Manufactured Housing Personal Property Loans

Balancing Market Liquidity and Consumer Protection

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Public and private policymakers see manufactured housing (MH) as a key solution to address the housing supply shortage.[1] Manufactured housing is a critical source of unsubsidized affordable housing, particularly for low- and moderate-income borrowers.[2] This brief focuses on a common type of financing for MH, personal property loans, and evaluates recent policy efforts to expand government-backed financing for this type of loan.[3]

We fully support a more rapid federal-backed expansion into the personal property loan market for the reasons outlined below. We believe such expansion should require additional consumer protections for the MH personal property borrower (most of which will protect the secured creditor as well). The benefits of greater liquidity for personal property loans, plus basic guardrails for the borrower, can be a win-win for an important low-cost segment of the housing market.

Financing for Manufactured Homes

MH can be financed as real property (if the borrower owns the land and if the home itself is titled as real property) or as personal property (whether or not the borrower owns the land). Table 1 shows the features of each loan type for 2022 originations. Table 2 shows the channel distribution for 2022 originations. A personal property loan may include a loan on a home placed on land the borrower owns: according to our analysis of 2022 Home Mortgage Disclosure Act data, 25.3 percent of consumers who received personal property MH loans owned their land, even though they may have been eligible for mortgage financing.

TABLE 1

Attributes of Certain Purchase Mortgage Loans Originated in 2022

Attribute	Personal property loan	Real property MH loan	Site-built home loan
Loan volume ($)	55,703 ($5.4 billion)	76,277 ($15.3 billion)	4,081,173 ($1.5 trillion)
Share who own land	25.3%	99.6%	N/A
Median interest rate (APOR)	8.0%	5.5%	5.0%
Median income	$60,000	$65,000	$101,000
Median loan size	$95,000	$175,000	$305,000
Denial rates	65.5%	43.0%	10.4%
Share of loans made by top 10 lenders	86.6%	33.0%	23.7%

Source: Urban Institute analysis of 2022 HMDA data.

Notes: APOR = average prime offer rate; HMDA = Home Mortgage Disclosure Act; MH = manufactured housing; N/A = not applicable. Excludes seller financing. Lenders reported separately in HMDA data may be owned by the same entity. "Top 10 lenders" refers to those who do the most business by total number of loans.

TABLE 2

Channel Distribution for 2022 Manufactured Housing Originations

	Personal property manufactured housing loan	Real property manufactured housing loan
Government-sponsored enterprise	0.6%	23.1%
Federal Housing Administration	0.3%	33.2%
US Department of Veterans Affairs	0.0%	10.4%
US Department of Agriculture	0.0%	0.8%
Private-label securities	5.2%	0.7%
Portfolio	79.4%	30.4%
Other	14.3%	1.2%

Source: Urban Institute analysis of 2022 Home Mortgage Disclosure Act data.

Note: Totals may not add up to 100 percent because of rounding.

Popularity and Benefits of Personal Property Financing

Of the 55,703 MH loans originated in 2022, around 42 percent were personal property loans. There are various possible reasons for the popularity of personal property loans.

- Personal property lenders may be willing to finance smaller loan sizes.
- Personal property lenders may be willing to finance borrowers with lower credit scores.
- Personal property loans may close faster than real property loans.
- Owners may not wish to encumber their land with a lien.
- Titling a manufactured home as "real property" may be forbidden or difficult, depending on the state, especially if the borrower does not own the land.

- Consumers may not knowingly choose a personal property loan but instead may follow the dealer's recommendation to take the quickest route to closing.

Risks and Disadvantages of Personal Property Financing

In general, personal property MH borrowers are in a riskier legal and economic position than purchasers of homes that can be titled and mortgaged as real property.

- Personal property manufactured home owners who do not own the underlying land are vulnerable to underlying lease increases or terminations, as states rarely provide landlord-tenant protections to these residents.[4] An exception may be a home in a resident-owned community, which tends to have long-term leases or partial ownership of the land.
- Because the home can be moved only at great expense or possible damage, these borrowers often must abandon their home (and any equity) when a lease becomes unaffordable.
- The home's value heavily depends on the borrower's tenure on the underlying land (lease terms). Although the home is a depreciating asset, the home's exact value (and the borrower's equity in it) is highly uncertain over time and depends on the location and nature of the underlying lease.
- The pricing of personal property MH loans may be significantly higher than the pricing of real property MH loans.
- Personal property loans may come with fewer consumer protections. In many states, the lender may engage in self-help repossession upon borrower default, with little or no notice before foreclosure.
- The dealer may be affiliated with the lender without disclosing this interest to the borrower.
- Finally, the personal property borrower may not be aware of these disadvantages because the lender is not obligated to disclose most of them.

Government Support of Personal Property Loans

Both the government-sponsored enterprises'(GSEs')[5] Duty to Serve and underserved markets plans[6] and President Biden's Housing Supply Action Plan call for support to increase the availability of financing for MH loans. Expanding the conventional securities market for personal property loans may produce many benefits, including better disclosures of pricing, terms, and borrowers' rights; a larger number of lenders and loan products; more competition in the pricing and terms of personal property loans; and standardization of many personal property loan origination and servicing processes. In particular, the standardization should lower the denial rate, which was 65.5 percent (table 1). The Consumer Financial Protection Bureau notes that the denial rate in 2019 was 37 percent, even for borrowers with credit scores above 720 (compared with 5 percent for site-built land home mortgages).

