Comment Letter to the FHA and Ginnie Mae on Title I Manufactured Housing

Karan Kaul, Laurie Goodman, and Ted Tozer

September 2022

On July 27, Ginnie Mae and the Federal Housing Administration (FHA) published a joint request for input (RFI) seeking stakeholder comments on improving the Title I Manufactured Home Loan Program (Ginnie Mae 2022). The RFI's objective is to improve Title I to improve access to personal property loans for low- and moderate-income households. The RFI comes on the heels of the Biden administration's Housing Supply Action Plan, which, among other things, promotes manufactured housing as an important element of increasing the affordable housing supply. Manufactured homes are more affordable than site-built homes and could mitigate the supply shortage (Kaul and Pang 2022).

Under Title I, the FHA has the authority to insure lenders against losses on loans used to purchase manufactured homes titled as personal property, also known as chattel. But Title I loan volumes have been declining for almost four decades. Annual originations ranged from 15,000 to 25,000 loans during the mid-1980s and early 1990s (Park 2021). The wave of defaults and repossessions after the mid-1990s led to a drastic reduction in lending, which fell to 1,572 loans in 2008 and to just 3 loans in 2021. To put this in perspective, 106,000 units of new manufactured homes were shipped in 2021, more than the 95,000 units in 2020.

In this brief, we examine why program volumes have struggled, and we provide recommendations on how to address these issues. Broadly speaking, Title I issues encompass the entire life cycle of the loan, from origination and underwriting to pooling and securitization, as well as servicing and property disposition. Table 1 provides a high-level summary of various issues and our recommendations.

TABLE 1

Summary of Issues and Recommendations

Bucket	Issue	Recommendation
Underwriting	Inadequate loan limits	Raise chattel loan limit to reflect market prices for manufactured homes
Underwriting	Manual "paper-based" underwriting or documentation and restrictive lending criteria	Streamline underwriting with Title II; leverage Title II requirements, forms, and calculations for income, assets, and employment
Underwriting	Minimum 3-year lease terms	Permit shorter-term leases with rent escalator caps; requires congressional action
Servicing	No conveyance process for Title I	Adopt the Title II conveyance process
Issuer capital requirement	Ginnie Mae requires 10 percent capital for Title I issuers	Reduce capital requirements to reasonable levels
Pooling	Small illiquid pools, which trade poorly	Permit inclusion in Ginnie Mae II pools, provided amount is de minimis
Pooling	Statutory 20-year-and-32-day maximum loan term	Increase term to 25 years to allow for inclusion in Ginnie Mae II pools; requires congressional action

