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The Drive for Chattel Financing Heats Up

While MHARR had expected to present the conclusion of its August 2010 MHARR Viewpoint column, “Putting the Right Pieces in Place,” this month, urgent developments regarding the implementation of the “duty to serve underserved markets” (DTS) mandate and specifically the proposed exclusion of manufactured home chattel financing from DTS,

warrant further examination, analysis and action by the industry.

The exclusion of chattel financing -- and with it, nearly two-thirds of the manufactured housing market -- from the DTS rule proposed by the Federal Housing Finance Agency (FHFA), culminates decades of misunderstanding of manufactured housing, the manufactured housing market and manufactured housing consumers by relevant federal finance entities, as well as a multitude of missed opportunities and missteps by the industry itself.

Manufactured housing has never been a favorite of the two Government Sponsored Enterprises (GSEs). The facts speak for themselves. The participation of the GSEs in the manufactured housing market has never been substantial and more recently the volume of manufactured housing business has fallen to less than one percent of the respective portfolios of each Enterprise, although historically manufactured homes represent approximately 10-15 percent of the single-family housing market. Officials of both entities, for years, have pointed to the “higher risk” of manufactured housing obligations to justify this posture. It was no surprise, then, when FHFA began the DTS rulemaking process in 2009, that both GSEs opposed the inclusion of chattel loans -- based largely on perceived “risk.” Freddie Mac, for example, noted in its initial comments that “chattel mortgages impose additional layers of complexity and risk. *** [T]he purchase of chattel loans would be a difficult proposition....”

This perception -- and bias -- is rooted in the past. In the heady days of the 1990s, industry practices, at times, got a bit out of hand, resulting in losses -- although nowhere near the losses incurred by the GSEs as a result of their involvement in the sub-prime real estate market, that ultimately led to their failure. The GSEs then failed to exercise proper due diligence in the purchase of a large portfolio of manufactured housing obligations from a now defunct lender and sustained further, more significant losses as a result. But industry practices were corrected years ago, and the GSEs are aware of this. Installation and consumer satisfaction have been addressed, and the GSEs are aware of this also. Yet, the negative perception of manufactured housing -- and resulting discrimination against its consumers -- remain, even though officials of both entities will admit that the performance of manufactured housing obligations has improved. The question, then, is “why” this perception remains -- and what can be done about it.

The remaining perception stems, in large part, from a lack of education. The GSEs do not know -- and have never been shown -- the financial history of the industry. Chattel lending has been at the heart of the manufactured housing industry since it began. It was the only form of financing available for the “trailers” that the industry produced in its infancy. It allowed the industry to transition from small-scale to mass production and, ultimately, from the production of specialty vehicles to the production of legitimate, factory-built housing. It is a unique aspect of the manufactured housing market that derives from the unique heritage of that market, but continues to serve a crucial purpose today by providing the

most affordable type of financing for the industry’s most affordable homes. In the process, it enables consumers who might not otherwise qualify for other types of financing to purchase a home of their own -- as is demonstrated by the fact that chattel financing continues to account for a large majority of manufactured home sales in the United States. The industry was thus built from the ground up through chattel financing and it should be unthinkable for any government agency or entity to prohibit, exclude, or undermine the availability of such loans.

Put a bit differently, chattel financing is the “glue” that holds the entire consumer financing structure of the manufactured housing industry together, whether it be public or private financing. While manufactured housing consumers can choose among various financing sources and types, public and private, including the FHA Title I and Title II programs, real estate-based financing, land-home packages, MH Select and others, chattel financing has always been there to fill the vacuum when other types of financing fail or are otherwise not workable. When home-buyers cannot qualify for other types of financing, chattel financing has always been there to ensure that no buyer is left out of the housing market -- that no one who wants to own a home is forced into the rental market.

Which brings us back to DTS. The exclusion of chattel financing from DTS would undermine the ability of the industry to provide affordable non-subsidized housing, while undermining consumers’ ability to finance and buy a home that they can afford. Very simply, if consumers cannot qualify for financing now on the industry’s most affordable homes, how would they qualify for financing on the more costly real estate transactions that the proposed DTS rule would be limited to? How does this “best serve” the very low, low and moderate-income families -- the “underserved market” -- that DTS is supposed to help?

The industry, however, could -- and needs to -- do a better job on the logistical and practical side, to tell Fannie Mae, Freddie Mac and their FHFA regulators just how essential chattel financing is to the industry and its consumers. Given a forty-five day comment period on the proposed DTS rule, the industry’s post-production sector -- in daily contact with communities and millions of community residents who use chattel financing -- could have done a far better job to mobilize those residents and help them tell their own individual story to Fannie Mae, Freddie Mac and their regulators at FHFA, to make clear how the availability of chattel financing made a difference to them on a personal level. Presenting the individual success stories of actual consumers from around the United States -- underscoring the crucial importance of chattel financing in making them home owners, rather than renters -- would have been far more effective than it was to send multiple copies of the same form letter, that the FHFA regulators need only address once in the rulemaking process.

In MHARR’s view, the drive for chattel financing must continue, with the industry working together with chattel-financed homeowners to show its critical importance to the regulators at FHFA, while keeping all other available options on the table.



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