

LEG. FINANCE - BILLS 1979 - 1980 1304

SB 205 am cont., thru SB 205 1304

developments under the Housing Development Bonds used by the Apartment Development Program. In addition to the fact that a new bond resolution would probably need to be adopted, there is another key factor that makes such an action questionable. Since the Apartment Development Program are uninsured, the marketability of bonds to finance these developments is tied to the ability of the Agency to persuade the bond market as to the quality and financial soundness of the individual multi-family developments. The Agency should give serious consideration to the possible effect that inclusion of park developments with apartment developments would have on the ability of the Agency to sell market bonds and how such inclusion would effect bond interest rates, which impact on the economic feasibility of apartment developments. A park mortgage insurance program is available through the Federal Housing Administration but whether this program would provide the security that the bond market needs is uncertain.

An alternative to including a park development program under the apartment development bond resolution would be to adopt a separate bond issue and to pool park development proposals until a sufficient volume to justify a bond sale was accumulated. Such a system would probably reduce the demand for a program further, however by lengthening the loan approval process for developers, and the time frame over which proposals were assembled might proved to be excessive. Until the Agency can be assured of a reasonable level of program activity, this alternative seems unfeasible.

Summary

It appears that a park development program would be unfeasible, given the estimated activity that would be generated. Despite the fact that staff resources are available to deliver the funds, the expected size of the park proposals and the low per space development costs and loan amounts for park developments would make it extremely difficult for the Agency to develop a program that could generate a surplus of revenue over cost through fee income and interest income to cover the expenses of a program. While the Apartment Development Program has had to subsidize

the underwriting expenses of smaller apartment developments, this has been compensated by the fee income generated by larger developments. With a park development program, almost all of the proposals would prove to be unprofitable to the Agency from a revenue/expenditure standpoint. Finally, the Agency does not want to merge a park development program into the Apartment Development Program if there is any chance such an action would jeopardize that program's funding sources.

III. Financing the Rehabilitation of Individual Mobile Homes and Mobile Home Parks

Two program activities in which the Agency could become involved are loan and grant programs for mobile homes rehabilitation and rehabilitation financing for mobile home parks. Because of the unique nature of the rehabilitation performed and the difference in delivery systems that are needed, these two activities, if carried out, would need to be developed as separate programs.

More so than with other activities that have been discussed, the appropriateness of home improvement loans and grants to mobile home owners needs to be determined. Due to the relatively short life of mobile homes, especially older units, it is difficult to justify rehabilitation expenditures on an economic basis. Due to the high levels of mobile home production in the late sixties and early seventies, approximately 9 out of 10 mobile homes in the state are less than 15 years old. Given this fact, the demand for rehabilitation loans by mobile home owners would be minimal, especially if eligibility criteria remained the same for mobile homes as for conventional housing. It seems obvious that an activity of this type would need to be incorporated into the existing home improvement loan and grant programs.

There are no private lenders to our knowledge that will make home improvement loans on mobile homes. There is one known lending activity involving mobile homes, under which Northern States Power is providing funds to mobile home owners to upgrade the energy efficiency of their units by retrofitting the units with additional insulation.

Demand for rehabilitation loans for mobile home parks is also minimal. Many parks built in the fifties and sixties were built to lower standards than are

currently in effect. However, though many parks need upgrading, the financial incentive for park operators to make improvements is not present. Unless state or local governments instituted mandatory upgrading to parks there can be little expectation of much demand for loans. Because of this, any activity would need to be incorporated into a park development program and would entail the same feasibility concerns as that program.

Program feasibility

Beyond the question as to whether the Agency should make home improvement loans and grants to mobile home owners is the question as to whether such a program, if attempted, would be feasible. If allowed, such an activity would not generate enough volume to justify a separate program, and would need to be incorporated into the existing Home Improvement Program. There would be no difficulties with a delivery system, since such a system is already in operation. The only requirement would be to amend the Agency's rules and regulations and inform participating lenders or grant administration centers of the program changes. Because of the uniqueness of mobile homes, special regulations spelling out the eligible improvements might also be necessary.

The key to feasibility of a loan program centers around whether the Agency would be willing to adopt a new home improvement bond resolution allowing loans on mobile homes. Despite the small fraction of bond proceeds that would go for improvements to mobile homes, such language could have an effect on the marketability of home improvement bonds or on the Agency's cost of borrowing for the Home Improvement Loan Program.

IV. Financing the Development of Rental Housing Utilizing Mobile Homes

The final area where the Housing Finance Agency could potentially become involved deals with an innovative use of mobile homes as rental housing. Such rental housing developments would assemble mobile homes, either detached or attached for use as rental housing, with the Agency or some other financial institution

providing construction and/or permanent financing. Rental housing of this type would be eligible for assistance payments under the Section 8 Program.

No attempt is made to evaluate the feasibility of such developments. Success of a new concept of this nature would depend eventually on the market acceptance of mobile homes on one hand and the technical and financial feasibility of a development on the other. The concept is mentioned because, with 15-20 year mortgages rather than 40 year mortgages, such housing may provide the Agency with more flexibility in the provision of rental housing in communities with uncertain long-term demand. Before any programs were developed, a demonstration project designed to test the market response and feasibility from both a technical and financial stand point would be appropriate.

Program feasibility

Beyond the technical and financial feasibility of such developments and the acceptance of mobile homes by the rental market is the question of program feasibility. A mobile home rental housing program could be expected to face the same problems as a park development program. Mobile home rental housing developments would be developed in much the same manner as conventional apartment developments and underwritten by the Apartment Development Program staff. However, such developments, like park developments, would result in low mortgage amounts and generate little fee income which requiring nearly as much staff time as an apartment proposal, though design review requirements might be reduced somewhat. Though per unit development costs would be higher than for park spaces, approximately \$15,000, a typical development would be expected to have only 10-20 units, resulting in an development mortgage of only \$150,000 to \$300,000. Like a park program, a rental program would be expected to operate at a loss unless fee income was increased to a larger percentage of the mortgage amount. The development team fees would also be expected to be too low to attract experienced developers and lessen the chances for an acceptable proposal to be put together.

The low volume of activity under a program would, like a park financing program, make the structuring of a bond issue difficult. As many as 350 units would need to be financed to generate a mortgage volume of \$5,000,000, which may even prove to be too small. Financing developments under the Housing Development Bonds might require the adoption of a new resolution, though this should be determined by legal counsel. Again, the Agency should seriously consider the consequences such a use of bond proceeds could have on the overall marketability of a particular bond issue.

V. Overall Summary

Preliminary evaluation of each of the potential program activities reveals special problems that would make the success of a individual loan program questionable. Under a program for financing the purchase of individual homes, it appears that there would be problems in developing a network of dealers or lenders to deliver funds to low-and-moderate income families.

On the other hand, the low expected loan volume for the other potential programs might require that they be funded with proceeds from existing bond issues. Whether such an alternative should be pursued given the possible effects of the marketability of those bonds for other Agency activities must be decided. Further information on the feasibility of those programs is being collected, but the available data suggests that any mobile home lending activity by the Agency would face difficult obstacles.



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James O. Smith
Signature of Camera Operator

3/23/90
Date

JB 205

SENATE FINANCE COMMITTEE
BILL CHECKLIST

- 1. Committee Copy-Current Bill ✓
- 2. History Cover Form ✓
- 3. Printed Copies:
 - Original Bill ✓
 - Committee Substitutes or Amendments —
- 4. SFC Committee Report Form ✓
- 5. Fiscal Information:
 - Note in File
 - Note Requested Date
 - Other Financial Backup
(See Below)
- Backup:
 - Handouts
 - Letter from Governor
 - Letter from Sponsor
 - Completed Committee Reports
 - Committee C+RA ✓
 - Other

AHFC - Summary of Findings - Mobile Homes

COMMITTEE REPORT
SENATE

3/9/79

FURTHER:

Date: April 27, 1979

Mr. President:

The Committee on FINANCE has had SB 205
making a special appropriation to the Alaska Housing Finance Corporation

under consideration and (a majority of the committee) (the committee)
reports it back with the following recommendations:

- do pass do not pass
- do pass with attached amendments(s)
- replace with CS for _____ same title
 new title
- and recommends _____
- AND attaches a "Letter of Intent" New Fiscal Note
- reports it back without recommendation
- referred to the _____ Committee

MEMBERS SIGNING
DO PASS

[Signature]

[Signature]

[Signature]

[Signature]

MEMBERS HAVING
OTHER RECOMMENDATIONS:

[Signature]

[Signature]

CHAIRMAN

AMENDMENT

OFFERED IN THE SENATE:

By: Finance Committee

To: _____ SENATE BILL No. 205

HOUSE BILL No. _____

PAGE: 1

LINE: 15

After the word "of" insert "new or used"

Funding Information
General Fund \$1,000,000
Other Funds -0-
\$1,000,000

Introduced: 2/13/79
Referred: Community & Regional
Affairs and Finance

1 IN THE SENATE

BY RODEY, KELLY AND FAHRENKAMP

2 SENATE BILL NO. 205

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 ELEVENTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act making a special appropriation to the Alaska
7 Housing Finance Corporation; and providing for an
8 effective date."

9 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

10 * Section 1. The sum of \$1,000,000 is appropriated from the general fund
11 to the mortgage insurance fund of the Alaska Housing Finance Corporation
12 (AS 18.56), to be paid to the mortgage insurance fund in the amounts re-
13 quested by the corporation as necessary in connection with the issuance of
14 insured mortgage program bonds of the corporation only if the bonds are
15 issued for the mortgage financing of mobile homes.

16 * Sec. 2. The unexpended and unobligated portion of the appropriation
17 made in sec. 1 of this Act lapses into the general fund June 30, 1980.

18 * Sec. 3. This Act takes effect immediately in accordance with AS 01.10.-
19 070(c).

From The SENATE FINANCE COMMITTEE

SENATE

From The

Perry will be leaving
5:50 today



~~HTFC~~

(wants to get
together w/ you &
Kuro)

Darry Eaton

stepped by on

HTFC -

1) Met w/ (new) chairman
Frank Rappell

Darry - V. Chairman

2) Met Sen Fran. w/
Fin. Advisor Smith

Banner



From The
**SENATE
FINANCE COMMITTEE**

Smith/Barney will
handle exclusively
(same as N. Mexico
deal)

But will need money!

Rural Program -
has legislative
suggestions - but
needs a Coordinator

CORRECTION

**THIS DOCUMENT
HAS BEEN REPHOTOGRAPHED
TO ASSURE LEGIBILITY**



Perry will be leaving
5:50 today

From The

**SENATE
FINANCE COMMITTEE**

~~AHFC~~
John - (wants to get
together w/ Gau &
Russ)

Perry Eaton
stopped by on
AHFC -

1) Met w/ new Chairman
Frank Rappell

Perry - V. Chairman

2) Met San Fran. w/
Fin. Advisor Smith
Borner

- 3) drastically charged
underwriting team
- 4) Cut seriously
Dean Whittier
- 5) added First Boston
discussed Mobile Home
Program
- 6) will have on stream
Bond sale — mortgages
going → approx.
9 mos.
(Conserva. estimate)



From The

**SENATE
FINANCE COMMITTEE**

Smith/Barney will
handle exclusively
(same as N. Mexico
deal)

But will need money!

Rural Program -
has legislative
suggestions - but
needs a Coordinator

Also future make-up
of Board of Directors
needs to talk to
you on expanding
Board.

Sue

SUMMARY OF FINDINGS

MANUFACTURED HOMES

ALASKA HOUSING FINANCE CORPORATION

MARCH, 1979

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A. Introduction

This report was prepared at the request of the Alaska Legislature, discussing the potential for AHFC loans on mobile homes.

In response to this request, AHFC focused its attention on manufactured housing delivery systems which make significant use of factory production and minimize construction activity at the final site. It is important that the terms "manufactured home" be understood. Although the mobile home industry has used the term manufactured home as a synonym for mobile home, the term has a broader meaning. Any home produced in a factory that utilizes enclosed components or building systems not readily inspected at the site is classified as a manufactured home. Under this definition, modular homes, certain panelized homes, and mobile homes would all be considered manufactured homes.

