are computed by estimating the additional costs of complying with each provision for each type of MH (for example, single or double section) expected to be sold in each wind zone. Because the procedure is very detailed and tied to the nature and costs of meeting the technical provisions of the rule, addressing individual components is beyond the scope of this review. Industry sources, however, suggest that the increase in MH production costs will increase MH prices by more than *twice* HUD's estimates.²

Incidence of Private Costs

The RIA then takes private costs and allocates them between consumers and producers based on the estimated price elasticities of the demand and supply of MHs. The RIA uses the following formula:

$$(1) \quad \Delta \text{Price} = (\Delta C \times E_s) / (E_s - E_d) = \Delta C \times E, \quad \text{where } E = E_s / (E_s - E_d),$$

ΔPrice is the change in the price paid by consumers, ΔC is the additional construction cost, E_s is the price elasticity of supply, and E_d is the price elasticity of demand; E is the coefficient summarizing the combined effects of the demand and supply elasticities, and shows the percentage of the additional production costs that would be passed on to consumers in the form of higher MH prices.

The RIA did not develop estimates of the demand and supply elasticities pertaining to MHs in the wind zones affected. It used a price elasticity of demand of -2.4 based on three independent studies—two unpublished—that reported nationwide elasticities of -2.37, -2.5, and -2.4 respectively (RIA, p. 22). In the absence of any published estimate of the price elasticity of the supply of MHs, the RIA used a recently-published estimate of the nationwide long-run supply elasticity for new housing of 3.0 (RIA, p. 23). These demand and supply elasticities yield an elasticity coefficient $E = 3/(3+2.4) = 0.56$. According to this formula, 56 percent of any increase in production costs would be passed on to consumers and 44 percent would rest on MH producers as a tax on their capital. The resulting allocation of total private costs between consumers and producers is shown in TABLE 3 above.

TABLE 4 below shows the increase in MH prices estimated by HUD and, in parentheses, the price increases computed by taking the increases in construction costs shown in TABLE 2 and multiplying them by 0.56.

TABLE 4

RIA'S ESTIMATE OF THE INCREASE IN THE PRICES OF
MANUFACTURED HOMES

| Wind Zone | Single Section | Double Section |
|-----------|-------------------|-------------------|
| II | \$ 829 (\$835) | \$1,007 (\$1,075) |
| III | \$1,177 (\$1,177) | \$1,512 (\$1,524) |

Source: RIA, Table 10.

HUD has committed a gross error. The estimating procedure used in the RIA would be correct if the wind rule applied to *all* MHs. In that case, the wind rule effectively would be a tax on all MH producers, whose choice would be to meet the standard or exit. Even then one could take issue with the demand and supply elasticities used in the RIA—does the long supply elasticity for new housing really reflect the long run supply elasticity for MHs? What is the appropriate length of the run?—because even relatively small changes in the demand and supply elasticities could have a substantial effect on the incidence of the costs. For example, the price elasticity of the long run supply of MHs arguably is greater than the long run supply for new housing. Using just a moderately higher price elasticity of supply,

say 4.0, would yield the elasticity coefficient $E = 4.0/(4.0+2.4) = 0.63$, indicating that 63 percent rather than 56 percent of the costs would be passed on to consumers. Similarly, a shorter run, say with a price elasticity of demand of -1.0 and a price elasticity of supply of 2.0, would set $E = 2.0/(2.0+1.0) = 0.67$, indicating that 67 percent of the costs would be passed on to consumers.

The wind rule, however, does *not* apply to all MHs. During 1992, MH shipments totaled 210,787. TABLE 5 shows the number of units shipped to Wind Zones II and III as reported in the RIA and then shows the fraction of total shipments that they represent. It is immediately obvious that shipments of 4,200 units to Wind Zone III are a negligible portion of total shipments—less than 2 percent. Shipments of 26,902 to Wind Zone II are more substantial, but still relatively small. Shipments for 1993, the year of Hurricane Andrew, are estimated at 250,000 units, reducing these percentages even further.

TABLE 5

ANNUAL MH SHIPMENTS BEFORE WIND RULE

| | WIND ZONE III | | WIND ZONE II | |
|----------------|---------------|------|--------------|-------|
| | Units | % | Units | % |
| Single Section | 2,268 | 1.08 | 14,631 | 6.94 |
| Double Section | 1,932 | 0.92 | 12,271 | 5.82 |
| Total | 4,200 | 1.99 | 26,902 | 12.76 |

Source: RIA, Table 9. Base for % is 210,787.

