

# A Fresh Look at Manufactured Housing

By Paul Bradley, New Hampshire Community Loan Fund

In 1984, a real estate transaction in a popular lakeside town in New Hampshire started a transformation in manufactured housing parks around the country. The deal, which included a \$43,000 loan from the New Hampshire Community Loan Fund, gave the 13 tenants in the Meredith Trailer Park ownership of the land underneath their homes. It would provide a national blueprint for how tenants in parks could have

Members of New Hampshire's first manufactured housing cooperative, formed in 1984, celebrate their achievement.



some control over their rents, improve their neighborhood, and build a homeownership asset.

The concept was simple: homeowners form a self-governing corporation that buys the land beneath their homes. Homeowners each own one share of the corporation and serve as directors and volunteers to manage it and its community. Sources for acquisition and improvements financing are commercial banks, the Loan Fund, and state and federal loan and grant programs.

In the intervening 18 years, manufactured housing park cooperatives have taken hold in New Hampshire, with 57 resident-owned manufac-

tured housing communities currently representing 12 percent of the state's parks. The Loan Fund has advanced over \$15 million to these cooperative borrowers, while conventional senior lenders have loaned them over \$40 million. To date, there have been no failures or defaults.

Such news is welcome to residents of manufactured housing parks who know that stabilizing the affordability of their homes is vital, and for whom other moderately priced housing is difficult to find. In New Hampshire, like many states, the availability of low- and moderate-income housing is squeezed by demand that far outstrips supply. Manufactured housing parks, in particular, help to meet

some of that demand. Five percent of New Hampshire's housing units are located in the state's 460 manufactured housing parks.

#### Looking Closer at "Land-Lease" Communities

Whether in New Hampshire or Texas, manufactured housing parks have a fairly straightforward definition: parcels of land on which two or more manufactured homes sit. What distinguishes manufactured housing parks from other kinds of planned communities is that the millions of Americans who live in these parks are both homeowners and tenants; they own their home and rent their lot from a park owner. The implications of a permanent housing sector based on such a model, whereby residents have equity invested in their home yet lack the economic and legal powers normally associated with homeownership, is fundamentally destabilizing for working and retired people and their families.

Beginning in the 1970s, residents of New Hampshire's manufactured housing parks started facing a new challenge. Increasingly, small, local operators began selling their parks to large regional, national, and international investors. When this happened, homeowners who relied on their rental site for much of their home's value and stability got rocked. While good park operators exist, the industry is home to many troubling practitioners who take advantage of park residents' points of exposure.

Ironically, more often than not, there are no leases in "land lease" communities, and protections that one expects from a lease are nonexistent. People owning a home on rented land are susceptible to three primary risks because of their unique situation.

#### Excessive Rent Increases

Since homeowners have no real options for relocating their homes once sited, the principle of market rents in parks doesn't hold. Even in the face of excessive rent increases, many homeowners cannot afford to move. Even if they could afford it, few, if any, sites are available to move to.

#### Health and Safety Violations

Neglect of the infrastructure can mean leaking effluent from septic systems, poor water quality and low water pressure, exposed electrical lines, and all-engulfing potholes.

Weak town and state enforcement of such health and safety concerns and homeowners' fear of retribution by the landowner too often keep homeowners from speaking out.

#### Park Closure

A horrendous surprise exists for homeowners and their housing lenders who discover that the park owner is closing the park. The "highest and best value" analysis is a cold science that, in the case of parks, results in presumably higher returns for one investor and loss of housing for most of the homeowners. Successful lobbying has given New Hampshire park residents an 18-month closure notice; Georgia law only grants 30 days.

Moreover, every time a park sells to a new investor, homeowners effectively absorb higher rents, which pay the new investor's debt and return on equity. A resident of 30 years will have paid for the park two or three times through rental payments. A resident buy-out of the park removes the property from the speculative real estate market and allows homeowners to retire acquisition financing once and for all.