Manufactured homes other than mobile homes are subject to the same construction standards as site built homes. Mobile homes, on the other hand, are exempt from state or local construction standards and subject instead to federal standards which apply exclusively to mobile homes. The federal standards define a mobile home as "... a structure, transportable in one or more sections, which is eight body feet or more in width and is thirty-two body feet or more in length, and which is built on a permanent chassis, and is designed to be used as a dwelling with or without a permanent foundation, when connected to the required utilities."

Panelized home manufacturers produce roof, floor, and wall panels in a factory and deliver the panels to a building site for final assembly on a permanent foundation. Modular home manufacturers produce the roof, floor, and wall panels and assemble them into three dimensional modules before transportation to a site. The crucial distinction is that mobile homes are designed for use without a permanent foundation and, under federal law, are exempt from state and local construction standards.

Despite the controversial nature of mobile homes, very little substantive research has been done that would help resolve concerns over the quality, safety, and long term cost of this particular alternative housing delivery system. This report includes information developed by AHFC and incorporates information produced in a two-year study by the Minnesota Housing Finance Agency.

B. Research Findings

AHFC currently provides for financing of two of the three forms of manufactured housing. Research showed no significant differences in the construction quality or safety of site-built, modular, and

panelized homes. Major emphasis was placed on an analysis of the construction quality, safety, and long term cost of mobile homes, and on the feasibility of AHFC loan programs for mobile homes.

Information is not available on the number, age, condition and regional distribution of mobile homes in Alaska. An estimated 60% of the mobile homes were produced after 1972, when the State first adopted mobile home standards. These homes should comply with the State standards or the federal standards that preempted the State standards in 1976. Prior to 1972, compliance with industry standards occurred strictly on a voluntary basis. (Approximately 7,745 mobile homes have come into the State since 1972)

There is no accurate inventory on the condition or the degree of compliance with applicable standards. One study conducted by the National Bureau of Standards suggested that a significant number of mobile homes have construction-related problems which affect the performance of the home and the health and safety of the occupants. The problems ranged from life-threatening fire hazards to less serious but major problems related to water leakage and inadequate fastening of materials. There is widespread concern over the poor performance of mobile homes in the energy conservation area.

Though predominantly owner occupied, mobile homes appear to serve as an alternative to both ownership of conventional homes and rental of a home or apartment. As a form of transitional housing, mobile homes replace a portion of the demand for rental housing. The estimated higher concentration of mobile homes in non-metropolitan areas may in part be due to the shortage of rental housing in those areas.

Mobile home purchasers have not had access to real-estate mortgage funds. This is true in all states for a number of reasons. As discussed in this and earlier reports, the mobile home, by definition, generally cannot be considered as real property. In addition, over the years a mutually beneficial relationship between manufacturers, dealers, and lenders has developed. Thus mobile homes are predominantly financed like a car, with installment loans. This marketing arrangement provides high profit for the manufacturer, the dealer, and because of higher interest, the lender.

The arrangement has been accepted by the consumer because it has provided readily available and fast credit. Despite the existence of federal loan insurance and guarantees on mobile homes that provide for lower interest rates and longer terms, these types of loans have not been accepted by the consumer, the lenders, or the dealers.

1). Housing Standards

Structures meeting the federal definition of a mobile home are regulated under federal rather than state standards. These standards are applied at the point of manufacture. There

is no enforcement system or inspection system by state officials or local inspection of the installation of the home. There is no state warranty law to provide additional protection to consumers that the mobile homes they purchase comply with applicable construction standards.

Installation of mobile homes on a support system that is properly designed for local soil and climatic conditions is crucial to the proper performance of a mobile home. Lacking jurisdiction to establish installation standards, HUD has encouraged states to undertake that responsibility. Alaska has not adopted standards governing the installation of mobile homes.

In the energy conservation area, the performance of mobile homes is lower than the performance of modular, panelized, or site-built homes. HUD standards allow for less insulation.

It could not be determined that fire safety standards for mobile homes are less stringent. However, because of the widespread practice by mobile home manufacturers of using plywood paneling as an interior finish material rather than the costlier drywall, the interior of mobile homes continue to be more flammable than those of other homes. This higher hazard is reflected by insurance premiums that are more than three times as costly for mobile homes. Statistical data is not readily available, however. Based on information gathered in Anchorage during 1978, a mobile home was 3.7 times more likely to have a serious fire than other 1-2 family homes.

Beyond the energy and life-safety issues, there are concerns with the durability of mobile homes. While other forms of housing, both site-built and manufactured have experienced fairly strong appreciation in value, mobile homes continue to experience rapid depreciation in value. Because of the greater depreciation the long term costs of mobile homes tend to cancel out the benefits of lower short-term monthly costs.

2. Program Feasibility

In addition to evaluating the need and desirability of establishing AHFC programs for mobile homes we also focused on questions of technical feasibility.

Findings on the quality, safety, and costs raise serious questions about the desirability of an AHFC program for the purchase of mobile homes.

In terms of the technical feasibility of such a purchase program, there are more unresolved questions than answers. Marketability of bonds to fund such a program would depend on the security of FHA Title I insurance, VA guarantee, or a State-appropriated insurance reserve. As indicated earlier, FHA and VA programs have not been well received in Alaska or other states. Since financing is available in the private

sector, the use of State funds for this purpose is questionable. The ultimate acceptance by the bond market is also questionable. There are also serious concerns over the ability of AHFC to establish a private sector delivery system and to attract an experienced mobile home servicer willing to originate and service the loans.

C. Conclusion

1.) AHFC should continue its current policy of providing financing of 1-2 family residential homes, whether site-built or manufactured.

2). The State should examine current statutes and regulations relating to mobile homes and make necessary revisions to insure that purchasers of mobile homes receive consumer protection and tax treatment equal to that afforded other homeowners.

3). The State should develop the capacity to monitor the National Mobile Home Construction Standards to insure that they provide adequate protection to consumers and to make recommendations for revisions. The State should take full advantage of provisions within the National Mobile Home Construction and Safety Standards for State participation in the inspection system and in the overall monitoring of the enforcement system.

4). The State should develop mobile home installation standards and insure that they provide adequate protection to consumers.

5). The State should develop mobile home park standards to insure they provide adequate protection to consumers. A system to insure the parks remain in full compliance is also needed.

6). The State should develop a warranty law providing additional protection to consumers that the mobile homes they purchase comply with applicable construction standards and are properly installed on a support system with adequate anchoring systems.

7). The State should insure that statutes and regulations maintain the legal distinction between mobile homes and other forms of site-built and manufactured homes as long as mobile homes are constructed and installed under distinct standards and enforcement systems.

8). The State should address the problem of defining the mobile home as personal property vs. real property.

9). AHFC should endeavor to make possible the financing for the purchase of new mobile homes as long the program will be self-sustaining, provide for mortgageable loans, warrant a reasonable interest rate in the public market, and be of true benefit to the people of the state.

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STAFF PAPER:

FEASIBILITY OF FINANCING MOBILE HOMES AND MOBILE HOME PARKS

The 1976 State Legislature requested that the Housing Finance Agency research the feasibility of utilizing its resources to finance the development, purchase or rehabilitation of mobile homes. The purpose of this staff paper is to provide background information on mobile home financing and to serve as a preliminary evaluation of the feasibility of various financing activities in which the Agency might become involved.

There are five major activities that could potentially be carried out by the Agency. These include consumer financing of mobile homes, mortgage financing of mobile home parks, rehabilitation financing of individual mobile homes, rehabilitation financing of mobile home parks, and mortgage financing of rental housing utilizing mobile homes.

The evaluation of each of these potential program activities will follow a set format. The initial step is a determination of the need for the financing activity that is under consideration. The role of the Housing Finance Agency is to supplement the activities of the private sector in the provision of housing. Only where private financial institutions have demonstrated an inability to produce a sufficient supply of capital at costs affordable to low and moderate income families should the Agency become involved. Thus, the initial step in the evaluation involves an analysis of the performance of the private finance sector and an analysis of the impact the Agency could have in improving this performance. Sufficient information does not always exist to resolve this area of concern, but the paper will attempt to provide a framework for future research.

For each potential program activity an evaluation must also be made of the feasibility of the Housing Finance Agency developing an operational program. Provided that a need for an activity can be demonstrated, the success of any program developed will depend on the ability of the Agency to raise funds for the program on the bond market and on the ability of the Agency to develop an effective, low cost

means of delivering the funds to families of low and moderate income.

I. Financing the Purchase of Mobile Homes

The most obvious financing activity where the Housing Finance Agency might become involved is in the consumer financing of individual mobile homes. Such an activity would assist low and moderate income families in the purchase of new and possibly used mobile homes and might also assist these families in the purchase of land on which to place their mobile homes. All of these financing activities are currently performed by the private sector. Since there is little wide spread knowledge about the private financing of mobile homes and because of an Agency program, a brief description of this financing system is provided.

Description of private sector activities

Consumer financing of mobile homes has developed independently from the mortgage lending activities of private lenders. The fact that mobile homes have traditionally been classified as personal rather than real property meant that mobile home loan programs developed within the installment or consumer loan departments of private lending institutions. Mobile home financing is a complex activity with many unique characteristics requiring a considerable degree of expertise. As a result, the origination and servicing of mobile home loans has tended to be concentrated among larger financial institutions that can generate sufficient loan volume to justify developing this necessary staff expertise. The mobile home loan field in Minnesota is currently dominated by Midwest Federal Savings and Loan.

Specialized service companies have developed within the mobile home industry to provide the underwriting expertise that mobile home financing requires. These service companies, for a fee, perform many of the functions that would need to be performed within a mobile home loan department of a lender. Service companies have permitted larger financial institutions to enter the mobile home loan field before they have developed in-house capability to originate and service loans, and allow any financial institution, large or small, to purchase mobile home paper for their portfolios without having to get into the business of originating and servicing

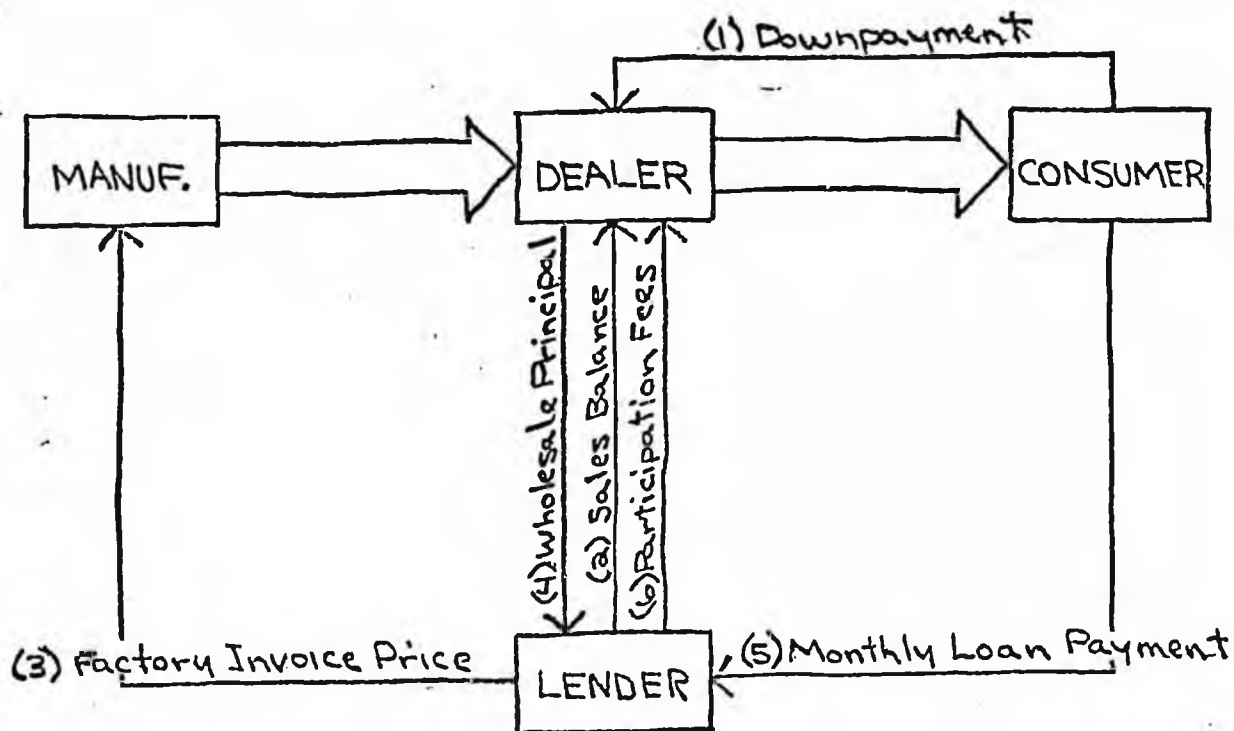
- 2 -

loans. In this way service companies play an important role as a broker between mobile home dealers and lenders. Operating over a wide geographic area, service companies are able to distribute investment capital from one locality to another. If a lender in a particular locality is unwilling or unable to absorb the mobile home paper that is generated by local dealers, the service company searches for lenders in other communities willing to purchase the loans.