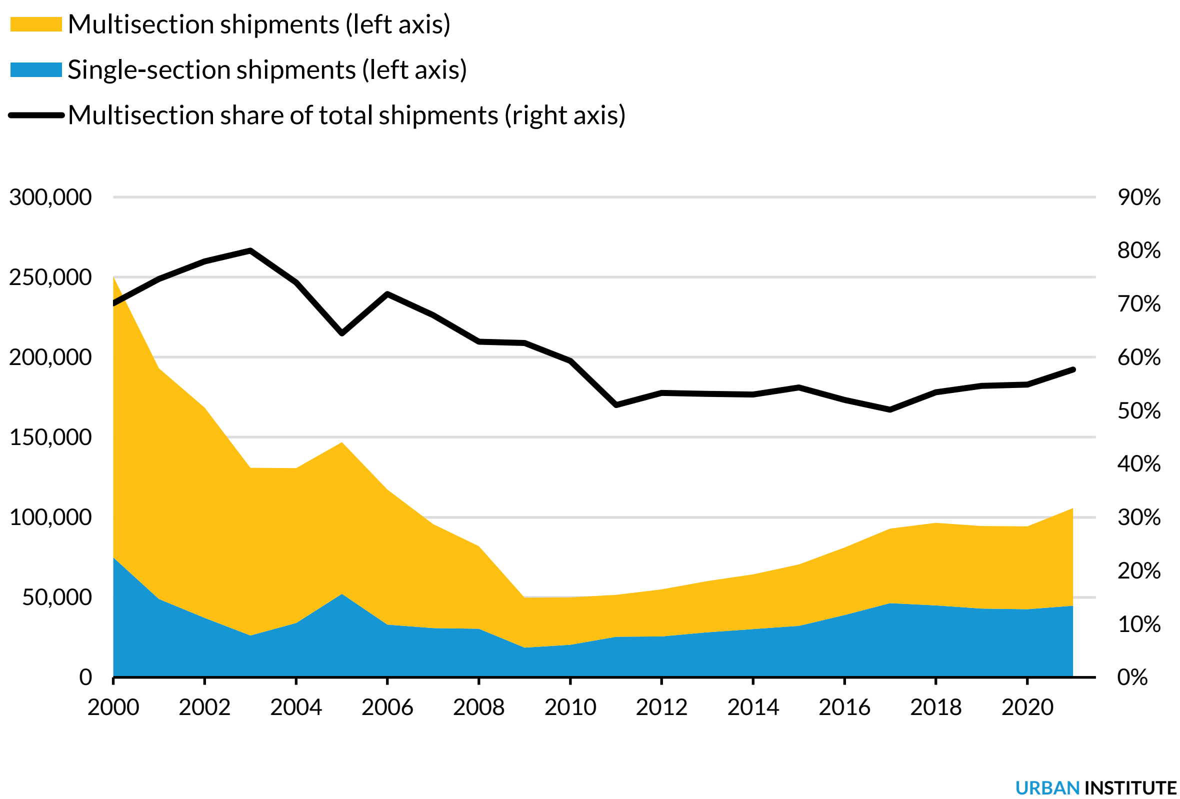
Title I Origination Improvements

Inadequate Loan Limits

One of the most fundamental barriers to FHA chattel financing is inadequate loan limits. The loan limit for manufactured home–only financing under the Title I program is $69,678. For home and lot financing, the limit is $92,904. These limits are well below the market price of manufactured homes sold today. In 2021, the median sales price of new single-section manufactured homes, excluding land, transportation, and setup costs, was $71,000, and the 75th percentile sales price was $82,000, per the US Census Bureau's Manufactured Housing Survey. For double-section homes, the median and the 75th percentile prices were $130,000 and $150,000, and for homes with three or more sections, the median and 75th percentile sales prices were $210,000 and $260,000. Further, close to 60 percent of new shipments in 2021 were multisection homes, and this share has been rising since 2017 (figure 1). Conversations with lenders indicate that installation and transportation can add $15,000 to $20,000 to the cost of a home, on average. For multisection homes, these costs can be higher. The FHA has indicated[1] it is looking to increase Title I loan limits.

FIGURE 1

Manufactured Home Shipments over Time



Source: US Census Bureau Manufactured Housing Survey.

Given the rising share of multisection homes and the fact that buyers of manufactured homes are increasingly likely to be households priced out of the site-built market, we believe the FHA should base Title I loan limits on double-section home prices. If the FHA were to use the $130,000 median sales price for double-section homes as the benchmark, it would need to make a few adjustments. First, this price is a 2021 full-year sales price, and manufactured home prices have increased by at least as much as site-built homes over the past year. If we assume a 15 percent home price increase from 2021 to 2022, the new baseline would be $149,500. After adding $20,000 for installation and transportation, the home's price, excluding land, would be $170,000.

A second adjustment would be needed to cover the cost of land for homebuyers who wish to finance land purchase. In 2021, the average sales price for new site-built homes was $464,200, and the derived average land value for these site-built homes was $98,300, or 20 percent of the total price, per the Census Bureau. The Census Bureau does not publish derived land value for manufactured homes. Assuming the same 20 percent share yields a land value of about $42,500 on a double-section manufactured home priced at $170,000, the total price for structure, installation, and land would be $212,500.

Sales prices of manufactured homes vary by region; homes shipped to the western region of the US cost more than those shipped elsewhere.[2] The average price of double-section homes shipped to the West was $171,600 in March 2022 compared with $145,300 for homes shipped to the Northeast. A loan limit based on nationwide values will not adequately serve expensive parts of the country. The FHA should employ a loan-limit methodology similar to what it does for 203(b) loans, where it sets a baseline limit and a high-cost-area limit. Lastly, the FHA should institute annual increases to ensure loan limits reflect market pricing at all times.