#### Banks' Role in Financing Cooperative Park Purchases

The resident-ownership model reverses a park ownership model rooted in short-term camping stays to one that is appropriate for long-term residency and asset accumulation among lower-income homeowners. The financial gap between what park residents can raise through the proceeds of selling membership shares and the 75 to 80 percent loan-to-value ratio that a bank will provide has been filled by the Loan Fund in a senior/subordinate debt package.

The leadership and positive experiences of the Loan Fund and the New Hampshire Housing Finance Authority, which helped finance several early cooperative parks, gave banks the confidence that this was a legitimate and safe line of business. Since 1988, New Hampshire's banks, both large and small, have reliably provided first mortgage financing for cooperative purchases. "Cooperative park loans are a good credit for us on a number of fronts — the borrowers have a very good track record and are strong community credits for us," says Tom Potter, vice president of commercial lending for the Bank of New Hampshire. "The Loan Fund is key to this — without their second and their technical assistance, we couldn't do these loans."

## POWER OF OWNERSHIP

In the late 1970s, Jack Lapham got a quick lesson in tenant rights. "In my park in Boscawen, NH, the owner gave us 54 days to get out. He did it in the name of a dollar bill. He wanted to build something else there," said the retired police officer.

Lapham had no choice. He sold his home at a huge loss and moved. He swore he'd never live in a manufactured housing park again.

But things change. In 2000, he and his wife moved into a three-bedroom home in Breezy Acres Co-op in Epsom, NH. "Unlike the other park I lived in, we own the land here," said Lapham. "If you own something, it's yours."

The Breezy Acres Co-op was bought by tenants in 1992, with assistance from the New Hampshire Community Loan Fund, a bank, New Hampshire's Community Development Finance Authority, and the New Hampshire Housing Finance Authority. Faulty septic systems and detrimental drainage problems were fixed.

"Parks carry a stigma with them, but if more people were exposed to parks like this one, they'd appreciate how nice and quiet it is," he said. "This is a well-kept secret."



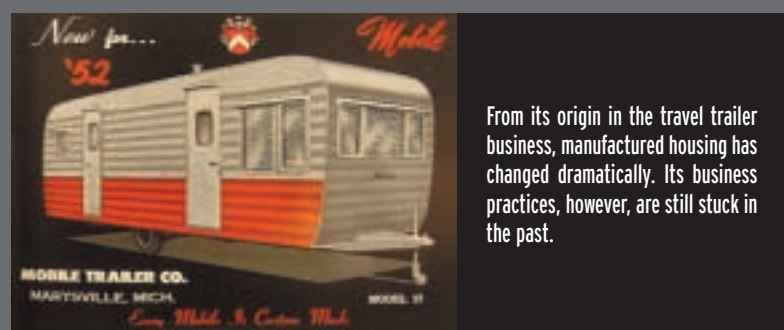
### THE BOTTOM LINE: WHAT MANUFACTURED HOUSING IS AND WHY IT DOESN'T WORK BETTER

Factory-built homes produced under the national building code (the "HUD Code") are by law "manufactured housing." A manufactured home arrives on a steel chassis that is an integral part of the structure. By contrast, a modular home — which is also factory-built — is built according to local building codes. In general, a modular home is entirely wood-framed and crane-lifted onto a foundation.

Historically, manufactured housing has been called "mobile homes," or worse, "trailers." Today, there are roughly nine million manufactured homes in use, with nearly one-half of these homes located in investor-owned communities commonly referred to as "mobile home parks" or "trailer parks."

The mobile home and trailer terms reflect the manufactured housing industry's origins in the travel trailer business that developed following World War II. In fact, the manufactured housing industry was started by automobile executives as a way to capitalize on surplus production capacity and Americans' increasing levels of leisure time. To a large degree, manufactured housing's poor performance as an affordable housing resource is a result of the travel trailer industry's morphing into a permanent housing sector without much evolution of the underlying business practices.

These business practices are rooted in three aspects of the travel trailer industry: site rental, merchandising sales, and consumer financing. When campgrounds opened year-round, site space for trailers became rented on a monthly basis, but with few long-term protections for homeowners. Additionally, manufactured homes today are still sold as travel trailers were, with local dealers employing "quick sale" merchandising. And finally, consumers of manufactured housing contend with consumer financing practices that are not as balanced, disciplined, or efficient as those of the mortgage market for stick-built housing. If manufactured housing is to be a housing sector that works for consumers, it's time to rethink these business models and move to more conventional, single-family lending practices.