Dealer financing, also called indirect financing, is by far the most common method by which funds are delivered to the consumer. Under dealer financing arrangements, which account for approximately 90 percent of all consumer financing, the dealer acts as an intermediary between the consumer and the lender. The dealer prepares the loan application and submits it to the lender for approval or disapproval, which is normally made within 24 hours. Typically, the dealer also acts as an agent for insurance companies providing mobile home insurance and consequently is often the only contact the consumer has with the mobile home industry. This fast, "one-stop shopping" arrangement is a key element in the mobile home industry's marketing strategy. It also provides financial advantages to both the lender and the dealer.

Figure 1 illustrates the operation of the private mobile home financing sector. Once the loan application is approved by the lender, a purchase agreement is signed and the consumer makes a downpayment (1) directly to the dealer. At the same time the lender advances the sales balance, or the difference between the sales price and the downpayment, (2) to the dealer. The advance is usually limited by regulating agencies to between 113 to 115 percent of the factory invoice price. Rather than appraising the retail value of the mobile home and setting maximum loan-to-value ratios, this limit on the loan size is used to insure that the retail price and the loan amount are not inflated above the actual value of the mobile home.

Figure 1:
Consumer Finance Model



Dealers usually require interim financing of their inventory of unsold mobile homes. Private lenders provide this interim financing, called floor planning, under a system where the lender pays the factory invoice price (3) to the manufacturer on delivery and retains title to the mobile home until it is purchased by a consumer. Under this arrangement, the largest portion of the sales balance advanced to the dealer is used to repay the principal on the floor planning of the mobile home by the lender (4). Once the purchase is completed, the consumer makes monthly payments of principal and interest (5) to the lender.

Lenders have traditionally protected their portfolio of mobile home loans through several types of contractual arrangements. One is a recourse agreement between dealer and lender. Under recourse financing the dealer is responsible for consumer defaults and the lender can demand that a dealer repay the unpaid principal on a defaulted loan whether or not the dealer has repossessed the mobile home. The dealer must obtain legal title to the property and recondition and resell the mobile

home to recover its expenses. While recourse agreements have been the most common protective arrangement used by lenders, many lenders are now accepting dealers, especially the more established dealers, under non-recourse arrangements that release dealers from any legal obligation for the repayment of delinquent accounts. Alternative protective arrangements are repurchase agreements where the dealer assists the lender in the repossession and resale of mobile homes, private credit risk insurance that protects the lender against default losses, and federal loan insurance under FHA and VA programs.

Because of the regulatory limits placed on the amount a lender can loan on a mobile home and the competitive limits on the downpayment a dealer is able to charge, many dealers claim that the sales price they charge does not provide a sufficient markup over the factory invoice price to cover their expenses and provide a reasonable profit. Mobile home dealers have overcome this apparent dilemma by relying on sources of revenue other than those received through the sale of mobile homes. One source is the commission received for acting as the agent for insurance companies. Another source of revenue comes from the sale of accessories. But the major source of additional revenue is the income received for participation in the financing of mobile homes. Mobile home dealers have traditionally received a participation fee (6) from lenders for their role in originating loans. This "finders fee", which far exceeds actual expenses to the dealer, takes one of two forms. Under recourse agreements, the dealer receives what is known as a dealer reserve, which amounts to approximately 5 percent of the contract value (principal and interest) for obtaining the consumer's business for the lender. This fee is placed in a reserve account to protect the lender against default losses and is paid to the dealer in increments over the term of the loan. As an alternative to the dealer reserve, the non-recourse dealer normally receives a commission equal to approximately 8 percent of the finance charge or interest on the contract. Though this commission is smaller than the dealer reserve, the entire amount is paid within 30 days. These dealer participation fees can amount to \$500 to \$1,000

and constitute an expense to the lender that results in higher interest rates to the consumer than would otherwise occur.

Evaluation of private sector performance

Any analysis of the performance of the private sector should place central performance on the welfare of the consumer. How well consumers needs are being met within the present financing system will determine if there is a need for change or for Housing Finance Agency involvement.

Unfortunately, this assessment is complicated by the fact that each consumer has a distinct set of needs. Factors that are important to some degree to most consumers are: (1) the monthly payment, (2) the downpayment requirements, and (3) the general availability of credit. The mobile home market consists of several discernable groups. These groups include elderly individuals and families with limited incomes but established credit and considerable savings or assets in a house; middle age families with moderate incomes and assets and established credit; young, newly-formed families with limited credit standing but the potential for higher incomes and increased assets; and low-income families constrained by income, a lack of savings and poor credit standing. Each of these families places different levels of importance on the factors mentioned, and adequate performance by the private sector for one type of consumer may be inadequate for another.

The monthly payment is one of the most important factors to many consumers. Monthly payments are the combined result of the principal amount, the interest rate and the term of the loan and in the case of most mobile homes should include the park rent to make comparisons with other types of housing meaningful. The mobile home industry and private financial institutions have been able to perform reasonably well regarding monthly payments on new mobile homes, which have remained below the typical payment on mortgage loans for newer conventional housing and competitive in many areas with rents on newer apartment units. To many moderate income families, the monthly payments on mobile homes provide an affordable homeownership option. Typical loan payments on a new unit range from \$100 to \$200,

and park rentals between \$50 and \$100 with the overall payment typically between \$200 and \$250. To lower income families, the monthly payments for a mobile home are still beyond their financial capabilities unless they purchase an used mobile home and are able to locate the mobile home in parks with lower space rentals. The private sector has been able to keep monthly payments within the capabilities of many families by gradually lengthening loan terms, but there still exists a segment of the population that they have not successfully served.

The interest rates that lenders charge have a tremendous impact on the monthly payments, and interest rates have been the most criticized aspect of mobile home financing. Dealer participation fees and low interest rates on wholesale "floor plan" financing create expenses that lenders must recover through finance charges on consumer financing. But while both of these expenses could be eliminated, allowing the lender to low interest rates, such an action would both decrease revenues and increase expenses to the dealer. To compensate, the dealer would need to increase the retail sales price of the mobile homes, increasing either the loan amount, the downpayment, or both and having little effect on the overall cost to the consumer. The primary reason that interest rates are high relative to mortgage loan rates is that mobile home portfolios must provide yields that are competitive with yields on other types of installment loans to continue attracting investment capital. As long as this is the case, it will be difficult for lenders to lower interest rates far below their current level, other than through the relatively minor reduction that could occur if dealer participation fees were eliminated.

The downpayment is the second factor important to many consumers, especially those with limited liquid assets such as savings. Downpayments on mobile homes generally range from 10 to 15 percent of the retail price, but since the retail price of mobile homes is low relative to most conventional houses, especially new houses, the dollar amount of the downpayment tends to be less than that on a conventional house. A typical downpayment ranges between \$1,000 and \$2,000, with no closing costs. Initial purchase costs for mobile homes are a barrier to only the

most asset-poor families.

The availability of credit is a crucial concern to certain segments of the mobile home market. At an aggregate level, funds for mobile home loans have generally been plentiful due to the high yields and the presence of service companies which shift mobile home paper from capital deficient areas to areas with a surplus of investment funds. In recent years, however, lenders who experienced relatively high default and repossession rates have tightened their credit standards for individual borrowers, making it more difficult for marginal credit risks or borrowers with limited credit records to obtain financing. Several large lenders in the state estimate that 20 to 25 percent of all mobile home loan applications are currently being disapproved by the lenders.

Overall, it should be concluded that the private financing sector has performed well and has been responsive to most consumers. In fact, many consumers probably choose mobile homes because of the attractiveness of the financing package. It seems safe to say that the high success of mobile homes in recent years is not only due to the mobile home itself but also in large part to the finance system that has provided fast, convenient credit at costs that are attractive to many consumers. This overall performance, however, should not overshadow the fact that there remains a segment of the population that has not been served by either the mobile home industry or the conventional housing industry.

MHFA impact on private sector performance

The Housing Finance Agency could reduce the monthly payments and overall costs to the consumer through a combination of lower interest rates and longer maturities, though maturities provided by private lenders go as high as 15 years and are close to the maximum maturities the Agency could provide under federal insurance programs. As a result, the Agency could not lower monthly costs substantially by lengthening loan terms, as is the case under the Home Improvement Loan Program. The Agency can, however, have an impact on the monthly cost to the consumer through the lower interest rates it could charge on loans. Given assumptions about Agency borrowing

costs and spreads that are discussed in the following section, the Agency would likely charge an interest rate in the range of 7 1/4 to 7 3/4 percent, compared with private lender interest rates in the 12 1/2 to 13 1/2 percent range. On a typical loan amount of \$12,000, the following savings occur:

Table 1:

Comparative Loan Costs on Mobile Home Loans

<u>Terms</u>	<u>Private</u>	<u>MHFA #1</u>	<u>MHFA #2</u>
Maturity	10 years	10 years	12 years
Interest Rate	12.75%	7.50%	7.50%
Monthly Cost	\$177.36	\$142.44	\$126.60
Savings	-	19.7%	28.6%
Total Cost	\$21,283	\$17,093	\$18,230
Savings	-	19.7%	14.3%

The reduced interest rate lowers the monthly and total cost approximately 20 percent, while increasing the maturity helps reduce the monthly cost approximately 30 percent. The longer maturity reduces the total cost savings, however, while the inclusion of park rental reduces the overall monthly cost savings to between 15 to 20 percent. The \$35 to \$50 monthly cost saving is sizeable, especially to lower income families.

Though monthly costs could be reduced, it appears that the Agency could have very little impact in reducing downpayment requirements. Though minimum downpayment requirements under the FHA-insurance program that the Agency would likely have to operate under are lower than the 10 to 15 percent requirement of private lenders, actual downpayments would be above the minimum and close to those under private financing because the Agency would be under the same limitations as to the amount they could loan (115 percent of factory invoice price) as private lenders.

Whether the Housing Finance Agency has an impact on the availability of credit depends to a great extent on how competitive an Agency program would be with private lending activities. As was previously stated, an estimated 20 to 25 percent of all mobile home loan applications are rejected by private lenders on the basis of income or credit history. To the extent that the Housing Finance Agency served this annual pool of approximately 1,000 families, either by relaxing credit requirements or by lowering income requirements through the reduced monthly payments, Agency activity would result in a net addition to the overall mobile home lending activity in the state. Possibly as many as half of these families could be served by the Agency.

It appears likely, however, that a large portion of the Agency's lending activity would be redundant; that is, business taken away from private lenders. Mobile home purchasers generally have incomes under \$15,000 to \$16,000. Unless the program was limited to a lower income group, the Agency would be in direct competition with private lenders across their entire market, unlike the Home Improvement Loan Program under which the Agency only competes with a segment of the private loan market.

Combination mobile home/lot loans

One component of the mobile home financing market that is receiving increasing attention is financing for the purchase of land on which to place a mobile home. Although mobile homes have traditionally been located on spaces within rental parks, many mobile homes are placed on individual parcels outside parks and a sizeable portion of the owners placing mobile homes on individual parcels own the land. Private financial institutions have not been entirely responsive in providing a financing instrument that meets the needs of these consumers, however. Possibly because of the legal problems in combining personal and real property under one loan, private lenders have not packaged mobile homes and real estate. As a result, the consumer that needs financing on both the mobile home and the land must obtain separate loans. And the land loan might have a downpayment requirement as high as 50 percent and a term as short as 5 years, making the initial purchase costs and

monthly costs, at least for the first few years, unaffordable to many low and moderate income families. Table 2 gives an approximation of the cost savings a Housing Finance Agency program might affect, for a \$16,000 mobile home loan and a \$3,000 loan on a parcel of land.

