

Back To Basics

One unchallengeable truth in the housing market is people will buy the “most” house they can afford. Meaning, consumers generally purchase the most expensive home for which they can qualify for financing. The concept that financing drives housing demand is not groundbreaking. Yet, it seems to be one that many in Washington, DC—policy makers and industry stakeholders, alike—have either seemed to have forgotten, want to ignore or have chosen to take for granted.

For more than a decade, the ever present realities that have existed within the manufactured housing market include: unfavorable economic conditions; exclusionary practices of financial and government institutions; and seemingly endless regulatory pressures. Taken together, these forces have blocked avenues to affordable financing for the purchase of manufactured homes. In this regard—intentional or not—the scales have been tilted against the manufactured housing industry and its 19 million residents for quite some time.

To review, the manufactured housing industry and its residents have in equal measure suffered the consequences of the growth of subprime lending in the traditional site-built lending market, which diminished the affordability advantage of manufactured housing. Consumers, through the availability of exotic loan products, were able to purchase substantially more expensive site-built homes, which in large part, proved unsustainable.

By providing a secondary market, Fannie Mae and Freddie Mac subsidized millions of these loans and, in essence, endorsed many of the questionable practices of subprime site-built lenders, which helped bring about the decline in the housing market. At the same time, Fannie and Freddie erected barriers that effectively shut off the development of a viable secondary market for manufactured home loans, which would have led to lower financing costs for manufactured home buyers.

Many new regulations that will be imposed on mortgage lenders by the Dodd-Frank Wall Street Reform and Consumer Protection Act are designed to curtail questionable practices that were pervasive in the site-built lending world. Unfortunately, much of the financing activity within the manufactured housing market will now be lumped into the same category as subprime predatory site-built mortgages.

So, it was with much appreciation and gratitude that members of the Manufactured Housing Institute (MHI) were invited to testify during a recent hearing of the House Committee on Financial Services exploring the state of the manufactured housing industry. During the hearing, the Committee heard testimony from industry and consumer representatives.

While there was a diverse cross-section of the market represented at the hearing—manufacturers, retailers, consumer advocates, community residents and lenders—there was uniform agreement among all. Availability and access to financing is the most important issue within the manufactured housing market.

In his testimony, MHI Secretary and Clayton Homes President and CEO, Kevin Clayton, indicated that the manufactured housing industry has suffered through a progression of housing finance challenges over the past decade. Competition from subprime lending, and a lack

of liquidity and a secondary market in the manufactured housing finance arena, has caused construction to decline roughly 80 percent, shutter 160 construction plants and cost over 200,000 jobs.

Mr. Clayton cautioned that coming regulatory uncertainty and burdensome requirements related to the Dodd-Frank Act would not only slow growth, but could trigger a further retraction of the market. He stated that of the loans Clayton Homes has “made year-to-date, more than 50 percent” would be considered predatory under the Dodd-Frank Act and would be loans the company, based on exposure to liability, would not be able to make. Meaning, more than 7,000 low- and moderate-income families would have been potentially left without an affordable housing option.

The most personal of insights into the financing challenges facing the manufactured housing market came from Yates Home President Scott Yates when he stated that “with the constant pressure of government regulation at all levels and a lack of reliable financing sources for our customers, we have had to turn to modular homes instead of manufactured homes.” He added that “the finance community has turned from manufactured homes because of secondary markets not wanting to buy the portfolios that contain this type of housing.” But, most importantly “the true loser is the customer who wants to provide shelter for their family at an affordable price and who understands that manufactured housing is a viable option to do exactly that.”

Even community development advocates—who often do not see eye-to-eye with the industry—recognize the impact a lack of financing has had on the manufactured housing industry. For example, Community Reinvestment Association of North Carolina Research Director (and Manufactured Housing Consensus Committee member), Adam Rust, stated “if demand for manufactured housing is to be resurrected, any solution begins with addressing the functionality of the secondary market. The first place to begin is with the GSEs. The GSEs redline the manufactured housing market. In 2005, less than one-half of one percent of Fannie and Freddie’s portfolios were invested in manufactured housing asset-backed securities.”

Industry and consumer advocates seem to be of a like mind that a “back-to-basics” approach is needed in order to restore a modicum of vitality to the manufactured housing market. And, if the industry and consumers can both agree that improving access to credit is what the manufactured housing market needs most; then why can’t Washington do the same?



MHI is the preeminent national trade association for the manufactured and modular housing industries, representing all segments of the industries before Congress and the Federal government. From its Washington, D.C. area headquarters, MHI actively works to promote fair laws and regulation for all MHI members and the industry. For more information on MHI, visit www.manufacturedhousing.org.