Underwriting Improvements

Underwriting for the Title I program is different from the Title II program. Because of funding constraints, the FHA has not been able to make necessary investments in Title I technology and automation, resulting in a largely manual and paper-based underwriting process. The FHA should adopt automated underwriting for Title I loans. Currently, Title I loans are not eligible for automated underwriting through the Technology Open to Approved Lenders Mortgage Scorecard. The FHA should also eliminate the $2,000 cap on origination fees, given the large increase in origination costs over the past decade.

More broadly, underwriting processes for Title I loans should be done to align with Title II as much as possible. Requirements concerning the treatment of gifted funds and financing of closing costs and up-front premiums should be consistent with Title II. Documentation requirements concerning the verification of income, employment, and assets should mirror Title II. Forms and calculations to evaluate borrower ability to repay should leverage Title II to keep origination costs low. As with Title II, up-front insurance premiums for Title I loans should not count toward the loan limit.

There are other opportunities for significant cost reductions. The FHA's requirements concerning inspection, foundation, termite pretreatment, and final survey are more expensive than the standards the industry uses for private loans. Conversations with lenders indicate that these items can add more than $11,000 to the home's price. For private loans, the same services cost $4,800. The extra cost is added to the FHA loan amount and increases the monthly payment. We recommend that the FHA consider adopting industry best practices to reduce these costs. This change would apply to Title I and Title II manufactured housing loans.

Additionally, for construction-to-permanent manufactured housing loans, there is a wet signature requirement for the construction conversion agreement. This adds a couple hundred dollars in shipping costs, which are passed on. Ginnie Mae's Digital Collateral Program Guide, which governs requirements concerning digital pools and packages, excludes manufactured home loans. We recommend that this requirement be eliminated to allow manufactured home loan documents to be signed electronically.

The FHA should also consider streamlining debt-to-income (DTI) ratio requirements for Title I and Title II loans. Under Title I, the maximum allowed housing DTI ratio, including taxes and lot rent, is 33 percent. The maximum allowed total DTI ratio is 45 percent. Consistent with Title II loans, and mortgage lending more broadly, we suggest removing the 33 percent cap and retaining the total DTI ratio cap. This would remove an extra underwriting step for lenders without necessarily increasing default risk, which is more likely to depend on total indebtedness.

Length of Tenant Leases

Title I underwriting requires that if the borrower has leased the land, the lease must be for at least three years. This is a statutory requirement, and it would require congressional action to be changed. Intuitively, the risk is that if the lease is shorter, the lease payments will be raised upon renewal, and the borrower will be unable to pay, increasing default risk. The borrower does not have the option to simply move the manufactured home, as it is costly to do so. These costs involve not only the direct moving costs but the costs of remounting the manufactured home on its block, as well as the costs of the hook ups. This can cost at least $10,000.

But this statutory requirement makes it virtually impossible for chattel borrowers in manufactured housing communities to participate in Title I lending. The share of new manufactured homes shipped to communities has averaged around 30 percent from 2014 to 2021, according to Census Bureau data. The lease form is generally dictated by state law. For many states, the norm is 30 days; for others, it is one year at a time; and for still other states, the requirement is one-year leases that can convert to monthly leases after the end of the first year. No states require three-year leases, and few communities offer them.

Ideally, there would be a standard lease on the land, which would limit maximum rent increases (based on a certain percentage based on an index) and govern changes of use, but that does not seem likely in the near term. But for Title I purposes, there is a way to protect the FHA while permitting shorter leases. The Consumer Financial Protection Bureau's ability-to-pay rules for adjustable-rate mortgages require consideration based on the highest amount the borrower could pay in the first five years. This is akin to the variable nature of lot rent. When calculating the borrower's DTI ratio, the FHA could use a 5 percent annual escalation rate for the rent to determine ability to repay. Lease rates have historically increased 2 to 3 percent per annum, so assuming a 5 percent increase seems like a conservative number to use. (This number could be reviewed and updated annually.) Under this method, DTI ratios would be calculated using maximum possible lease payments at the end of five years; underwriting would ensure that the borrower's income at origination can cover the highest possible lot rent in the first five years. This is another reason to eliminate the 33 percent housing DTI ratio cap, as it would restrict access under this change. We urge congressional action authorizing the FHA to offer shorter-term leases in exchange for underwriting to the highest lot rent in the first five years, as it would produce minimal risk increase to the FHA.