Table 2:
Comparative Loan Costs on Combination Loans

<u>Terms</u>	<u>Private</u>	<u>MHFA</u>
Maturity	15 years (home) 5 years (land)	20 years
Interest Rate	12.75% (home) 10.50% (land)	7.50%
Monthly Cost	\$199.84 (home) <u>\$ 64.47 (land)</u> \$264.31 ((\$199.84 after 5 years)	\$153.14
Savings	-	42.1% (23.4% after 5 years)
Total Cost	\$39,839	\$36,754
Savings		7.7%

The Agency could provide substantial savings through the combination of lower interest rates and significantly longer maturities. A monthly cost savings of over \$110 would bring this homeownership option within the financial reach of numerous low and moderate income families.

The Agency could also have a significant impact on the downpayment requirements for the mobile home purchaser. Overall downpayments under the private sector loan would be at least 15 percent and possibly as high as 25 percent, while downpayments under an Agency program would be between 5 and 10 percent. Little is known about the availability of credit, except that it is known that private lenders do not

package combination mobile home/lot loans.

Program Feasibility

Any evaluation of the feasibility of developing a financing program for the purchase of mobile homes or combination mobile homes and lots necessarily involves two separate but inter-related areas of concern. One is the ability of the Agency to raise funds for a program. The other is the ability of the Agency to develop an effective and cost-efficient program for delivering the funds to low and moderate income families.

The initial concern involves whether the Agency can raise program funds. While the Agency obtains program funds from two sources--bond sales and legislative appropriations--a mobile home program would need to rely primarily on the sale of tax-exempt bonds to raise funds. The funds for a mobile home loan program could be raised within home improvement or homeownership bond sales, especially if there is a low level of funding. A more likely approach, however, would be to develop a separate bonding program. Beyond the fact that new bond resolutions would probably be needed before mobile homes could be financed with the proceeds from either home improvement or homeownership bond sales, there are several other reasons why a separate bond resolution and bond sale are more appropriate. One is the unique nature of a mobile home loan program, which would allow loans with longer maturities than under the home improvement program, but shorter maturities than under the homeownership program, making it difficult to structure the bond maturities under a combined bond sale. Another reason is that the Agency would not want the bond market's response to a mobile home loan program bond issue to affect the marketability and interest costs of borrowing on bond sales for other Agency program. It appears that a program could generate sufficient volume to justify the development of a separate bonding program for a mobile home loan program, provided that an effective delivery system can be developed.

It is the opinion of several consultants that some form of loan insurance would be necessary as a security instrument to insure the sale of bonds at reasonable

interest rates. There currently exist several federal programs that would provide such security. The Federal Housing Administration of the U.S. Department of Housing and Urban Development initiated a mobile home loan insurance program in 1970, and in February, 1977, regulations became effective for a loan insurance program covering the purchase of mobile homes and lots. The Veterans Administration also operates a loan guarantee program. Table 3 presents the maximum loan amounts and maturities under these programs. These terms would provide the framework within which an Agency loan program would operate.

Table 4:
FHA and VA Loan Insurance Programs

<u>Type Purchase</u>	<u>FHA</u>		<u>VA</u>	
	<u>Maximum Loan Amount</u>	<u>Maximum Maturity</u>	<u>Maximum Loan Amount</u>	<u>Maximum Maturity</u>
Single wide	\$12,500	12 years	\$12,500	12 years
Single wide with developed lot	\$20,000	15 years	\$20,000	15 years
Double wide	\$20,000	15 years	\$20,000	20 years
Double wide with development lot	\$27,500	20 years	\$27,500	20 years
Developed lot only	\$ 7,500	10 years	\$ 7,500	12 years

The second concern of any evaluation of program feasibility involves the delivery of funds to the consumer. A mobile home loan program must be designed to provide a effective and cost-efficient delivery system. While other methods of delivery are probably available, the most apparent system would utilize mobile home dealers for the distribution of program funds. There are two advantages to this delivery system. The first is that a delivery system utilizing the dealers that are currently operating in the state would be by far the most effective system that could be developed. Because dealer or indirect financing is so prominent, consumers

have come to expect the mobile home dealer to provide all the services they need, including financing, and they don't seek financing at alternative sources such as lending institutions. As a result, a delivery system that utilized lenders or other institutions and not dealers would have to expend considerable effort informing consumers of the program through advertising and other publicity. It is much simpler and less expensive to have potential loan recipients informed of a program by the one person they are sure to contact when attempting to purchase a mobile home.

The second advantage of a system utilizing private lenders and dealers is that the Housing Finance Agency is limited in the amount of funds that it can expend to deliver loans. A Treasury Department regulation that restricts the spread between the interest rate the Agency must pay on bonds and the interest rates it charges to consumers to one and a half percent effectively limits the program expenses under any Agency loan program. With the home improvement and homeownership programs, the Agency has been able to operate within these limits because of the involvement of private lenders in the process.

The 1 1/2 percent spread in interest rates must be sufficient to cover FHA-insurance premiums, origination fees, if any, and servicing fees, and should provide a sufficient surplus to cover the costs of bond issuance and program administrative expenses. The current Agency loan programs have succeeded partly because the origination and servicing fees have been kept at reasonable levels.

The key to the success of a mobile home loan program will depend on these same factors. Servicing fees are crucial to the success of a program. The Agency must be able to find a lender or servicing company willing to service mobile home loans at a reasonable price. Considering the relatively low volume of a mobile home loan program (500 to 1,000 loans/year) and the complex nature of mobile home loan servicing and repossession procedures, the Agency would probably have to find an agent who is currently servicing and would be willing to service the Agency's loans. There are probably only a few lenders or servicing agents in the state that could perform this

service at a fee that would be acceptable to the Agency.

Equally important to the success of a program is the involvement of mobile home dealers or lenders who would be willing to originate loans for a reasonable fee. Mobile home dealers would be the ideal originators, but it is difficult to imagine dealers cooperating with the Agency, given the existing structure of the mobile home industry. When the participation fees that dealers receive from private lenders are compared with the origination fees that the dealer could reasonably expect under an Agency program, the financial disincentives to the dealer of involvement in an Agency program becomes evident.

If dealers were not willing to participate in a program, an alternative would be to operate through lenders making direct loans to consumers. One option would be to distribute funds through lenders who are currently originating mobile home loans. This approach has several problems, not the least of which is the fact that these lenders depend on dealers to generate geographically dispersed loan activity, and the disincentives for dealers to participate have already been discussed. In addition, these lenders might hesitate in cooperating given their perception of the competition that the Agency presents to their loan activity. This perception is doubly important, since these lenders are also important to the servicing aspect of a loan program. A second option would be to attempt to get private lenders who are not currently originating mobile home loans but are participating in other Agency loan programs to participate as originators or mobile home loans. This appears to be the only alternative in which the Agency might be able to develop a dispersed network of loan originators while at the same time keeping origination fees at an acceptable level. Whether lenders would be willing to participate and whether consumers can be made aware that their local lender is making low-interest mobile home loans is uncertain, but both of these factors are crucial to the success of a program.

Summary

It appears that the Agency would be able to raise funds through bond sales.

The key to whether a workable program is possible lies with two factors. The first is an agreement with an experienced mobile home loan servicer to service the Agency's loans at a reasonable fee. The second is the development of a state-wide network of dealers or lenders who are willing to originate loans for a modest origination fee. While both of these may be possible, it appears that the development of a workable program will be extremely difficult.

II. Financing the Development of Mobile Home Parks

A second loan activity area in which the Housing Finance Agency could potentially become involved is in the financing of mobile home parks. Such a loan program would include construction and permanent mortgage financing of mobile home rental parks, and might also include construction financing for mobile home condominium parks and mobile home subdivisions. Mobile home condominiums are developed much like rental parks, but offer an ownership option where the mobile home resident owns a lot and undivided interest in common areas. Mobile home subdivisions would be developed like conventional subdivisions, with the individual land parcels in fee simple ownership and public ownership of streets and public open space.

Though detailed information on market demand for mobile home park rental spaces is not available, the evidence that is available suggests that a shortage of park rental spaces exists in the state. There has been very little park development of Minnesota in the last few years, despite the fact that mobile homes continue to be purchased in sizeable numbers.

People within the mobile home industry suggest several reasons for the overall lack of development activity. In some market areas over building did occur in the past, resulting in locally high vacancy rates. But even in market areas with extremely low vacancy rates, several factors have limited park development. In many areas, especially the metropolitan area, developers find it extremely difficult to locate suitable land where they can develop a rental park due to local zoning policies, and when land is available, developers are finding it difficult to keep land and land development costs at levels that permit rents competitive with existing parks

in the local market area. These increasing costs are caused partially by inflation and partially by the gradual upgrading of park development standards by local governments. These developers don't view the availability or the cost of private financing as a key factor in the success or failure of their park development efforts.

A second area where the Agency could become involved is in the construction financing of condominium parks or mobile home subdivisions. These ownership alternatives for mobile home residents are such a new concept that very little is known about the market for such developments. Despite the advantages that these ownership arrangements seem to hold, there has been little evidence that a sizeable market demand exists. Condominium parks and mobile home subdivisions are predominantly located in southern states where their chief attraction is to retirees. Whether other subgroups of the mobile home market such as the young, newly formed family would be attracted to ownership rather than rental parks is uncertain.

In addition to the construction financing for land and land development for a condominium park or a subdivision, there may also be a need for interim financing to cover expenses that occur between the signing of a purchase agreement by a consumer and the point at which the home is ready for occupancy and permanent financing is provided. Whether interim financing for these expenses is necessary depends a great deal on the type of development. With condominium parks, no interim financing would probably be needed since no site preparation would be necessary and home installation and finishing would be fast and inexpensive. In addition, homes would probably be purchased from mobile home dealers who have financed the factory purchase and delivery of the home under their floor plan agreement with a private lender. With subdivision developments, however, site preparation and home erection and finishing are likely to be more expensive and time consuming, possibly necessitating interim financing. In addition, if the home is factory purchased and the manufacturer demands payment on delivery, the developer may need interim financing for the purchase of the homes. An alternative to interim financing would be a

consignment agreement, under which the manufacturer will accept payment 30, 60, or 90 days after delivery.

Evaluation of private sector performance

Analyzing the performance of private lending institutions with regard to the welfare of consumers is more difficult when discussing park financing rather than consumer financing of individual mobile homes. As was stated previously, combined mobile home loan payments and park rents have tended to be competitive with comparable payments on new conventional housing.

Mobile home park developers receive financing from a variety of financial institutions. Private lenders view park development loans in much the same way they view most other development loans and follow the same underwriting practices that are followed for all project loans, whether for a mobile home park or subdivision or any other commercial venture. Lenders consider the market, park design and costs in determining economic feasibility and consider the appraised value of the land and improvements and the income derived from the operation of a park when setting a loan value. Generally speaking a loan of 80 percent of appraised value would be the top loan-to-value ratio allowed by a lender. Maturities range from 10 to 20 years at a reasonable rate of interest that reflects the current investment market plus any risk factor perceived by the lender. Private lenders will also generally supply construction financing to the park developer.

Little is known about the availability of private financing for mobile home subdivisions, since these types of development are new and there has been very little development activity of this type, especially in Minnesota and other northern states. It can be expected that private lenders would be more conservative in underwriting a construction loan for such developments, given their unique nature and the uncertainty of the market for land ownership alternatives among mobile home owners. Where financing was made available, lenders could be expected to impose additional requirements on the developer to protect their investment, such as low loan-to-value ratios or a requirement that the developer pre-sell a portion

of the lots in a development.

MHFA impact on private lenders performance

The Housing Finance Agency could have an impact on the performance of private lenders by the reducing debt service requirements through the terms the Agency could offer, by providing an additional source of financing to private developers and by increasing the availability of credit. The Agency could reduce the debt service requirements on capital expenditures by offering a lower interest rate on loans and possibly by extending the loan maturity. In addition, the Agency could reduce the equity requirement for developers by offering a higher loan-to-value ratio than is offered by private developers. Table 4 shows the savings in debt service expense that could be achieved under an Agency loan program given a representative development cost of \$5,500 per park space.