To put these figures in perspective, note that total MH shipments vary widely from year to year. As TABLE 6 below shows, total shipments dropped by 17,000 in 1991 and increased by 40,000 in 1992; a preliminary, unpublished report suggests that shipments increased by another 40,000 during 1993. If this estimate holds, MH shipments would have increased by 80,000 units during 1992-93.

TABLE 6

TOTAL SHIPMENTS OF MANUFACTURED HOMES

| | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 |
|-------------|------|------|------|------|------|------|------|
| Units (000) | 233 | 218 | 198 | 188 | 171 | 211 | 250e |

Source: Manufactured Housing Institute, *Quick Facts*, 1992-3.

In an open market, MH manufacturers choose to produce MHs of higher quality only if the additional costs are covered by the additional revenues that they expect to earn. If consumers are not willing to pay for higher quality, it will not be produced. Manufacturers who fail to observe this simple rule go bankrupt. Why should manufacturers incur a loss of $\$2,119 - \$1,177 = \$942$ per single section and $\$2,722 - \$1,512 = \$1,210$ per double section sold in Wind Zone III, when they can simply produce for sale in Zone I? Given the few units sold in Wind Zone III and the option to sell elsewhere, the price elasticity of supply applicable to Wind Zone III must be close to infinity and $E = 1$. If manufacturers are going to produce at all for this market, they will pass on the full cost to consumers.

The assumption that producers will pass on the full cost to consumers in Wind Zone III is actually a conservative estimate. First, the quantity of units shipped at the higher price will be so small that, effectively, each MH will represent a custom order. Consumers will be unable to take advantage of the economies of scale available to consumers in Wind Zone I, and prices will be higher. Second, there will be fewer manufacturers producing MHs for delivery in Wind Zone III, and—on average—their plants will be located further from MH parks. Transportation costs, a significant portion of the full price of MHs, will be higher. The preliminary incidence coefficient for Wind Zone III, estimated conservatively at 1.0, is shown in TABLE 7; the associated price increases, using HUD's cost estimates, are shown in TABLE 8.

In Wind Zone II, the price elasticity of supply may not be infinite but it will be significantly higher than 3.0. Again, why should producers absorb a loss of $\$1,492 - \$829 = \$663$ per single section and $\$1,813 - \$1,007 = \$806$ per double section when that market is relatively small and they have the option to sell elsewhere? Some producers may be specialized to these areas and may simply be forced out of the market. Most producers will have the incentive to shift their sales elsewhere, a real opportunity in the rising market of the last two years. If the price elasticity of supply is as little as 10, a very conservative estimate under the circumstances, consumers will bear $E = 10 / (10 + 2.4) = 0.81$ or 81 percent, rather than the 56 percent estimated in the RIA, of the increase in production costs. And the elasticity is likely to be much higher than 10. Producers will pass on to consumers most of the increased production costs. HUD's estimates of the incidence and the preliminary estimates suggested here (PRELIM) are shown in TABLE 7 below. Preliminary estimates of the price increases, using HUD's cost estimates, are shown in TABLE 8 below.

TABLE 7

PORTION OF INCREASED COSTS PASSED ON TO CONSUMERS

| WIND ZONE | HUD | PRELIM |
|-----------|-----|--------|
| II | 56% | 81% |
| III | 56% | 100% |

HUD estimated the change in quantity of MHs shipped according to the following formula:

$$(2) \quad \Delta Q = (\Delta C / P_0) \times Q_0 \times E_D \times E, \text{ where } E = E_s / (E_s - E_D),$$

ΔQ is the change in quantity, ΔC is the additional construction cost, P_0 and Q_0 are price and quantity before the wind rule, E_D is the price elasticity of demand, and E is the elasticity coefficient.

Using the additional construction costs estimated by HUD, the incidence estimates shown in TABLE 7, and the price elasticity of demand of -2.4 used by HUD yield the preliminary estimate of changes in quantities shown in TABLE 8 below.