Title I Servicing Improvements

Conveyance Process

Maximizing the sales price on a foreclosed property is important to minimize the eventual loss severity on loans. But there is a large difference between Title I and Title II programs with respect to the conveyance process. The Title I program places a larger burden on the servicer than the Title II program and likely increases the severity to the FHA. In both Title I and Title II programs, the servicer works to get the borrower to reperform. If this is not possible, the borrower must leave the home, and unless another foreclosure alternative is selected, the home will be foreclosed upon, and the ownership of the home will be transferred to the servicer through the foreclosure sale. After the foreclosure sale, under Title II, the servicer has 30 days to repair the property, obtain a clear title, and convey the title to the FHA, which then handles property liquidation. At this point, the servicer also files an insurance claim with the FHA. There are issues with this timeline, as it is often difficult for servicers to complete repairs within 30 days to bring the property to "conveyable condition," but the Title I process is even more problematic.

There is no conveyance infrastructure under Title I. Servicers must handle the property liquidation themselves. But small servicers may handle only a handful of foreclosed properties each year and would not have a real-estate-owned infrastructure in place for auctioning the property and liquidating these loans. The result is that most smaller servicers do not participate in the program, and those that do would experience higher severities. And there is a risk-sharing arrangement between the FHA and servicers that requires servicers to absorb 10 percent of these losses. The ability to convey these loans to the FHA and to have the FHA contract out the property liquidation would remove this hurdle. The simplest way to do this might be to open up Title II real-estate-owned/conveyance infrastructure to Title I loans.

A related recommendation is to require manufactured housing communities to waive pad rents if the loan has been delinquent for a long time and the likelihood of repossession is high. Currently, the servicer is required to advance pad rent on behalf of delinquent borrowers. This valuable cash flow gives community owners an incentive to direct prospective buyers to other (i.e., nondelinquent) units in the community. With the owner's incentive to resell the unit removed, loss severities to both the FHA and the servicer can increase. This can be remedied by requiring communities to sign contracts waiving pad rent for up to 12 months when an FHA-insured loan is sufficiently delinquent to be at risk of repossession.

Ginnie Mae Capital Requirements for Title I Issuers

Currently, Ginnie Mae requires an issuer of Title I manufactured housing loans to hold capital equal to the following calculation:

$10 million plus 10 percent of each of the following categories:

- all manufactured housing mortgage-backed securities (MBS) outstanding
- the issuer's outstanding commitment authority
- the issuer's outstanding pool balances for all other single-family and multifamily pools

The capital requirement for Title I loans is excessive based on the issuers' loss exposure. Under the Title I program, the FHA reimburses 90 percent of the valid claim amount on each loan, with the servicer absorbing the remaining 10 percent. For example, if there is a $60,000 loan that has a $45,000 loss, the lender's FHA reimbursement would be $40,500, leaving the issuer with a $4,500 loss (10 percent of $45,000). Ginnie Mae wants to make sure the Title I issuer has adequate capital to absorb losses. Ginnie Mae does not want to have to transfer the loan portfolio from the failed issuer to another Ginnie Mae Title I issuer. To avoid this, Ginnie Mae has a 10 percent capital requirement for Title I issuers, mirroring the 90 percent–10 percent FHA risk-sharing structure.

But requiring the issuer to hold 10 percent capital in the Title I program assumes the issuer will incur the maximum possible 10 percent loss on every Title I loan, commensurate with a 100 percent loss severity on every loan in the Title I portfolio. In the above example, this would mean there is a $60,000 loss on a $60,000 loan. We acknowledge that loss severities on Title I loans are likely to be higher than for Title II loans. But to assume the issuer will experience the maximum 10 percent loss on every Title I loan is highly punitive.

Even more excessive is that Ginnie Mae requires Title I issuers to hold capital equal to 10 percent of the unpaid principal balance (UPB) of the manufactured loans done under Title II. In comparison, the new capital rule Ginnie Mae recently finalized requires single-family issuers that issue MBS with Title II loans to hold 0.35 percent of the outstanding UPB of their Title II servicing portfolio. To bring the Title I capital standards up to date, we recommend the following:

- minimum net worth of $2.5 million
- additional net worth of 0.35 percent of the UPB of all FHA Title II collateralized pools
- additional net worth of 0.25 percent of the UPB of government-sponsored enterprise servicing
- additional net worth of 0.25 percent of the UPB of non-agency single-family servicing
- additional net worth of 2.4 percent of the UPB of all FHA Title I collateralized pools (assumes an 80 percent severity on 30 percent of the loans)

Issuers will also have to comply with Ginnie Mae's recently finalized risk-based capital requirements.