Table 4:

Comparative Loan Costs for Park Developments

<u>Terms</u>	<u>Private</u>	<u>MHFA #1</u>	<u>MHFA #2</u>	<u>MHFA #3</u>
Downpayment	20 percent	20 percent	10 percent	10 percent
Maturity	20 years	20 years	20 years	40 years
Interest rate	10%	7 1/2%	7 1/2%	7 1/2%
Monthly cost (per space)	\$42.46	\$35.46	\$39.90	\$32.57
Savings	-	16.5%	6.0%	23.3%

As is shown, monthly savings through a combination of reduced interest rates and/or longer maturities reduces the monthly payments only slightly in dollar amounts. The key roles that the Agency could play would be in reducing the equity requirements for park developers and in increasing the overall availability of mortgage funds. Whether these factors are necessary and will increase park development activity is questionable, however. Given the processing requirements that the developer would have to assume under an Agency program and the limits the

Agency would set on the return on equity to the developer compared with normal returns in the private market, it is also questionable whether park developers would be attracted to an Agency loan program.

Program feasibility

In addition to the factors considered in evaluating the feasibility of a loan program for individual mobile homes, other factors must be dealt with when determining the feasibility of park financing. A important consideration is whether the Housing Finance Agency has the legal authority to finance land development without financing the dwelling unit placed on the land. The Agency's enabling legislation appears to provide the flexibility to finance a portion of a housing development, namely the land development, but a legal interpretation of the law is needed.

As with the financing of individual mobile homes, any evaluation of a mortgage loan program must be concerned with funding sources and a loan delivery system. With mobile home park financing a vehicle for delivering program funds already exists within the Agency in the apartment development program. The development review and loan underwriting process for park proposals is similar to the process the Agency utilizes for apartment development proposals, involving review of site, market, project design and engineering, developer qualifications and economic feasibility. The existing staff of underwriters and technical staff within the apartment development program would be able to perform the underwriting functions that would be able to perform the underwriting functions that would be necessary under a park development program, though some special training would probably be necessary to prepare the staff to handle the unique aspects of park development underwriting.

Despite the fact that the apartment program has the type of staff necessary for underwriting park development proposals, there are several issues with which the Agency must be concerned. Any park development program would place an additional workload on the apartment staff. The staff time and expense necessary

Underwrite a mobile home park proposal could not be expected to be significantly more than the effort expended in underwriting apartment developments, since the requirements are identical. At the same time, the low average number of spaces per park proposal and low development costs per space relative to apartment proposals would be compounded to produce low mortgages. A typical apartment development financed by the Agency has 100 apartments and a mortgage amount of approximately \$2,500,000, while a typical park development could be expected to have 50 spaces and require a mortgage of only \$250,000. As a result, fee income from underwriting and construction administration would be minimal and the program would be expected to operate at a loss unless fee income for park proposals were increased to a larger percentage of the mortgage amount. Since annual fees that support Agency management functions are also based on a percentage of the mortgage amount, this Agency activity would also probably operate at a loss and need to be subsidized by other Agency activities.

An even more crucial concern with mobile home park financing involves the ability of the Agency to raise funds. It is difficult to determine how park developers would respond to an Agency program. But given the overall park development activity in the state, demand for construction and/or permanent financing would be expected to be low in terms of proposals, total number of spaces, and total mortgage amounts requested compared with apartment development activity.

The expected low volume of activity under a park development program would make the structuring of a feasible bond issue extremely difficult. The Agency would need to attract a third of the estimated development activity in the State to generate \$5,000,000 in loans annually, and the ability of the Agency to attract that amount of business is uncertain. In addition, even a bond issue of \$5,000,000 would prove to be too small to generate enough revenue to cover the costs of servicing the bond. One possible solution to this problem would be to finance park

developments under the Housing Development Bonds used by the Apartment Development Program. In addition to the fact that a new bond resolution would probably need to be adopted, there is another key factor that makes such an action questionable. Since the Apartment Development Program are uninsured, the marketability of bonds to finance these developments is tied to the ability of the Agency to persuade the bond market as to the quality and financial soundness of the individual multi-family developments. The Agency should give serious consideration to the possible effect that inclusion of park developments with apartment developments would have on the ability of the Agency to sell market bonds and how such inclusion would effect bond interest rates, which impact on the economic feasibility of apartment developments. A park mortgage insurance program is available through the Federal Housing Administration but whether this program would provide the security that the bond market needs is uncertain.

An alternative to including a park development program under the apartment development bond resolution would be to adopt a separate bond issue and to pool park development proposals until a sufficient volume to justify a bond sale was accumulated. Such a system would probably reduce the demand for a program further, however by lengthening the loan approval process for developers, and the time frame over which proposals were assembled might proved to be excessive. Until the Agency can be assured of a reasonable level of program activity, this alternative seems unfeasible.

Summary

It appears that a park development program would be unfeasible, given the estimated activity that would be generated. Despite the fact that staff resources are available to deliver the funds, the expected size of the park proposals and the low per space development costs and loan amounts for park developments would make it extremely difficult for the Agency to develop a program that could generate a surplus of revenue over cost through fee income and interest income to cover the expenses of a program. While the Apartment Development Program has had to subsidize

the underwriting expenses of smaller apartment developments, this has been compensated by the fee income generated by larger developments. With a park development program, almost all of the proposals would prove to be unprofitable to the Agency from a revenue/expenditure standpoint. Finally, the Agency does not want to merge a park development program into the Apartment Development Program if there is any chance such an action would jeopardize that program's funding sources.

III. Financing the Rehabilitation of Individual Mobile Homes and Mobile Home Parks

Two program activities in which the Agency could become involved are loan and grant programs for mobile homes rehabilitation and rehabilitation financing for mobile home parks. Because of the unique nature of the rehabilitation performed and the difference in delivery systems that are needed, these two activities, if carried out, would need to be developed as separate programs.

More so than with other activities that have been discussed, the appropriateness of home improvement loans and grants to mobile home owners needs to be determined. Due to the relatively short life of mobile homes, especially older units, it is difficult to justify rehabilitation expenditures on an economic basis. Due to the high levels of mobile home production in the late sixties and early seventies, approximately 9 out of 10 mobile homes in the state are less than 15 years old. Given this fact, the demand for rehabilitation loans by mobile home owners would be minimal, especially if eligibility criteria remained the same for mobile homes as for conventional housing. It seems obvious that an activity of this type would need to be incorporated into the existing home improvement loan and grant programs.

There are no private lenders to our knowledge that will make home improvement loans on mobile homes. There is one known lending activity involving mobile homes, under which Northern States Power is providing funds to mobile home owners to upgrade the energy efficiency of their units by retrofitting the units with additional insulation.

Demand for rehabilitation loans for mobile home parks is also minimal. Many parks built in the fifties and sixties were built to lower standards than are

currently in effect. However, though many parks need upgrading, the financial incentive for park operators to make improvements is not present. Unless state or local governments instituted mandatory upgrading to parks there can be little expectation of much demand for loans. Because of this, any activity would need to be incorporated into a park development program and would entail the same feasibility concerns as that program.

Program feasibility

Beyond the question as to whether the Agency should make home improvement loans and grants to mobile home owners is the question as to whether such a program, if attempted, would be feasible. If allowed, such an activity would not generate enough volume to justify a separate program, and would need to be incorporated into the existing Home Improvement Program. There would be no difficulties with a delivery system, since such a system is already in operation. The only requirement would be to amend the Agency's rules and regulations and inform participating lenders or grant administration centers of the program changes. Because of the uniqueness of mobile homes, special regulations spelling out the eligible improvements might also be necessary.

The key to feasibility of a loan program centers around whether the Agency would be willing to adopt a new home improvement bond resolution allowing loans on mobile homes. Despite the small fraction of bond proceeds that would go for improvements to mobile homes, such language could have an effect on the marketability of home improvement bonds or on the Agency's cost of borrowing for the Home Improvement Loan Program.

IV. Financing the Development of Rental Housing Utilizing Mobile Homes

The final area where the Housing Finance Agency could potentially become involved deals with an innovative use of mobile homes as rental housing. Such rental housing developments would assemble mobile homes, either detached or attached for use as rental housing, with the Agency or some other financial institution

providing construction and/or permanent financing. Rental housing of this type would be eligible for assistance payments under the Section 8 Program.

No attempt is made to evaluate the feasibility of such developments. Success of a new concept of this nature would depend eventually on the market acceptance of mobile homes on one hand and the technical and financial feasibility of a development on the other. The concept is mentioned because, with 15-20 year mortgages rather than 40 year mortgages, such housing may provide the Agency with more flexibility in the provision of rental housing in communities with uncertain long-term demand. Before any programs were developed, a demonstration project designed to test the market response and feasibility from both a technical and financial stand point would be appropriate.

Program feasibility

Beyond the technical and financial feasibility of such developments and the acceptance of mobile homes by the rental market is the question of program feasibility. A mobile home rental housing program could be expected to face the same problems as a park development program. Mobile home rental housing developments would be developed in much the same manner as conventional apartment developments and underwritten by the Apartment Development Program staff. However, such developments, like park developments, would result in low mortgage amounts and generate little fee income which requiring nearly as much staff time as an apartment proposal, though design review requirements might be reduced somewhat. Though per unit development costs would be higher than for park spaces, approximately \$15,000, a typical development would be expected to have only 10-20 units, resulting in an development mortgage of only \$150,000 to \$300,000. Like a park program, a rental program would be expected to operate at a loss unless fee income was increased to a larger percentage of the mortgage amount. The development team fees would also be expected to be too low to attract experienced developers and lessen the chances for an acceptable proposal to be put together.

The low volume of activity under a program would, like a park financing program, make the structuring of a bond issue difficult. As many as 350 units would need to be financed to generate a mortgage volume of \$5,000,000, which may even prove to be too small. Financing developments under the Housing Development Bonds might require the adoption of a new resolution, though this should be determined by legal counsel. Again, the Agency should seriously consider the consequences such a use of bond proceeds would have on the overall marketability of a particular bond issue.

V. Overall Summary

Preliminary evaluation of each of the potential program activities reveals special problems that would make the success of a individual loan program questionable. Under a program for financing the purchase of individual homes, it appears that there would be problems in developing a network of dealers or lenders to deliver funds to low-and-moderate income families.

On the other hand, the low expected loan volume for the other potential programs might require that they be funded with proceeds from existing bond issues. Whether such an alternative should be pursued given the possible effects of the marketability of those bonds for other Agency activities must be decided. Further information on the feasibility of these programs is being collected, but the available data suggests that any mobile home lending activity by the Agency would face difficult obstacles.

P.O. Box 1020, Anchorage, Alaska 99510

TO: J. M. Linton
Executive Director

DATE: April 3, 1979

FROM: James P. Kennedy JPK
Rural Program Coordinator

Re: FIRE AND EXTENDED COVERAGE AVAILABILITY IN REMOTE AREAS

Corron & Black/Dawson & Co. is providing fire protection under the "Remote Rural Housing Program" at very reasonable rates. The houses must be within 1/2 mile of another residence and have two hand-held fire extinguishers.

Premium rates in rural areas of Southeast Alaska will be approximately 25% lower than those listed below.

In addition there is a small one-time surcharge or brokerage fee of no more than \$125.00.

Comparison

Using a \$75,000 value, exclusive of land value, the following annual premiums apply:

	Anchorage		Nome		Bethel		Unprotected	
	Monthly	Annual	Monthly	Annual	Monthly	Annual	Monthly	Annual
FIRE	\$ 23.83	\$ 286.00	\$42.25	\$507.00	\$55.92	\$671.00	\$66.67	\$800.00
TAXES	123.33	1,480.00	N/A	N/A	N/A	N/A	N/A	N/A
TOTAL	\$147.16	\$1,766.00	\$42.25	\$507.00	\$55.92	\$671.00	\$66.67	\$800.00
		3.21		6.76		8.95		10.67

Based on these figures the monthly cost for coverage in an "unprotected" rural area will be approximately 45% of the cost to a homeowner in Anchorage.

