

Can manufactured housing ease America's affordable housing crisis?

Federal agencies are reviewing financing and regulations in hopes of giving manufactured homes a boost

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America's affordable housing crisis is driven in large part by the simple fact that there aren't enough homes in America right now to satisfy demand. High construction costs and labor shortages mean builders can't build fast enough to keep up with household formation, and Americans who already own homes are reluctant to sell an asset that is appreciating rapidly.

This has pushed home prices to or beyond their pre-financial collapse peaks, leaving prospective homebuyers without an affordable option. While there's no easy fix, signals within the federal government suggest one solution is getting increased attention—manufactured housing.

Previously referred to as mobile homes, manufactured houses are built in a factory, transported to a site on a flatbed truck, and installed on-site. Not to be confused with prefab homes, which have parts made in a factory but are mostly constructed on-site, manufactured homes cost as little as \$45,000, a mere fraction of the median price for a new single-family site-built home of \$323,000.

Fannie Mae and Freddie Mac, the government-sponsored mortgage facilitators, announced plans in January to make the manufactured housing market more active by purchasing more manufactured housing loans over the next three years.

A few weeks later, the Department of Housing and Urban Development (HUD) announced it was reviewing regulations around manufactured housing in response to President Trump's executive orders to reduce regulations.

In the mid-1990s, manufactured housing production boomed as a result of the type of easy credit that would spread through the entire housing market a few years later. But since then, production has plummeted, leaving affordable housing advocates wondering why—and if a revival of the market could help fill the desperate housing need for low-income families.

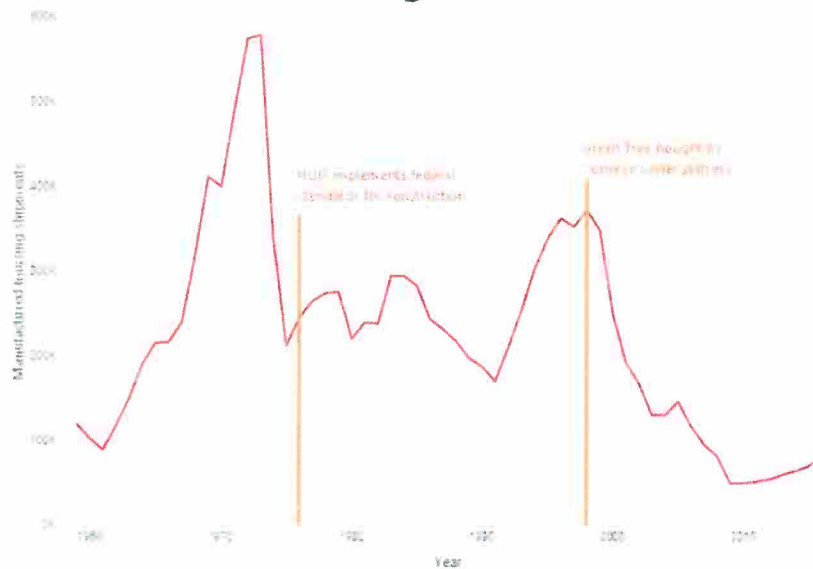
“There's clearly an affordable housing gap that's growing and growing and growing,” said Laurie Goodman, vice president of the Housing Finance Policy Center at the Urban Institute. “Manufactured housing is every bit as good as site built housing in most cases. Why are the number of manufactured housing units not gone up to where it was before?”

Is financing holding back manufactured housing?

The total price tag for a manufactured housing unit is going to be smaller than that for a new site-built home in almost every circumstance, but does that mean a low-income family is going to save by going with a mobile home?

Financing a manufactured home has gotten harder since the 1990s. Back then, the manufactured home financing market was dominated by a company called Green Tree, which both originated manufactured home loans and securitized them. Over this period, manufactured housing boomed as easy credit flowed into the market.

Manufactured housing has declined



But because of a confluence of factors, including loose lending standards that crept into the industry, defaults on manufactured housing loans piled up, the securities went bust, and the market for manufactured home finance collapsed.

It was hard for the industry to recover because repossessing a manufactured house is infinitely more complicated and costly than repossessing a site-built house. As a result, Green Tree was bought under distress by Conseco in 1998. Many of the lenders that followed Green Tree into the market went bankrupt.

Meanwhile, easy credit moved over to the site-built housing market, siphoning buyers from the manufactured housing market. This transition inflated the housing bubble that would eventually burst in 2008, and the manufactured housing market never really recovered. Some wondered whether the boom was more a result of easy credit than actual demand.

Today, mobile homes can be classified as either a real estate property or a personal property. Buyers can finance a purchase through a traditional mortgage if the property is classified as real estate, but the majority of manufactured homes are financed as personal property with a chattel loan.

Chattel loans are easier for buyers because mortgages on smaller values are hard to secure, but chattel loans usually come with high rates and shorter terms.

And unlike their site-built counterparts, mobile homes depreciate in value, making it more challenging to sell a used manufactured home. There's also virtually no secondary market for manufactured home loans like there is for site-built homes. On a site-built home, a mortgage lender originates the loan, sells it to Freddie Mac or Fannie Mae, and those companies bundle loans into a securities and sell them to investors. This provides cash for the entire site-built mortgage market.