MBS Pooling Issues for Title I Manufactured Housing Loans

The current Ginnie Mae program requires all Title I manufactured housing loans to be pooled separately into Ginnie Mae II MBS with a "C MH" prefix. There is not a multi-issuer program available for the "C MH" prefix. Issuers are required to create pools with a minimum issue balance of $1 million. This is often an impediment to securitization because of insufficient volume. Moreover, these small pools will be very illiquid and will trade at a severe discount to Ginnie Mae II pools collateralized by FHA loans insured under Title II. Given small Title I loan volume, in many months, there will not be a C MH pool issued by any issuer, further affecting liquidity. The severe discount is created because when a security is as illiquid as the C MH pool, dealers will not make markets and will not spend the resources to produce research for clients.

To eliminate this problem, we recommend that Ginnie Mae allow for loans insured under the FHA Title I program to be included in the main Ginnie Mae II multi-issuer pools. These pools are extremely liquid. Large pools with original balances of more than $100 million are issued every month. A single multi-issuer pool can have an original balance of more than $1 billion. The following are the changes Ginnie Mae and the FHA will have to make to allow for the inclusion of Title I manufactured housing loans in the main Ginnie Mae II program.

1. The standard original term for manufactured housing Title I loans must be increased from 240 to 300 months. The Securities Industry and Financial Markets Association determines criteria for good to-be-announced delivery; Ginnie Mae II multi-issuer pools require a minimum term of 25 years. This change will require congressional action, as the Title I loan term is capped by law. We recommend that Congress pass legislation to extend the maximum Title I term to 300 months. This will also improve monthly payment affordability for consumers.
2. Ginnie Mae must include Title I loans in the de minimis category of pooling requirements. Up to 10 percent of the initial unpaid principal balance of a pool can be loans in one de minimis category; all loans with de minimis classifications can compose no more than 15 percent of initial pool balance. This will limit the concentration of these loans in any particular pool. The Securities Industry and Financial Markets Association must agree to add these loans to the de minimis category.
3. Ginnie Mae Title I issuers will have to follow the other pooling requirements that Title II issuers must follow in the Ginnie Mae II program.

Conclusion

We applaud the FHA and Ginnie Mae for releasing this RFI. The FHA's Title I manufactured home lending program was an important source of financing for manufactured home buyers until the early 1990s. The wave of defaults and repossessions of manufactured homes in mid-1990s, followed by the nationwide housing crisis in the mid-2000s, have led to an elimination of federally backed personal property lending, including Title I.

At the same time, the drastic worsening of affordability for site-built homes and the lower price point for manufactured homes have pushed policymakers to make it easier for families to purchase and finance manufactured homes. In this brief, we have made recommendations covering all aspects of Title I, from origination to securitization to servicing and default management. Given how long the program has been dormant, it is essential to complete a fundamental review of all aspects of Title I to ensure it works in today's market.

Notes

1 Georgia Kromrei, "HUD Affordability Plan Doesn't Include Lowering FHA Premiums," HousingWire, July 14, 2022, https://www.housingwire.com/articles/hud-affordability-plan-doesnt-include-lowering-fha-premiums/.

2 The census divides the US into four regions: West, Midwest, Northeast, and South. The 13 states constituting the West are Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington, and Wyoming.

References

Ginnie Mae. 2022. "Request for Input: FHA and Ginnie Mae Title I Manufactured Housing Programs." Washington, DC: Ginnie Mae.

Kaul, Karan, and Daniel Pang. 2022. *The Role of Manufactured Housing in Increasing the Supply of Affordable Housing*. Washington, DC: Urban Institute.

Park, Kevin A. 2021. "Real and Personal: The Effect of Land in Manufactured Housing Loan Default." Washington, DC: Fannie Mae.