TABLE 8

INCREASE IN MH PRICES AND DECREASE IN QUANTITIES
APPLYING REVISED INCIDENCE TO HUD'S COST ESTIMATE
(HUD Figures in Parentheses)

| Wind Zone | Single Section | Double Section |
|----------------------|-------------------|-------------------|
| | INCREASE IN PRICE | |
| II | \$1,209 (\$829) | \$1,469 (\$1,007) |
| III | \$2,119 (\$1,177) | \$2,722 (\$1,512) |
| DECREASE IN QUANTITY | | |
| II | -2,154 (-1,477) | -1,178 (-808) |
| III | - 585 (-325) | - 344 (-191) |

These changes in prices and quantities are based on HUD's estimates of total private costs. If these costs are higher—and industry studies suggest that they might be at least twice as high—then prices would be correspondingly higher and quantities correspondingly smaller.

Public Costs

HUD's estimate of the public costs is limited to the deadweight loss (the net loss in consumers' welfare) from having fewer MHs. Preliminary review suggests that the estimating procedure warrants further examination.

HUD implicitly assumes that the costs of implementing the wind rule are zero. But somebody will have to determine that the MHs sold in a particular wind zone meet the requirements for that zone. Either the costs are borne by the government, in which case they should show up as public costs, or they are borne by consumers through inspection and other fees, in which case the prices paid by consumer should be adjusted upwards.

BENEFITS

HUD estimates three categories of benefits: private, public, and those associated with reduced death and injury. The amounts were summarized in TABLE 2. The following discussion focuses on the size of private benefits.

Private Benefits

Private benefits are the decrease in property damage due to MHs' increased wind resistance. Property damages are estimated using data from Hurricane Andrew and are based on two main sources: "... insurance payments to manufactured housing residents provided by Allstate Insurance Company, and the U.S. Small Business Administration (SBA) loans for uninsured losses to housing." (RIA, p. 12)

The RIA claims that building MHs to the proposed HUD standards would reduce wind-caused property damage by 75 percent in Wind Zone II and by 83 percent in Wind Zone III (RIA, p. 11). Hurricane Andrew, however, reached speeds well in excess of the 110 mph envisioned by the RIA and, like most hurricanes, spawned localized tornadoes of destructive force. Thus, the estimated reductions in wind damage of 75 percent in Wind Zone II and 83 percent in Wind Zone III seem very optimistic—especially in view of the severe damage suffered by the steel and concrete structures in Andrew's path.

Using data from Allstate and the SBA raises the less obvious but potentially more serious error of confusing expenditures with costs. Allstate insurance policies typically provided coverage in excess of the MHs' market value. Similarly, SBA loans generally were for new MHs rather than for used MHs of the same vintage and conditions as those destroyed by Andrew.

Insurance policies can be for Cash Value, Stated Value, or Replacement Value. Cash Value means that the insurance company agrees to pay up to the purchase price less depreciation of the MH damaged or destroyed; thus, cash value approximates the market value of the MH independent of its site. Replacement Value means that the insurance company agrees to repair the MH or replace it, regardless of its age and condition, with a new, like MH. Stated Value means that the insurance company agrees to repair or replace the MH up to the amount stated in the policy. Thus, Stated Value can be used to set a cap

on replacement value and avoid possible disagreements regarding what constitutes a suitable replacement. According to Allstate, two-thirds of all its MH policies in Dade County were for replacement value and one-third were for cash value.³ Moreover, in the aftermath of Andrew, the insurance adjusters of many companies reportedly were instructed to be generous. Under these conditions, disbursements by Allstate could have been as much as two and half times greater than market values.

The MHs damaged or destroyed by Hurricane Andrew were not new. According to HUD's *American Housing Survey for the United States in 1991*, in 1991, the median age of owner-occupied MHs was 13 years and the median age of renter-occupied MHs was 17 years.⁴ For simplicity, suppose that the average age of MHs was 15 years.

Because the benefits from the wind rule reflect damage or destruction foregone, they must be based on the actual value of the MHs damaged or destroyed. For example, suppose that an SBA loan was granted to an MH owner in Wind Zone III to finance the purchase of a new, single section MHs for \$19,700. Then HUD presumably multiplied the \$19,700 by 0.75 to obtain benefits of \$14,775 from adoption of the wind rule. The new MH, however, replaced an MH that was 15 years old and whose market value at best was \$6,000. Even accepting HUD's 0.75 factor, the benefits are \$4,500 rather than \$14,750. HUD's procedure would report benefits 3.3 times greater than they really are.