Fannie Mae's Duty to Serve plan does not address personal property loans for MH, preferring to support an expansion of conventional real property lending for manufactured homes (Fannie Mae 2023). Freddie Mac's plan, in contrast, includes an extensive discussion of the need to support personal property financing to make MH more readily available to consumers, providing a pathway to purchase 1,500 to 2,500 personal property loans in 2024 (Freddie Mac 2023). This is small, as table 1 shows that more than 55,000 personal property loans were originated in 2022. Given the size of the Freddie Mac plan, and the fact that Fannie Mae has opted not to participate in the personal property MH market, the timing and eventual scale of GSE purchasing of personal property loans is uncertain.

The Federal Housing Administration (FHA) recently published a request for comments on ways to improve its Title I program, which insures MH personal property loans; loan volume has been dismal (three loans were insured in 2021). The FHA and Ginnie Mae recently requested comments on its Title I program to make improvements. Obvious changes, such as increasing maximum loan amounts and reducing lender capital requirements, are under consideration.

Why It Matters: Personal Property Loans and Consumer Protection

As policymakers consider creating greater liquidity for personal property MH loans through the GSEs and the FHA, we believe these developments lend themselves to a reevaluation of the protections available to personal property MH owners. These owners, even though they own the home as an asset, have weaker consumer protections than homeowners who also own the land and title the home as real property rather than personal property (table 3).[7]

TABLE 3
Consumer Protections for Manufactured Home Loans

Description	Personal property manufactured home loan[a]	Land-home or real property manufactured home loan[b]
Legal status	The status is a personal property loan. The owner owns the home but not necessarily the land underneath, which is often leased.	The status is a real property mortgage. The owner owns both the home and the land underneath.
Title	The title is personal property, with a lien that may be private or secured by a UCC-1 statement filed with the secretary of state. FHA Title I loans must have recorded and perfected first-lien security instruments, but these loans are a small percentage of the market.	The title is real property, with a promissory note secured by a mortgage recorded in a county register of deeds.
Pad lease protections	FHA Title I and the GSEs require landlords to provide some lease protections but currently originate very few loans. Some states also have minimal protections. In other states, landlords are not required to provide tenant lease protections.	Protections are not an issue; the homeowner owns the land.
Regulator	States and counties regulate the loans. The Federal Trade Commission and the CFPB provide federal oversight.	States and counties regulate the loans. The CFPB and federal banking regulators (i.e., the FDIC,

Description	Personal property manufactured home loan[a]	Land-home or real property manufactured home loan[b]
		Federal Reserve, NCUA, and OCC) provide federal oversight.
HOEPA	HOEPA requires higher rate triggers (200 basis points more than real property MH loans) for high-cost loans; low-balance loans are excluded altogether.	HOEPA fully applies. High-cost loans trigger disclosure, referral to housing counseling, ability to repay requirements, and so on.
Appraisals	Appraisals are generally not required for loans under $26,000; for all personal property loans, a dealer's invoice may serve as the appraisal. Title I loans do not have appraisal requirements, but homes must meet HUD code requirements and have a warranty.	Loans have extensive requirements, including (for most loans) use of a certified third-party appraiser and an exterior inspection.
Origination disclosures	TILA-RESPA integrated disclosures do not apply to personal property MH loans located on leased land that the borrower does not own or loans originated through a retail dealer. Some truth-in-lending closing disclosures are required (borrowing costs or APR, finance charges, amount financed, and total payments). The UCC does not appear to require a standard format for disclosures. Consumers receive the truth-in-lending disclosures, but the good faith estimate and HUD-1 closing documents are not required. Disclosures must be provided before closing occurs.	The RESPA five-page closing disclosure form is required, in addition to full TILA disclosures. The mortgage industry uses a uniform plain-English disclosure. Required disclosures must be provided three days before closing.
Conflicts of interest	RESPA and SAFE Act requirements do not apply (affiliated businesses may be involved, and restrictions against steering to an affiliated lender are minimal).	RESPA requirements prohibit transactions related to the loan among affiliated businesses unless consumer benefits are clear; consumers must not be steered to a product that will benefit the lender.
Conveyance	Loans do not require title insurance, recording of the initial lien (other than the UCC lien), or recording any assignment of loan.	Loans require title insurance, and there is a recording requirement for origination and assignments.
Default servicing	The UCC governs servicing, and there are minimal or no requirements for loss mitigation. Many states allow self-help repossession by lender, and it is easier for the lender to modify the loan in bankruptcy.	RESPA governs servicing, and default servicing is regulated by the CFPB, federal bank regulators, and states. Any default requires notice and opportunity to cure.
UDAAP in consumer finance	Complaints can be made to the CFPB.	Complaints can be made to the CFPB.