About the Authors

Karan Kaul is a principal research associate in the Housing Finance Policy Center at the Urban Institute. He publishes innovative, data-driven research on complex, high-impact policy issues to improve the US mortgage finance system. A strategic thinker and thought leader with 13 years of experience in mortgage capital markets, Kaul has published more than 100 research articles on such topics as the housing supply crisis, mortgage servicing reforms, efficient access to credit, benefits of alternative credit scoring, industry safety and soundness, and institutional single-family rentals. He has advocated for efficient industry practices, regulation, and legislation to make the mortgage market work better for all Americans. At Urban, Kaul has led the Mortgage Servicing Collaborative and the Mortgage Markets COVID-19 Collaborative. He speaks frequently with members of the media and presents at housing conferences. Before joining Urban, he spent five years at Freddie Mac as a senior strategist analyzing the business impact of postcrisis regulatory reforms. Kaul holds a bachelor's degree in electrical engineering and a master's degree in business administration from the University of Maryland, College Park.

Laurie Goodman is an Institute fellow and the founder of the Housing Finance Policy Center at the Urban Institute. The center provides policymakers data-driven analyses of housing finance policy issues they can depend on for relevance, accuracy, and independence. Before joining Urban, Goodman spent 30 years as an analyst and research department manager at several Wall Street firms. From 2008 to 2013, she was a senior managing director at Amherst Securities Group LP, a boutique broker-dealer specializing in securitized products, where her strategy effort became known for its analysis of housing policy issues. From 1993 to 2008, Goodman was head of global fixed income research and manager of US securitized products research at UBS and predecessor firms, which were ranked first by *Institutional Investor* for 11 straight years. Before that, she held research and portfolio management positions at several Wall Street firms. She began her career as a senior economist at the Federal Reserve Bank of New York. Goodman was inducted into the Fixed Income Analysts Hall of Fame in 2009. Goodman serves on the board of directors of MFA Financial, Arch Capital Group Ltd., and Home Point Capital Inc. and is a consultant to the Amherst Group. She has published more than 200 journal articles and has coauthored and coedited five books. Goodman has a BA in mathematics from the University of Pennsylvania and an AM and PhD in economics from Stanford University.

Ted Tozer is a nonresident fellow in the Housing Finance Policy Center. Immediately before joining Urban, he was a senior fellow at the Milken Institute's Center for Financial Markets. Previously, Tozer was president of Ginnie Mae for seven years, bringing with him to the institution more than 30 years of experience in the mortgage, banking, and securities industries. As president of Ginnie Mae, Tozer managed Ginnie Mae's nearly $1.7 trillion guarantees of mortgage-backed securities and more than $460 billion in annual issuance. He also led the modernization effort of the Ginnie Mae Securitization Platform. Tozer oversaw the transition for a depository-dominated issuer base to an independent mortgage banker–dominated base. He was the Obama administration point person for rewriting the Home Affordable Refinance Program. Tozer also oversaw the transition from the Ginnie Mae I program to the Ginnie Mae II program. Before joining Ginnie Mae, he was senior vice president of capital markets at the National City Mortgage Company (NCM) for more than 25 years, overseeing pipeline hedging, pricing, loan sales, loan delivery, and credit guideline exceptions. He was instrumental in transforming NCM from an originate-and-hold lender to an originate-and-sell lender. Tozer also serves on the board of directors of PennyMac Financial Services, a mortgage originator. He holds a bachelor's degree in accounting and finance from Indiana University.

Acknowledgments

This brief was supported by the Housing Finance Innovation Forum, a group of organizations and individuals that support high-quality independent research that informs evidence-based policy development. We are grateful to them and to all our funders, who make it possible for Urban to advance its mission.

The views expressed are those of the authors and should not be attributed to the Urban Institute, its trustees, or its funders. Funders do not determine research findings or the insights and recommendations of Urban experts. Further information on the Urban Institute's funding principles is available at urban.org/fundingprinciples.

500 L'Enfant Plaza SW
Washington, DC 20024

www.urban.org

ABOUT THE URBAN INSTITUTE

The Urban Institute is a nonprofit research organization that provides data and evidence to help advance upward mobility and equity. We are a trusted source for changemakers who seek to strengthen decisionmaking, create inclusive economic growth, and improve the well-being of families and communities. For more than 50 years, Urban has delivered facts that inspire solutions—and this remains our charge today.