The procedure used by HUD to estimate the private benefits of the wind rule, even within its own frame of reference, results in a gross overestimate. Benefits could be less than one-third those reported by HUD.

Public Benefits

The public benefits are the reduction in government expenditures for emergency housing, disaster relief grants to individual families, and debris removal attributable to MHs. The proportion of total expenditures allocated to MHs is based on the ratio of MHs destroyed to total housing units destroyed (RIA, p. 16). This procedure overstates the benefits: a destroyed house leaves a great deal more debris than a destroyed MH.

The estimating procedure, however, ignores the costs of providing shelter and other care to MH occupants priced out of the housing market. More important, it ignores that, following Hurricane Andrew, many displaced occupants of both MHs and site-built homes moved temporarily into MHs. Indeed, many moved into MHs placed next to their site-built houses while the latter were being repaired. MHs that do not meet the wind rule could not be shipped into hurricane-ravaged areas to provide emergency housing, increasing both private and public costs and exacerbating a community's difficulties in coping with disaster.

As in the case of insurance payments and SBA loans, government expenditures are not necessarily a good estimate of the appropriate economic costs. To the extent that the

government paid replacement or some other value greater than market value—and it did—HUD's estimate of the public benefits attributable to the reduction in these costs would be grossly overstated.

Benefits of Reduced Death and Injury

The estimated benefits of the reduction in death and injury from from reduced wind damage to MHs are relatively small. Given HUD's track record so far, it would be surprising if they were not overestimated.

OTHER LIMITATIONS OF HUD'S BENEFIT AND COST ESTIMATES

The analysis has exposed some of the limitations of the specific data and estimating procedures used by HUD to measure the costs and benefits of the wind rule. The RIA, however, provides little or no information about some general drawbacks of benefit-cost analysis.

Distributional Effects

The overall estimate of benefits and costs and the associated benefit-cost ratio provide no information regarding the distribution of the benefits and the costs. For example, a rule with a benefit-cost ratio of 2:1 can describe benefits of \$200 to the wealthy owner of a luxury MH used for vacation and a cost of \$100 to an unemployed farmworker with 5 children, or benefits of \$200 to the farmworker and a cost of \$100 to the vacationer, or any linear combination in between. Different rules with the same as well as with different benefits and costs typically entail different distribution of welfare gains and losses. Unless these distributional effects are spelled out—and the RIA does not—benefit-cost estimates and ratios are not very helpful guides to policy.

More specifically, HUD estimates that the wind rule will yield total (that is, private plus public) annual benefits of \$83.8 million at annual costs of \$51.7 million (RIA, p. 1), yielding a benefit-cost ratio of 1.62. Private annual benefits of \$52.3 million (RIA, Table 15, p. 29) at private annual costs of \$49.3 million (RIA, Tables 11 and 12, pp.25-6), yield a benefit cost ratio of 1.06. Earlier analysis indicates that these estimates are wrong, and that costs may be significantly greater than benefits. Leaving these considerations aside, however, the costs of building MHs to the wind rule are going to be absolutely higher for lower-quality MHs—presumably the higher-quality homes already meet at least some of the new standards—while the associated benefits are absolutely—and substantially—lower for the lower-quality MHs (lower quality MHs are cheaper). Thus, the benefit-cost ratio for luxury MHs is significantly higher than for more affordable MHs. Indeed, the overall benefit-cost

ratio for the latter appears to be less than 1 even using HUD's procedures and data. Owners of more affordable MHs—lower income Americans—lose.

The RIA purports to address the distributional issue in the subsection on "Distributional Impact" (RIA, pp. 33-34). Thus, HUD compares (a) the median income of MH owners and renters to the median income of home owners and renters, and (b) the fraction of income represented by the price increase in MHs due to the wind rule for MH owners in Wind Zone II and III. Focusing on the latter, the estimated price increase of \$829 for the purchaser of a single section MH in Wind Zone II is said to be 3.9 percent of yearly median income compared to 5.6 percent for the purchaser of a single section MH in Wind Zone III; see TABLE 9 below. These statements are misleading.