Note: APR = annual percentage rate; CFPB = Consumer Financial Protection Bureau; FDIC = Federal Deposit Insurance Corporation; FHA = Federal Housing Administration; GSE = government-sponsored enterprise; HOEPA = Home Ownership and Equity Protection Act; HUD = US Department of Housing and Urban Development; MH = manufactured housing; NCUA = National Credit Union Administration; OCC = Office of the Comptroller of the Currency; RESPA = Real Estate Settlement Procedures Act; SAFE Act = Secure and Fair Enforcement for Mortgage Licensing Act; TILA = Truth in Lending Act; UCC = Uniform Commercial Code; UDAAP = unfair, deceptive, or abusive acts or practices.

[a] Except as noted, these attributes may not apply to personal property borrowers who nevertheless own the land, who place the home on tribal land, or who live in resident-owned communities.

[b] Although many states permit the home alone to be titled as real property, the process can be arduous.

Increased Government-Backed Liquidity Should Include Basic Borrower Protections

The current regulatory environment creates potential risks for personal property MH borrowers, investors, and policymakers. Both GSEs now require pad lease protections for residents in MH communities as a precondition for providing multifamily financing for these communities. This includes such basic protections as 30-day written notices of rent increases, small grace periods for late payments, and protections to allow the tenant of a site lease to sell or sublease the home. Similar steps are needed for all personal property MH borrowers, not just those in communities that receive GSE mortgages. Consumer protections may increase personal property loan pricing according to industry, though that may be a small price to pay for greater security and stability. Industry, Congress, the FHA, and the GSEs should consider adding greater consumer protections into personal property MH loan purchase programs. These might include the following:

- Require pad lease protections similar to those required by the GSEs for multifamily financing for manufactured home community borrowers, and support research to evaluate the effectiveness of these protections.
- Develop a clear and standard disclosure form for borrowers similar to Real Estate Settlement Procedures Act requirements, and include sufficient information for the borrower to comparison shop for a personal property loan versus a land-home loan if they own the land where the home will be placed. Disclosures should address the consumer protections available, at a minimum, at the federal level and, in general, should address critical information asymmetries between lenders and borrowers.
- Create disclosure, origination, servicing, and consumer protection standards that are consistent across the GSEs and the FHA to set market expectations and address borrower information asymmetries.
- Consider eliminating the Home Ownership and Equity Protection Act distinctions between personal property and real property loans to retain consumer access to loans while reducing interest rates.
- Create a standard recording document beyond the Uniform Commercial Code lien, and require recording of assignments of the loan. This would decrease the risk for lenders and decrease the hassle for borrowers in selling or buying the home.
- Under some circumstances for new homes, develop an independent appraisal process to confirm whether the purchase price relates to the home's actual value.
- Consider national standards for default servicing for personal property loans that include adequate notice of default and opportunity to cure.
- The Federal Housing Finance Agency (FHFA) and the FHA should collect and publish cumulative data about originations, servicing, and performance of these loans.[8]

With the possible expansion of government-backed liquidity for personal property loans, the FHA, Freddie Mac, and the FHFA should consider the opportunity to provide basic consumer protections for these borrowers in exchange for the greater liquidity (and possible guarantee) available with GSE entry and FHA expansion into this market. Federal participation can be a game changer in terms of liquidity and standardization; requiring basic consumer protections seems like a reasonable baseline requirement.

Notes

[1] In this brief, "manufactured housing" refers primarily to homes built to meet the US Department of Housing and Urban Development (HUD) code. Modular, cross-modular, and other types of factory-built homes are required to meet state or local codes but not necessarily the HUD code.

[2] Kaul and Pang (2022) discuss why MH can be a solution to the affordable housing supply shortage: the industry can increase its capacity, consumer demand is rising, and the quality is vastly improved over older MH. See also White House, "President Biden Announces New Actions to Ease the Burden of Housing Costs," press release, May 16, 2022, https://www.whitehouse.gov/briefing-room/statements-releases/2022/05/16/president-biden-announces-new-actions-to-ease-the-burden-of-housing-costs/.

[3] Recent research explores the different types of MH purchase financing (Riley, Freeman, and Dorrance 2021).

[4] Donald H. Layton, "Manufactured Housing Is a Good Source of Unsubsidized Affordable Housing—Except When It's Not: Q&A on Eight Key Policy Topics (Part 2)," *The Stoop* (blog), New York University Furman Center, April 3, 2023, https://furmancenter.org/thestoop/entry/manufactured-housing-is-a-good-source-of-unsubsidized-affordable-housing-except-when-its-not-qa-on-eight-key-policy-topics-part-2.

[5] HUD recently sought comments to improve the program. See Kaul, Goodman, and Tozer (2022) for Urban Institute comments on Title I.

[6] Both plans were approved by the Federal Housing Finance Administration (FHFA) effective January 1, 2022, and were modified in January 2023. See Freddie Mac (2023) and Fannie Mae (2023).

[7] Layton, "Manufactured Housing Is a Good Source."

[8] Industry self-reports (without data) that personal property loans perform extremely well. Because they are mostly held in portfolio, lenders claim they aggressively minimize default risk.

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