JPK/djd

Form No. 01-001

STATE OF ALASKA
OFFICE OF THE GOVERNOR

TO:

DEPT: Sen. Sackett

ATTN: Sen. Sackett

-
- Return letter with draft
 - Return letter with comment
 - Reply direct
 - Action
 - Your information
-

REMARKS:

FROM: JH

Date: 4/10



AHFC

STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

April 10, 1979

Mr. Robert W. Sullivan
P.O. Box 10-512
Anchorage, Alaska 99511

Dear Mr. Sullivan:

I am pleased to inform you of your appointment to the Alaska Housing Finance Corporation with a term ending April 30, 1982. I appreciate your willingness to serve your state.

You are now accepting important responsibilities on behalf of Alaska. Alaska will be a better place in which to live because of the willingness of citizens such as yourself to devote time and talent in service to our state.

In order to complete your appointment, it will be necessary to fill out the enclosed forms, each of which should be notarized and then returned to me as soon as possible. A formal certificate of appointment will be sent to you upon my receipt of these forms.

Finally, it is my strong belief that serving on any of Alaska's boards and commissions is both a privilege and a responsibility. Therefore, I expect each appointee to attend at least 75 percent of the meetings. Should circumstances arise preventing that, I ask you to request replacement so the board will be able to continue to function efficiently.

Again, I am pleased to be able to appoint you and thank you for your willingness to serve your state.

Sincerely,

A large, stylized handwritten signature in black ink, appearing to read "Jay S. Hammond".

Jay S. Hammond
Governor

Enclosures

April 6, 1979

Mr. William Dann, Executive Director
Norton Sound Health Corporation
P. O. Box 966
Nome, AK 99762

Dear Bill:

I am responding to your letter to Mr. Perry Eaton of Alaska Housing Finance Corporation in which you suggest that Alaska National Bank is unwilling to finance rural housing loans.

After checking with our Nome Manager, Mr. Jim McMillian, and our Mortgage headquarters in Anchorage, our position is as follows. We believe rural housing includes the City of Nome and are now processing a number of AHFC loans. ANB has been active in the real estate market as evidenced by our loan portfolio. However, any real estate credit extended is when a secondary market is available. At the present time the only outlet we have for residential dwellings is Alaska Housing Finance Corporation. As you know, we do not set the requirements of AHFC loans. If the borrower or the property does not qualify under the guidelines of AHFC, then we are unable to extend the credit.

There is a hesitation on the part of the Bank to enter into interim construction financing in rural areas. A couple of the more apparent problems we face are lack of control over construction (inspections in out of town areas), and having to advance for materials on sight due to supplies arriving all at one time on the barge. We will not commit to construction financing without a permanent takeout.

In summary, I would take exception to your comments and ask for clarification with examples. I feel confident we could show you or any of the other recipients of your letter that we indeed have taken an active part in financing rural housing. I think it would be beneficial to provide you with some facts and figures on the number of loans we have financed through Alaska Housing Finance Corporation in the rural areas of Nome, Kotzebue and Barrow. Simply extracting the figures from our balance sheet would also be clear evidence of our participation in rural real estate financing.

Mr. William Dann
April 6, 1979
Page 2

I have asked Jim McMillian to contact you personally and discuss this in greater detail with you.

Sincerely,

Frank H. Murkowski
President

FHM:js

cc: Sen. John Sackett
Sen. Frank Ferguson
Rep. Jack Fuller
Rep. Leo Schaeffer, Jr.
Rep. Russ Meakins
Frank Johnson, BSRHS
Jim McMillian, ANB

Put in Bill File 3/16/79
AIFC - Discussion with Jack Lipton
Talk to Roddy & Jim Kelly
Filed 3/19/79

Mr Linton stated that AIFC does not currently finance mobile homes. He referred me to a study which outlines the reasons why AIFC recommends that it not finance mobile homes.

1. Fed. Standards only - no inspection system
2. Poor energy conservation
3. Higher site payard (in Anchorage 3.7 times higher in 1978)
4. Not as durable - mobile homes depreciate while site built and manufactured homes appreciate
5. Acceptance by the bond market is questionable
6. A mobile home is generally considered personal property not real property.
7. Readily available (fast) credit from dealers, banks and from VA and FHA.
8. Transitional Housing

Funding Information	
General Fund	\$1,000,000
Other Funds	-0-
	<u>\$1,000,000</u>

no

Introduced: 2/13/79
 Referred: Community & Regional
 Affairs and Finance

IN THE SENATE

BY RODEY, KELLY AND FAHRENKAMP

SENATE BILL NO. 205

IN THE LEGISLATURE OF THE STATE OF ALASKA

ELEVENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act making a special appropriation to the Alaska Housing Finance Corporation; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. The sum of \$1,000,000 is appropriated from the general fund to the mortgage insurance fund of the Alaska Housing Finance Corporation (AS 18.56), to be paid to the mortgage insurance fund in the amounts requested by the corporation as necessary in connection with the issuance of insured mortgage program bonds of the corporation only if the bonds are issued for the mortgage financing of mobile homes.

* Sec. 2. The unexpended and unobligated portion of the appropriation made in sec. 1 of this Act lapses into the general fund June 30, 1980.

* Sec. 3. This Act takes effect immediately in accordance with AS 01.10.-070(c).

Are there any regulations on mobile homes?

from also used mobile homes restriction on trailers when own doesn't own the land.

Janet -- see the reverse side. 3/15/79.

Call AHFC:

Do they plan to finance used mobile homes as well as new?

Will they be financing mobile homes in "parks" where the land doesn't belong to the owner of the mobile home.

Do they have any regulations covering this. If so -- tell them to send us a copy.

Write me a short memo on this.

A

SUMMARY OF FINDINGS

MANUFACTURED HOMES

ALASKA HOUSING FINANCE CORPORATION

MARCH, 1979

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A. Introduction

This report was prepared at the request of the Alaska Legislature, discussing the potential for AHFC loans on mobile homes.

In response to this request, AHFC focused its attention on manufactured housing delivery systems which make significant use of factory production and minimize construction activity at the final site. It is important that the terms "manufactured home" be understood. Although the mobile home industry has used the term manufactured home as a synonym for mobile home, the term has a broader meaning. Any home produced in a factory that utilizes enclosed components or building systems not readily inspected at the site is classified as a manufactured home. Under this definition, modular homes, certain panelized homes, and mobile homes would all be considered manufactured homes.

Manufactured homes other than mobile homes are subject to the same construction standards as site built homes. Mobile homes, on the other hand, are exempt from state or local construction standards and subject instead to federal standards which apply exclusively to mobile homes. The federal standards define a mobile home as "... a structure, transportable in one or more sections, which is eight body feet or more in width and is thirty-two body feet or more in length, and which is built on a permanent chassis, and is designed to be used as a dwelling with or without a permanent foundation, when connected to the required utilities."

Panelized home manufacturers produce roof, floor, and wall panels in a factory and deliver the panels to a building site for final assembly on a permanent foundation. Modular home manufacturers produce the roof, floor, and wall panels and assemble them into three dimensional modules before transportation to a site. The crucial distinction is that mobile homes are designed for use without a permanent foundation and, under federal law, are exempt from state and local construction standards.

Despite the controversial nature of mobile homes, very little substantive research has been done that would help resolve concerns over the quality, safety, and long term cost of this particular alternative housing delivery system. This report includes information developed by AHFC and incorporates information produced in a two-year study by the Minnesota Housing Finance Agency.

B. Research Findings

AHFC currently provides for financing of two of the three forms of manufactured housing. Research showed no significant differences in the construction quality or safety of site-built, modular, and

panelized homes. Major emphasis was placed on an analysis of the construction quality, safety, and long term cost of mobile homes, and on the feasibility of AHFC loan programs for mobile homes.

Information is not available on the number, age, condition and regional distribution of mobile homes in Alaska. An estimated 60% of the mobile homes were produced after 1972, when the State first adopted mobile home standards. These homes should comply with the State standards or the federal standards that preempted the State standards in 1976. Prior to 1972, compliance with industry standards occurred strictly on a voluntary basis. (Approximately 7,745 mobile homes have come into the State since 1972)

There is no accurate inventory on the condition or the degree of compliance with applicable standards. One study conducted by the National Bureau of Standards suggested that a significant number of mobile homes have construction-related problems which affect the performance of the home and the health and safety of the occupants. The problems ranged from life-threatening fire hazards to less serious but major problems related to water leakage and inadequate fastening of materials. There is widespread concern over the poor performance of mobile homes in the energy conservation area.

Though predominantly owner occupied, mobile homes appear to serve as an alternative to both ownership of conventional homes and rental of a home or apartment. As a form of transitional housing, mobile homes replace a portion of the demand for rental housing. The estimated higher concentration of mobile homes in non-metropolitan areas may in part be due to the shortage of rental housing in those areas.

Mobile home purchasers have not had access to real-estate mortgage funds. This is true in all states for a number of reasons. As discussed in this and earlier reports, the mobile home, by definition, generally cannot be considered as real property. In addition, over the years a mutually beneficial relationship between manufacturers, dealers, and lenders has developed. Thus mobile homes are predominantly financed like a car, with installment loans. This marketing arrangement provides high profit for the manufacturer, the dealer, and because of higher interest, the lender.

The arrangement has been accepted by the consumer because it has provided readily available and fast credit. Despite the existence of federal loan insurance and guarantees on mobile homes that provide for lower interest rates and longer terms, these types of loans have not been accepted by the consumer, the lenders, or the dealers.

1). Housing Standards

Structures meeting the federal definition of a mobile home are regulated under federal rather than state standards. These standards are applied at the point of manufacture. There

is no enforcement system or inspection system by state officials or local inspection of the installation of the home. There is no state warranty law to provide additional protection to consumers that the mobile homes they purchase comply with applicable construction standards.

Installation of mobile homes on a support system that is properly designed for local soil and climatic conditions is crucial to the proper performance of a mobile home. Lacking jurisdiction to establish installation standards, HUD has encouraged states to undertake that responsibility. Alaska has not adopted standards governing the installation of mobile homes.

In the energy conservation area, the performance of mobile homes is lower than the performance of modular, panelized, or site-built homes. HUD standards allow for less insulation.

It could not be determined that fire safety standards for mobile homes are less stringent. However, because of the widespread practice by mobile home manufacturers of using plywood paneling as an interior finish material rather than the costlier drywall, the interior of mobile homes continue to be more flammable than those of other homes. This higher hazard is reflected by insurance premiums that are more than three times as costly for mobile homes. Statistical data is not readily available, however. Based on information gathered in Anchorage during 1978, a mobile home was 3.7 times more likely to have a serious fire than other 1-2 family homes.

Beyond the energy and life-safety issues, there are concerns with the durability of mobile homes. While other forms of housing, both site-built and manufactured have experienced fairly strong appreciation in value, mobile homes continue to experience rapid depreciation in value. Because of the greater depreciation the long term costs of mobile homes tend to cancel out the benefits of lower short-term monthly costs.

2. Program Feasibility

In addition to evaluating the need and desirability of establishing AHFC programs for mobile homes we also focused on questions of technical feasibility.

Findings on the quality, safety, and costs raise serious questions about the desirability of an AHFC program for the purchase of mobile homes.

In terms of the technical feasibility of such a purchase program, there are more unresolved questions than answers. Marketability of bonds to fund such a program would depend on the security of FHA Title I insurance, VA guarantee, or a State-appropriated insurance reserve. As indicated earlier, FHA and VA programs have not been well received in Alaska or other states. Since financing is available in the private

sector, the use of State funds for this purpose is questionable. The ultimate acceptance by the bond market is also questionable. There are also serious concerns over the ability of AHFC to establish a private sector delivery system and to attract an experienced mobile home servicer willing to originate and service the loans.

C. Conclusion

1.) AHFC should continue its current policy of providing financing of 1-2 family residential homes, whether site-built or manufactured.

2). The State should examine current statutes and regulations relating to mobile homes and make necessary revisions to insure that purchasers of mobile homes receive consumer protection and tax treatment equal to that afforded other homeowners.

3). The State should develop the capacity to monitor the National Mobile Home Construction Standards to insure that they provide adequate protection to consumers and to make recommendations for revisions. The State should take full advantage of provisions within the National Mobile Home Construction and Safety Standards for State participation in the inspection system and in the overall monitoring of the enforcement system.