TABLE 9

INCREASE IN MH PRICES AS PERCENTAGE OF INCOME
OF MH OWNERS AND RENTERS - USING HUD'S COST ESTIMATES

| WIND ZONE / SECTION | MH OWNERS | | MH RENTERS | |
|---------------------------|---|--|------------------------------|--|
| | Median Income \$21,052 | 20% of MH Owners Earn Below \$10,000 | Median Income \$13,878 | 16% of MH Renters Earn Below \$5,000 |
| | USING HUD'S ESTIMATE OF PRICE INCREASE | | | |
| II-Single | 3.9 | 8.3 | 6.0 | 16.6 |
| II-Double | 4.8 | 10.1 | 7.3 | 20.1 |
| III-Single | 5.6 | 11.8 | 8.5 | 23.5 |
| III-Double | 7.2 | 15.1 | 10.9 | 30.2 |
| | USING PRELIM ESTIMATE OF PRICE INCREASE | | | |
| II-Single | 5.8 | 12.1 | 8.7 | 24.2 |
| II-Double | 7.0 | 14.7 | 10.6 | 29.4 |
| III-Single | 10.1 | 21.2 | 15.3 | 42.4 |
| III-Double | 12.9 | 27.2 | 19.6 | 54.4 |

Source: HUD, *American Housing Survey for the United States in 1991*.

Consider HUD's own estimate of the increase in MH prices shown in TABLE 9. The price increase for single-section MHs is a substantially greater portion of median income

for MH renters, 6.0 percent in Wind Zone II and 8.5 percent in Wind Zone III. More important for distributional purposes, 20 percent of all MH owners have incomes of less than \$10,000. For these individuals, the price increase for a single section MH would represent a minimum of 8.3 percent of their income in Wind Zone II and 11.8 percent in Wind Zone III. For the 16% MH renters with income of less than \$5,000, the price increase as a percentage of income would be well in excess of 16.6 percent in Wind Zone II and 23.5 percent in Wind Zone III. If costs are greater than HUD's estimate—twice as much according to industry estimates—all these percentages increase correspondingly.

Owners and renters of double section MHs are affected even more. The price increase as a fraction of income varies from 4.8 percent of the median income of MH owners in Wind Zone II to a minimum of 30.2 percent of MH renters with income of less than \$5,000 in Wind Zone III. If costs are greater than HUD's estimate—twice as much according to industry estimates—all these percentages increase correspondingly.

Preliminary revision of HUD's estimate of the increase in MH prices indicates that it represents a substantially higher percentage of the income of MH renters and owners. As shown in TABLE 9, the price increase for single-section MHs alone varies from 6.0 percent of the median income of MH owners in Wind Zone II to 42.4 percent of the income of the 16 percent of MH renters with income of less than \$5,000 in Wind Zone III.

Many lower-income Americans will be harmed by the wind rule. In the Carolinas, for example, MHs in Wind Zones II and III typically are occupied by lower-income owners and renters, primarily black, who would find themselves either priced out of the market or forced to forego other commodities. HUD either does not fully recognize or is trying to mask the hardships that the wind rule will visit on lower-income owners and renters of MHs.

Market Data Do Not Reflect Personal Values

It is important to recognize that the benefits and costs computed in benefit-cost analyses do not reflect the actual benefits received and costs incurred. Benefits and costs are computed using market prices; market prices, however, are useful in determining value at the margin and not in determining total values. Because market prices do not reveal the personal values that individuals attach to the benefits or to the costs (technically, prices do not measure inframarginal values), benefits and costs measured using market prices could be wildly inaccurate. The RIA does not address this problem.

III. CONCLUSIONS

This preliminary report notes several major flaws in HUD's measure of the benefits and costs of the wind rule. HUD's procedure for computing the incidence of the private

costs—which are less than half the industry’s cost estimates—is incorrect, grossly underestimating the portion of private costs passed on to consumers. Public costs, among other things, neglect the costs of enforcing the wind rule. HUD’s estimate of private benefits—defined as the reduction in future costs—confuse expenditures with costs. Private benefits are based on Andrew-related insurance payments to MH owners by Allstate Insurance Co. and on loans by the U.S. Small Business Administration for uninsured losses; similarly, public benefits are based on Andrew-related government expenditures. These payments, however, reflect replacement values rather the market value of the MHs damaged or destroyed and could overestimate benefits by a factor of 3. Thus, HUD’s measures of both private and public benefits appear to be grossly overestimated. Preliminary results suggest that the costs of the wind rule may be two to three times greater than the benefits.