Without a secondary market, manufactured housing companies have become a lot like Clayton Homes, which both manufactures and finances mobile homes, among other related services. It's a one-stop shop model that other companies are emulating, but without the added investor cash, manufacturers are on the hook if a buyer defaults. Because the asset is

depreciating and second-hand buyers are hard to find, manufacturers are careful about who they lend to.

But things are changing in the secondary market for manufactured home loans. In December of 2016, the Federal Housing Finance Agency issued a “duty to serve under-served markets” rule to Freddie Mac and Fannie Mae, which requires the agencies to try to address affordable housing, including manufactured housing.

Fannie Mae’s duty to serve plan became effective this year. It will purchase around 30,000 manufactured housing mortgage loans over the next three years. It will also develop a pilot programs for buying chattel loans and for supporting the financing of manufactured housing communities, whether owned by governments, nonprofits, or residents.

How much of an impact this program will have is unclear though. If someone wants to buy a manufactured home worth \$50,000, they could almost cobble together enough to buy it using credit cards; there aren’t scores of people being turned away from buying a manufactured home because of financing. And given that manufactured housing represents a small slice of the housing supply, it may not need securitization to thrive. Ultimately, the problem may simply be a lack of demand.

Still, Gooch believes added financial options from Fannie and Freddie is a step in the right direction for manufactured housing, and potentially affordable housing as a whole.

“[The duty to serve mandate] could be a really game-changer,” she said. “We believe if there is a secondary market, it’ll allow standardization for financing, and it’ll help with a decrease in the interest rates.”

Could deregulation lead to a manufactured housing boom?

It wasn’t entirely clear what HUD had in mind when it announced a regulatory review of manufactured housing. Given the slash-and-burn regulatory approach of some of the other agencies under the Trump administration, some stakeholders anxiously speculated that the federal building code enacted in 1976 was under the microscope.

The code, which preempts state and local building codes, set the standard for quality in the industry and has largely been credited with easing worries that manufactured housing is substandard. The code has been updated through the years, most notably in the late 1990s, and units that comply come with a label certifying that they meet HUD’s building standards.

“I hope they’re not crazy enough to try to weaken the building standards,” said Daniel Mandelker, a professor of land use law at Washington University in St. Louis. “That’s what’s made manufactured housing. It would be a disaster if that code were weakened.”

While it’s hard to completely rule out HUD revising the building code during its deregulation push, lobbying efforts by the Manufactured Housing Institute (MHI), an industry trade group, suggest other measures are being reviewed.

MHI sent a letter to HUD in June outlining three 2017 measures that, lobbyists argue, prevent manufacturers from including some popular amenities (many of which make manufactured homes look more like site-built ones) in manufactured housing.

The first was an added approval process for homes that came attached with carports. Rather than deal with it, some manufacturers scrapped carports altogether, while others charged more for them. Another was HUD usurping state and local installation standards in parts of the country that are susceptible to frost, despite no examples of installation failures caused by frost. The third was an added approval process for amenities installed on-site instead of in the factory because some items—French doors, for example—could be damaged during transit to a site.

Lesli Gooch, chief lobbyist for MHI, says her organization will defend the HUD building code if it comes up for review and is confident that HUD will address the issues MHI brought up, which she believes hamper demand for manufactured homes.

“All these things are very important to customers so that the houses look appealing on the exterior,” Gooch said. “So what’s frustrating to us is that HUD is focused on things that have nothing to do with consumer protection or safety and not focused on the updates to the building code that they should be focused on.”

While these measures are surely irritants to manufacturers, removing them likely wouldn’t lead to boom times for manufactured housing, according to Mandelker. A more pressing impediment, he says, is zoning restrictions.

The public has a “not in my backyard” attitude toward affordable housing—a lot of people support public housing projects, until one is considered near their neighborhood. Similar stigma exists toward manufactured housing and mobile home communities.

But this attitude is unjustified. Studies have concluded that manufactured homes are just as durable as site-built homes in many cases, and modern amenities and manufacturing capabilities are helping them blend in with regular housing.

Manufactured housing communities, often derided, can actually provide welcoming and inclusive spaces for the elderly and protected groups such as the LGBT community. In Florida, some elderly actually choose to live in mobile home parks because they allow them to age in place beside a supportive community.

But negative attitudes persist, and zoning laws have formalized them by keeping manufactured homes out of traditional single-family housing divisions and pushing manufactured housing communities to the outskirts of town.

While courts today are unlikely to uphold outright exclusions, barriers for manufactured housing come in other forms. Some towns require manufactured homes be in a manufactured housing community. Others restrict them from residential zones.

Unequal treatment—including aesthetic rules, like a pitched-roof requirement, that exclude mobile homes by default—is common. Conditional use laws require pre-approval before a manufactured home can go up, and often approval is denied. Advocates for manufactured housing lobby for by-right use, which would allow someone to put up a manufactured home without pre-approval.

But zoning issues are a matter of state and local policy, not federal policy, so HUD has little power to influence restrictions on manufactured housing. Still, Mandelker believes HUD could play a role in destigmatizing manufactured housing.

“If they start working on a model state [zoning] law and start funding pilot projects, that would bring some attention,” he said. “I think that would be very helpful.”