4). The State should develop mobile home installation standards and insure that they provide adequate protection to consumers.

5). The State should develop mobile home park standards to insure they provide adequate protection to consumers. A system to insure the parks remain in full compliance is also needed.

6). The State should develop a warranty law providing additional protection to consumers that the mobile homes they purchase comply with applicable construction standards and are properly installed on a support system with adequate anchoring systems.

7). The State should insure that statutes and regulations maintain the legal distinction between mobile homes and other forms of site-built and manufactured homes as long as mobile homes are constructed and installed under distinct standards and enforcement systems.

8). AHFC should not become involved in a program to provide financing for the purchase of mobile homes.

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Costs of Owning a Mobile Home. St. Paul, Minnisota: Agricultural Extension Service, University of Minnesota, 1976.

Modular Housing: Statistics and Specifics: Annandale, VA.: Modco Press, 1972.

Title 24, Code of Federal Regulations, Part 280- Mobile Home Construction and Safety Standards. Washington D.C.: General Services Administration, 1977.

MEMORANDUM

TO: Senator John Sackett
Chairman
Senate Finance Committee

FROM: Garrey M. Peska 
Administrative Assistant

DATE: April 18, 1979

RE: LOAN FUND BILLS

SB 147

1. Allows the interest rates for the loans to "float" at within 1/4% of the current yield on Federal National Mortgage Association (F.N.M.A.) conventional home mortgages.
2. Changes provisions of the laws that said the Department of Revenue shall buy all loans offered to may buy all loans offered.

SB 165

Appropriates \$5,000,000 to AHFC's mortgage insurance fund.

SB 205

Appropriates \$1,000,000 to AHFC's insurance fund for mobile home financing.

GENERAL GOVERNMENT (Continued)

SB 554

Title: Costs of New Capital Const.

Sponsor: State Affairs

Status:

Proj. Amts: \$966,000,000

(million)

Capital Facilities	604.1
Water, Sewer & Heat Plant	21.9
School Const.	260.7
University const.	9.2
Highway const.	65.1
Airport Const.	5.0
(Bond Comm. expenses=\$1.5 million)	

HB 965

Title: Costs of New Capital Const.

Sponsor: State Affairs

Status:

Proj. Amts: \$966,000,000

designated amounts are the same
as SB 554 above --

SB 519

Title: Costs of New Capital Const.

Sponsor: Rules at Governor's request

Status:

Proj. Amts: \$966,000,000

Designated amounts are same as SB 554
and HB 965

CSSB 554

Title: Costs of New Capital Const.

Sponsor: State Affairs

Status:

Proj. Amts: \$296,700,000*

(million)

Capital Facilities	\$165.2
Water, Sewer & Heat Plant	21.9
School Construction	66.3
University construction	9.2
Highway Construction	65.1
Airport Construction	5.0
(Bond Committee Expenses	1.5)

*The amounts listed in the bill add
up to \$332,700,000, not \$296,700,000)

CSSB 519 (Rules)

Title: New Capital City const.

Sponsor: Rules

Proj. Amts. - No projects amounts -
Bill relates to planning and
development of new capital -
no appropriations.

MOBILE, MODULAR, AND PANELIZED HOUSING:
PRELIMINARY RESEARCH FINDINGS

MINNESOTA HOUSING FINANCE AGENCY

November 1976

4

OUTLINE

- I. INTRODUCTION
- II. NATIONAL ROLE OF MANUFACTURED HOUSING
- III. PRODUCTION AND MARKETING SYSTEMS
- IV. FOCUS ON MINNESOTA
- V. DEMOGRAPHIC PROFILE ON MANUFACTURED HOUSING RESIDENTS
- VI. PUBLIC RESPONSE TO MANUFACTURED HOUSING--FEDERAL AND STATE
- VII. LOCAL REGULATORY FUNCTIONS.
- VIII. FINANCING OF MOBILE HOMES
- IX. FURTHER RESEARCH ACTIVITIES

MANUFACTURED HOUSING ISSUES

I. INTRODUCTION

The Minnesota State Legislature, in its appropriation to the Minnesota Housing Finance Agency, requested that the Agency examine its role in the development of alternative housing delivery systems. While the emphasis was on mobile homes, the Agency was to investigate other alternatives to the traditional home building system as well. Specifically, the State Legislature requested that the Agency "...research the potential for utilization of resources provided in Minnesota Statutes, Chapter 462A, for the development, purchase or rehabilitation of mobile homes and other alternative delivery systems".

The request reflects an interest by the Legislature in these housing delivery systems and the impact that they are having on housing markets, on the production of new housing, and on housing costs. It also reflects the realization that there does not exist sufficient information on which to base policy decisions.

This report is intended to present the initial research findings and to provide a framework for further research. It represents the first of three major stages of this research project. The first stage involves a description of the housing delivery systems and their impact on the housing market. The second stage will examine these forms of housing in terms of their suitability as housing options for low and moderate income households. The final stage will evaluate the desirability and feasibility of specific governmental responses to manufactured housing.

This report focuses on the delivery of manufactured housing systems which minimizes the need for on-site labor in construction. The three production systems which will be examined in this report all attempt to minimize the use of on-site labor by pre-assembling housing components to some degree. They are combined under the classification of manufactured or industrialized housing because each uses industrial production systems.

The three manufactured housing delivery systems include:

1. Panelized housing, in which manufacturers fabricate and assemble components into panels of varying degrees of completion in a factory and then deliver the panels to a building site for final assembly;
2. Modular housing, in which manufacturers fabricate and assemble components into factory-completed, three-dimensional, volumetric modules requiring minimal finishing work after delivery to the building site.
3. Mobile homes, in which manufacturers fabricate and assemble components into factory-completed, three-dimensional, volumetric units on permanent chassis and not designed for placement on a permanent foundation.

A number of terms specific to the manufactured housing industry are used in this report. They are usually defined in the context in which they appear, but their definitions will also appear in a glossary section of the final report.

II. NATIONAL ROLE OF MANUFACTURED HOUSING

Manufactured housing delivery systems have played a much larger role in the production of new housing in recent years than many people realize. While completely reliable estimates of manufactured housing production are not available, the existing information provides a generally adequate picture. The tables that follow were developed from data supplied by the federal government, industry associations, and industry consultants. They show the increasing role of manufactured housing over the past twenty years, both in terms of overall housing production and in the production of single family housing. Approximately thirty to thirty-five percent of all housing production in the first half of the seventies was produced using manufactured housing processes. Manufactured housing systems accounted for

nearly half of all single family housing production.

Table 1
Estimated Manufactured Housing Production
In the United States: 1955-1974

<u>Year</u>	<u>Total Housing Production</u>	<u>Manufactured Housing Production</u>			
		<u>Total</u>	<u>Mobile Homes</u>	<u>Panelized</u>	<u>Non-Mobile Modular</u>
1955-1959	7,733,000	880,000- 1,101,000	462,000- 578,000	418,000- 523,000	
1960-1964	8,038,000	1,227,000- 1,534,000	523,000- 654,000	702,000 877,000	2,000- 3,000
1965-1969	8,477,000	2,097,000- 2,621,000	1,124,000- 1,405,000	950,000- 1,166,000	40,000- 50,000
1970-1974	11,739,000	3,304,000- 4,130,000	1,896,000- 2,370,000	1,204,000- 1,505,000	204,000- 255,000
(Percent)					
1955-1959	100.0	11.4-14.2	6.0- 7.5	5.4- 6.7	-
1960-1964	100.0	15.2-19.1	6.5- 8.2	8.7-10.9	0.5
1965-1969	100.0	24.7-30.9	13.2-16.6	11.0-13.7	0.5-0.6
1970-1974	100.0	28.2-35.2	16.2-20.2	10.3-12.8	1.7-2.2

Source: Mobile Home Production: Manufactured Housing Institute.
Conventional Production: U.S. Department of Commerce.
Panelized and Modular Production: Modular Housing 1972 by
J.A. Reidelbach, Jr.

These tables should be interpreted with caution since the information available on the production of non-mobile manufactured housing is less reliable than that on mobile home production. The estimates are based on surveys conducted by J. A. Reidelbach, an industry consultant, and are further revised by the MHFA research staff. The tables do, however, allow for general conclusions about the role of manufactured housing. They show that these housing delivery systems have grown rapidly over the last two decades and presently account for a sizeable share of new

Table 2
Estimated Single Family Manufactured Housing Production
In the United States: 1955-1974¹

<u>Year</u>	<u>Single Family Housing Production</u>	<u>Single Family Manufactured Housing Production</u>			
		<u>Total</u>	<u>Mobile Homes</u>	<u>Non-Mobile</u>	
				<u>Panelized</u>	<u>Modular</u>
1955-1959	5,839,000	817,000- 1,023,000	462,000- 578,000	355,000- 445,000	-
1960-1964	5,512,000	1,122,000- 1,402,000	523,000- 654,000	597,000- 745,000	2,000- 3,000
1965-1969	5,706,000	1,951,000- 2,439,000	1,124,000- 1,405,000	793,000- 991,000	34,000- 43,000
1970-1974	7,671,000	3,092,000- 3,866,000	1,896,000- 2,370,000	1,023,000- 1,279,000	173,000- 217,000
(Percent)					
1955-1959	100.0	14.0-17.5	7.9- 9.9	6.1- 7.6	-
1960-1964	100.0	20.3-25.4	9.5-11.9	10.8-13.5	0.5
1965-1969	100.0	34.2-42.8	19.7-24.6	13.9-17.4	0.6-0.8
1970-1974	100.0	40.3-50.4	24.7-30.9	13.3-16.7	2.3-2.8

¹ An estimated eighty-five percent of all panelized and modular production is single family housing and one hundred percent of all mobile homes are single family housing.

housing production in the United States with mobile home manufacturers producing the largest share. Table 2 shows that in recent years, approximately a third of all new single family production has taken the form of completely factory assembled mobile or modular housing.

No attempt has been made to forecast what proportion of total and single family housing production will come from manufactured housing delivery systems in the future. The degree to which these systems increase their market share depends on many uncertain factors, not the least of which is the degree of consumer and institutional acceptance. It is reasonable to assume, however, that these systems will at least maintain, if not increase, their current market share.

Within the mobile home industry, the five year totals obscure recent fluctuations in the production of mobile homes and their share of the total and single family market. Mobile home production declined to a greater extent than conventional single family housing production during the recent economic slump and, as a result, its portion of the market has declined. Table 3 shows these trends. While total production of single family homes including mobile homes decreased 35 percent between 1973 and 1975, mobile home production fell 62 percent from 567,000 in 1973 to 216,000 in 1975.

Table 3
Single Family Housing Production: 1970-1976

<u>Year</u>	<u>Total Production</u>	<u>Mobile Home Production</u>	<u>Mobile Home Percent Share</u>
1970	1,216,000	401,000	33.0
1971	1,649,000	497,000	30.1
1972	1,887,000	576,000	30.5
1973	1,700,000	567,000	33.4
1974	1,217,000	329,000	27.0
1975	1,109,000	216,000	19.5
(est.) 1976	1,295,000 ¹	252,000 ¹	19.5

¹Seasonally adjusted annual rate for September, 1976.

Industry representatives feel that although retail sales did drop substantially when the economy faltered in mid-1974, the production and shipments data exaggerates this decline. Apparently the industry produced a substantial inventory of mobile homes during the early seventies and the current decline in production is caused by a combination of reduced retail sales and reduced factory orders from dealers that are attempting to reduce their inventory. While production in 1976 has increased along with production of conventional single family housing, the industry's share of the single family market has remained the same as in 1975, approximately 20 percent. Whether the industry regains its previous 30 to 35 percent share of the single family production remains to be seen.

There are no current production estimates available for modular or panelized housing. The modular industry was small until the late sixties when it experienced rapid growth paralleling the U.S. Department of Housing and Urban Development's Operation Breakthrough program. Production estimates for 1969, 1970, and 1971 based on industry surveys showed 28,000, 58,000 and 76,000 units produced in respective years. It is believed by leading industry sources that production has declined since the peak production year of 1971, although no similar surveys have been conducted since that year. The industry consultant who conducted the surveys and provided production estimates for those three years estimates that approximately 30,000 modular units were produced in 1975. It should be stressed that while a portion of this decline can be attributed to the economic situation and the overall decline in housing production, part of the decline was also due to problems existing within the modular housing segment of the manufactured housing industry.