The analysis is sufficiently complex that it is useful to summarize some of the major conclusions and note some additional economic consequences of the wind rule.

Price The analysis in this paper suggests that MH prices will be substantially higher than HUD estimates. At least in Wind Zone III, the increase in prices could exceed the full increase in construction costs.

Quantity Because HUD underestimated the size of the price increase, it also underestimated the resulting decrease in the quantity of MHs demanded.

Quality HUD notes that the wind rule will improve the quality of MHs. Presumably it will improve the resistance of MHs to wind, but it will not necessarily generate a corresponding increase in quality as consumers see it. For example, consumers unable to afford MHs built to the wind rule will demand reduction in other quality characteristics to lower prices. To the extent that producers respond, MH prices may not rise as much as expected but the overall quality of new, affordable MHs in Wind Zone II and III—especially in Zone III— may well deteriorate as consumers see it.

The overall quality of the stock of MHs in Wind Zones II and III almost surely will deteriorate. In the normal course of events, as MHs age and wear out they are replaced with newer units. Because new units are now substantially more expensive, there will be incentive to repair and maintain older units in service longer. Paradoxically, one effect of the wind rule will be to generate, at least over the near term, a population of older MHs that—on average—will be *less* resistant to strong winds and subject to greater damage in case of hurricanes.

Competition Before the wind rule, any producer could compete in Wind Zones II and III without modifying its production processes. Given the size of the market in these zones, especially in Wind Zone III, few firms will produce for this market and then largely to order. Competition will be reduced with the usual effects on price and quality.

Impact on Consumers Given that the market is competitive, consumers will lose.

Lower income consumers will be hit particularly hard. The main reason people live in MHs is that they are affordable: 61 percent of the individuals owning MHs and 44 percent of those renting MHs do so for financial reasons.⁵ Many of these individuals will be priced out of the market and the rest will have to reduce their consumption of other commodities, including clothing, food, and medical care.

Impact on Manufacturers and Dealers Both groups will be worse off. Manufacturers and dealers who sold MHs in Wind Zones II and III will lose sales and will bear a capital loss equal to the present value of the loss in net income.

Impact on MH Parks The RIA ignores the effect of the wind rule on MH parks. MH parks, especially those in Wind Zone III, will bear a heavy loss. Because fewer, older MHs will be located in Wind Zones II and III, owners of MH parks will lose capital and some will go bankrupt.

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De Alessi, Louis, "Regulating Postpurchase Relations: Mobile Homes," in K. W. Clarkson and T. J. Muris (eds), *The Federal Trade Commission since 1970: Economic Regulation and Bureaucratic Behavior*, Cambridge University Press, 1981.

Department of Housing and Urban Development, *American Housing Survey for the United States in 1991*, Washington, DC, 1991.

Department of Housing and Urban Development, "Manufactured Home Construction and Safety Standards on Wind Standards; Final Rule," 24 CFR Parts 3280 and 3282, *Federal Register*, Vol. 59, No. 10, January 14, 1994.