The difficulty with estimating modular housing production also exists in determining production levels for panelized housing. The most current numbers available are for the year 1972. These data combined with data available for previous years show that panelized production has maintained a reasonably constant share of new single family housing production. It is a reasonable assumption that panelized

housing production has maintained its market share since 1972, affected by the same economic conditions that affected the traditional home building industry.

III. PRODUCTION AND MARKETING SYSTEMS

This section will describe the process that each of the three segments of the manufactured housing industry uses to produce and market its product.

The panelized house is the first manufactured housing system described. The panelized housing manufacturer prefabricates components into panels of varying degrees of completion in a factory and delivers the panels as a package to the building site for final assembly. These manufacturers claim several advantages as a result of this factory construction. These include improved product quality resulting from the precision of factory techniques and the presence of quality control programs, a competitive price compared with stick built homes, and speed of completion once the house is purchased. There are two types of panelized construction--open-panel and closed-panel.

In open panel construction, the roof, wall, and floor panels or sections are unfinished on one or both sides to allow for inspection of the structural members and/or mechanical systems at the building site. Often the mechanical systems are installed on-site, but where they are factory installed, the open-panel construction facilitates on-site inspection. Exterior walls generally have siding applied in the factory. The use of factory-produced components reduces the amount of on-site labor and the total time needed to complete a structure on-site. An open-panel house package can be erected on a pre-finished foundation in one to two weeks.

Closed panel construction completes the panels to a much greater degree with wall and roof panels normally finished on both the exterior and interior sides. The mechanical systems and insulation are installed in the factory as the panels move down an assembly line. The size of the panels ranges from short lengths to the entire length of the house. Panelized manufacturers frequently use mechanical

cores containing kitchen and bathroom mechanical systems, either producing the cores themselves or purchasing them from component manufacturers. Because of the weight of the components, a truck-mounted crane is frequently used to unload and position panels at the site. An erection crew of about five can generally erect a closed-panel home package in several days.

The building technology employed by panelized housing manufacturers differs little from that used in stick building. The differences that do exist are the result of the factory setting in which the housing units are produced. The assembly line process allows the use of jigs for more precise assembly of components, greater use of labor saving power tools, and the use of automatic assembly equipment. The assembly line process also facilitates the division of the building process into separate, repetitive operations that permit the use of semi-skilled labor rather than skilled building tradesmen. Stick builders, particularly large ones, can also take advantage of the same improvements in the building technology while building on-site; but it is in the manufactured housing production process that these advances have been the most fully utilized. Yet, despite these advantages of producing house components in a factory setting, the basic building technology is still that of the stick builder.

Marketing techniques vary widely throughout the panelized housing industry. The product is aimed at the custom built market and is generally located on the owner's land. The predominant form of distribution is through dealers, and the dealer sells the house to the home buyer who usually selects the home from a catalog containing a variety of plans. The dealer also is responsible for site preparation, construction of the foundation, and installation of utilities. The dealer may perform these functions or he may arrange for subcontractors. The actual erection of the package and finishing work may be performed by the dealer if he is also a builder or it may be performed by a factory-supplied crew. Some builders/dealers engage in both stick building and the erection of panelized housing, allowing the home buyer to choose according to his preference. Franchised dealer networks

are used by some panelized manufacturers with a builder/dealer or dealer representing only one manufacturer in return for an exclusive sales territory. A less widely used practice is for builders or developers to purchase panelized packages for erection and sale on a speculative basis.

A leading panelized manufacturer is Wausau Homes. Wausau Homes ships closed panel packages to ten midwestern states including Minnesota. The company offers its homes through franchised dealers who handle only Wausau Homes. Site preparation is arranged for by the local dealer with erection and finishing performed by a factory-furnished crew.

Of the three manufactured housing systems, modular housing is the latest on the scene and accounts for the smallest component of manufactured housing production. Basically, modular housing consists of that housing that is factory-assembled into three-dimensional, volumetric units or modules that by themselves or combined with similar units to form a completed housing unit. Technically, mobile homes should probably be considered a subcategory of modular housing. But mobile homes are considered in a separate category since, although they are three dimensional volumetric "modules", they retain certain characteristics that suggest they be considered as a distinct category. Modular housing, unlike mobile homes, is constructed to conform to local and state building codes and construction standards. The modular manufacturer is a very close relative of the panelized manufacturer, employing many of the same production and marketing techniques. The primary difference between the two is the degree of assembly which takes place in the manufacturing plant. The modular manufacturer essentially produces the same panels as the panelized manufacturer, then goes one step further by assembling these components into a three-dimensional box. The advantages of this production system are the same as those claimed under the paneiized system: more control over product qualify, a price competitive with stick buildings, and a rapid on-site completion process. A modular home can be erected and finished in several days once a foundation is prepared.

While both panelized and modular manufacturers agree on the mutual benefits of their systems, they disagree on the extent to which factory assembly should be utilized. Panelized manufacturers feel that modular manufacturers must transport cumbersome boxes of air and that their system provides for a more economical shipping package. They can ship a 1,200 square foot house package on one tractor-trailer while a modular manufacturer must ship two separate modules for a similar size house. The weight of the modular units also requires the use of a costly heavy duty crane for on-site erection. Despite these claims, modular manufacturers feel that the benefits of complete factory assembly offset these additional transportation and erection costs.

Like the panelized manufacturer, the modular manufacturer uses the same materials and techniques that the stick builder uses, with the major exception being the degree of factory assembly. An additional exception is that special framing techniques must be used for modulars since modulars must withstand the stresses of transportation and on-site erection.

The predominant type of housing produced by the modular industry is the single family detached unit, commonly called a sectional house. These units are shipped in two half-house sections. The completed houses are generally indistinguishable from stick built housing, with sloped roof designs and traditional exterior finishing materials.

Like closed panel housing, modular housing has been handicapped by the multiplicity of local building codes and the reluctance of local building officials to accept this type of housing. In recent years, this problem has been attacked through adoption of state manufactured housing codes and reciprocity agreements between states. Modular manufacturers and closed panel manufacturers shipping into Minnesota are inspected by state officials who attach state seals certifying conformance with the state code.

Modular housing is also aimed for the custom housing market and is most often

placed on the buyer's land. The most common marketing agent used by the modular manufacturers is the local dealer, primarily builder/dealers. The local dealer is responsible for sales and generally also provides builder services in site and foundation preparation and the erection of the house. Modulares produce a completed home for the buyer who selects the home from a catalog. Often the manufacturer allows specific options in interior design and exterior design and materials.

Some manufacturers market directly to the consumer, in which case it becomes the buyer's responsibility to subcontract for foundation and other work. Under this system, a traveling erection crew would be provided.

An example of a modular manufacturer is Dynamic Homes which operates plants in Detroit Lakes, Minnesota, and Mandan, North Dakota. Dynamic Homes manufactures a variety of two piece sectional single family homes and markets them in the Dakotas and Minnesota. Dynamic markets its homes through builder/dealers who sell the homes, prepare the foundation, arrange for local financing, and erect the home.

The final segment of the manufactured housing sector is the mobile home. This housing delivery system is the most unique and most controversial of the housing systems discussed here. Mobile homes are probably the purest form of manufactured housing in the United States. The mobile home is completely factory assembled and can be transported to a site and prepared for occupancy with an absolute minimum of on-site labor.

Mobile homes are produced to a special set of construction standards and utilize framing systems and interior and exterior finish materials considerably different than other housing systems, including other manufactured housing systems. Presently, the mobile home manufacturer must conform with federal construction standards that regulate structural and mechanical systems and set standards for energy efficiency and safety. The federal code provides performance standards for the manufacturer to follow and provides a mobile home manufacturer with a national

market for its product, with no variations from state to state other than in various design requirements related to climatic conditions in different regions of the country.

Mobile homes are constructed on an assembly line basis using many of the building techniques of the stick builder but also utilizing many other unique processes. The main structural member that differentiates mobile homes from other housing systems is the steel frame which supports the home and comes complete with axles, wheels, and a hitch to facilitate transportation. The structural roof system also differs from that used in other building systems. The most obvious difference to the consumer is the materials used on the exterior of the mobile home. While some manufacturers are using wood siding products, the predominant material used is aluminum. A rolled steel roof is another differentiating aspect of mobile homes.

Mobile homes are almost always sold directly to a retail dealer who maintains a sales lot with an inventory of mobile homes available for sale. Mobile home dealers, unlike other manufactured housing dealers, usually carry several manufacturers' products.

The mobile home dealer, more than any other manufactured home dealer, can remain uninvolved in the installation of the home on the site. Installation work is minimal and is often performed by professional transporters-installers. The dealer can limit his participation to the sale and financing of mobile homes, if he wishes.

Several aspects of the mobile home industry set it apart as a unique housing delivery system. For one, many homes are placed on land that is rented rather than owned by the mobile home owner. For another, seldom is the mobile home attached permanently to the land. While most mobile homes never move once placed on a private lot or in a park, they are only loosely attached to the ground and can be removed from the site in the future with minimum effort and cost. Considered to be

personal property rather than real property, mobile homes are financed with installment loans rather than mortgage loans. Financing of mobile homes will be discussed later in this paper.

IV. FOCUS ON MINNESOTA

Minnesota has experienced the same general trends in the area of manufactured housing as the rest of the United States, though the details of the development of the industry in the state and the institutional and consumer response are in certain ways unique. This section presents a summary of manufactured housing trends in the state. Much of the information is drawn from a survey of manufactured housing producers conducted by MHFA research staff.

As is the case nationally, mobile home manufacturers have had more impact in Minnesota than other modular or panelized manufacturers. In the late sixties and early seventies, numerous mobile home manufacturers established facilities in the state, leading Minnesota to become a small but steady exporter of mobile homes to other states in the region. In 1976, there were ten mobile home plants operating in the state.

Minnesota Mobile Home Producers

Bendix Home Systems	Worthington
DeRose Industries	Owatonna
DMH Corporation	Red Lake Falls
Gerring Industries	Blue Earth
Homera Incorporated	Tracy
Moduline Industries	Montevideo
Regal Homes	Montevideo
Schult Homes Corporation	Redwood Falls
Skyline Corporation	New Ulm
Titan Homes	Slayton

The production and shipment data provided in Table 4 shows the trends for the last few years. Minnesota has generally produced more units than have been shipped to dealers within Minnesota. These figures obscure what is actually happening, however. It appears that a sizeable portion of Minnesota's production is shipped to other states, primarily Iowa and the Dakotas, while Wisconsin ships

sizable numbers of mobile homes into the state. A Wisconsin manufacturer, in fact, is the largest shipper of mobile homes to Minnesota dealers.

Table 4
Mobile Homes in Minnesota

<u>Year</u>	<u>Production in Minnesota</u>	<u>Shipments to Minnesota Dealers</u>	<u>Surplus or (Deficit)</u>
1971	5,794	6,783	(809)
1972	8,364	6,421	1,943
1973	9,229	7,336	1,893
1974	7,523	5,769	1,794
1975	4,823	5,180	(357)

Less information is available about production and shipments of other forms of manufactured housing. To deal with this problem, the MHFA staff conducted a survey of mobile homes, modular, and panelized housing manufacturers operating in or shipping units to Minnesota. The survey attempted to obtain information on production and marketing aspects of manufacturing firms and allow a general picture of the industry to be formed. A questionnaire was mailed to approximately 100 firms registered with the State Building Codes Division and shipping units to Minnesota. To date, there have been 41 responses--20 from mobile home manufacturers, 9 from modular manufacturers, 5 from combination mobile/modular manufacturers, and 7 from panelized manufacturers.

The survey identified 25 manufacturers that ship mobile homes into Minnesota. Twenty of these firms produced mobile homes exclusively, while the other five also produced modular housing. Of the twenty mobile-only producers, 15 shipped over 50 units to Minnesota dealers in 1975. These major shippers are primarily located in Minnesota and Wisconsin--8 in Minnesota and 5 in Wisconsin--but several manufacturers in Nebraska and Kansas also ship significant numbers of units.

Shipments to Minnesota are dominated by single-wide mobile homes in contrast to regional and national trends. Information supplied by the Manufactured Housing