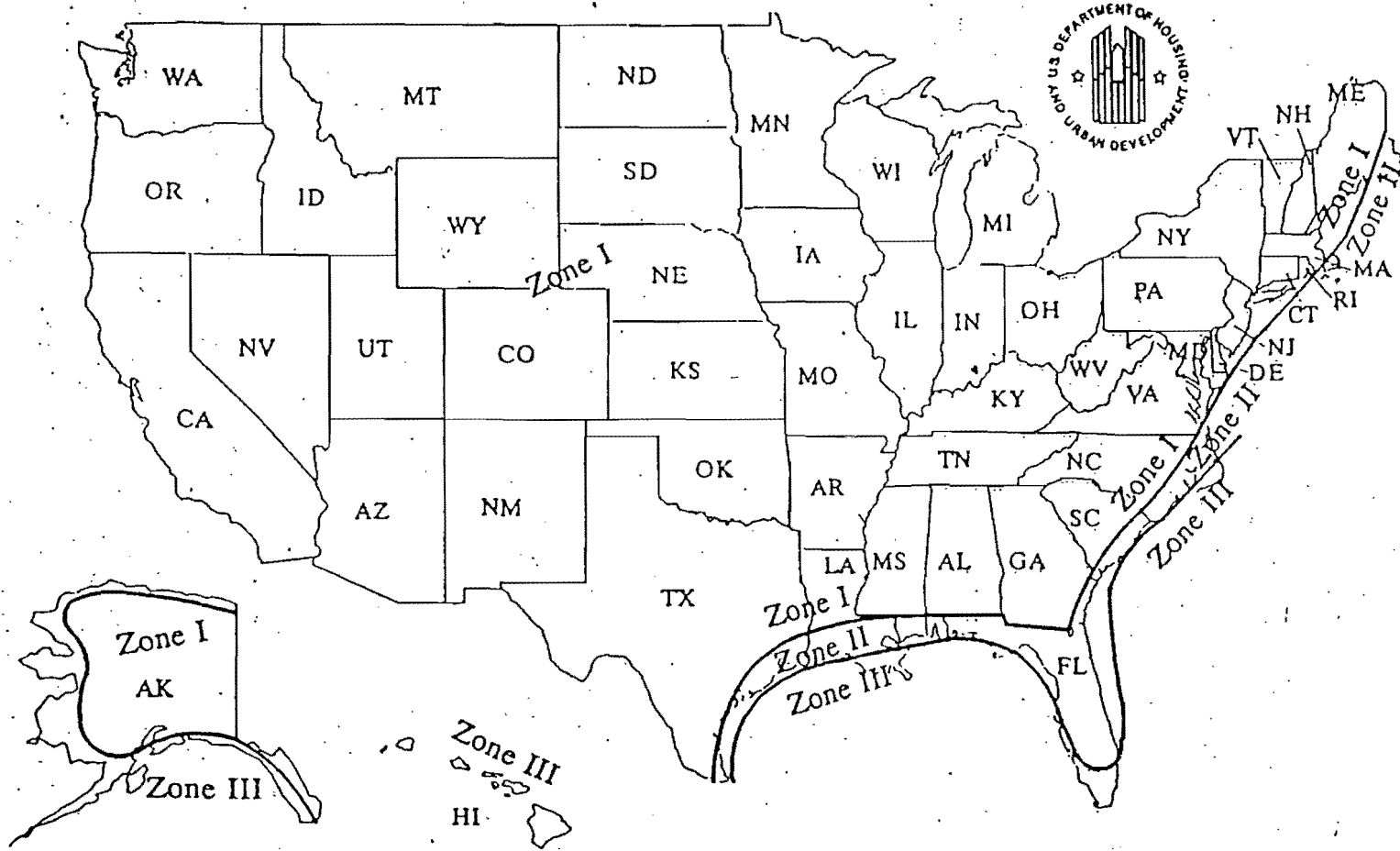
Department of Housing and Urban Development, *Regulatory Impact Analysis of Improved Wind Standards for Manufactured Housing*, Washington, DC, January 14, 1994.

Manufactured Housing Institute, *Quick Facts*, Arlington, Virginia (undated: presumably 1993).

FOOTNOTES

1. HUD's Basic Wind Zone Map for Manufactured Housing is shown in Appendix A.
2. *News from FMHA*, Florida Manufactured Housing Association, Inc., Tallahassee, Florida, 10 February 1994.
3. Telephone conversation on February 21, 1994, with Mr. Jeff Kucera, Allstate home office, North Brook, Illinois.
4. Department of Housing and Urban Development, *American Housing Survey for the United States in 1991*, Washington, DC, 1991.
5. Department of Housing and Urban Development, *American Housing Survey for the United States in 1991*, Washington, DC, 1991.

Basic Wind Zone Map for Manufactured Housing



NOTE: See Section 3280.305(c)(2) for areas included in each Wind Zone.

MEMORANDUM

To: Nancy Hernreich
From: Deb Coyle
Date: March 3, 1994
Re: Call from Hal Hunnicutt

Hal feels the Manufacturing Housing Industry was dealt a deadly blow by Secretary Cisneros today, who indicated a need for more, not fewer, regulations on manufactured housing because of the earthquake in California. Hal was very angry today and asked if I could arrange a ten-minute meeting with the President tomorrow. I told him I would share our conversation with you and ask you to call him. He is at the Holiday Inn, Old Town Alexandria, (703) 549-6080, Room 536.

LW
✓

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Assistant to the President for Domestic Policy

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and forward to CHR by: _____

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