From its origin in the travel trailer business, manufactured housing has changed dramatically. Its business practices, however, are still stuck in the past.

### THE NEW HAMPSHIRE COMMUNITY LOAN FUND: A BRIDGE BETWEEN INVESTORS AND SELF-HELP COMMUNITY GROUPS

The Loan Fund was founded in 1983 on two beliefs: that one of the barriers preventing people with low incomes from achieving greater self sufficiency is sometimes a lack of access to credit; and that people and organizations that have (or manage) financial resources are willing to help their neighbors if they have a mechanism to do so. The private, nonprofit Loan Fund was formed to be that mechanism by providing loans and technical assistance to community-based affordable housing and economic development projects in New Hampshire. In 18 years, the Loan Fund has made more than 376 loans totaling \$36.4 million.

The Loan Fund also provides technical assistance because, in addition to capital, community groups need customized information and training to reach their goals. For instance, many people would not even begin to organize in manufactured housing parks, believing ownership impossible. The sense of possibility may be the Loan Fund's most important product.

Marking the creation of the 50<sup>th</sup> resident-owned manufactured housing community in NH, representatives of the Loan Fund, Federal Home Loan Bank of Boston, and Bank of New Hampshire surround Sheila Finch, chair of the Freedom Hill Co-op in Loudon.



While early debt packages included fairly traditional commercial terms, including adjustable-rate mortgages, fixed-rate loans are now the norm. Sensitivity to rate risk is especially strong in cooperative parks as the single source of income is member rents, and it is in everyone's best interest to keep rents stable. In the early 1990s, the Federal Home Loan Bank of Boston began a fixed-rate community development advance for its member banks, thereby enabling commercial banks to offer long-term, fixed-rate loans to cooperatives.

### The Challenges and Benefits of Financing Park Cooperatives

On the surface, it is understandable why these projects might challenge conventional lenders: The co-ops have revolving leadership; a property may have infrastructure in disrepair; and the co-op owners are a nontraditional borrower group. Indeed, all are true. Cooperatives establish a democratic framework for resident participation in co-op decisions, they rehabilitate the park itself, and they rely on rent they charge themselves to repay loans and pay expenses. But the difficulties presented by this kind of ownership are also the cooperatives' strengths. In overcoming these challenges, co-ops lead to stronger and more cohesive communities, which benefit everyone.

"We decided to call our cooperative New Beginning – we wanted to change our reputation in town," said a founding member of New Beginning Cooperative in Winchester, New Hampshire. "Before we bought the park, the police would be in the

### MISSING OUT



In just ten minutes, 140 families living in the Cotton Farm Village Co-op saw their dream of park ownership vanish. They were unable to exceed a rival bid of \$3.3 million in a 1999 auction for the property.

"It was discouraging," recalled Guy Pichette, who still lives in the Danville, NH, manufactured housing park. "We had decided we had to keep lot rents at \$290 a month. Some people lived on fixed incomes. We couldn't bid more than \$3.2 million and keep rents under \$300."

Six months later, the park was sold to an investment group from New York. And in a twist, the new owners increased monthly lot rents to \$330. "Nobody ever thought the rents would go that high," said the 52-year-old accountant. "We've taken a big hit."

The tenants remain active in case they get another shot at buying the property. "You always have to have hope, I guess," said Pichette. "You just never know what will happen."

### ENERGIZING A COMMUNITY

Dottie Hillock is sold on the South Parrish Road Co-op in rural Winchester, NH. "I feel very comfortable here," said Hillock, a native of the state's southwestern town. "We all watch out for everyone."

The 58-year-old bookkeeper said that when she first moved to her home in 1989, people kept to themselves. "Everyone paid their rent and was just kind of there."



But when the co-op bought the park in 1992, the neighbors began stepping out – including Hillock. She was elected secretary of the co-op board and then became its president. Since then, she's been tapped by town officials for important town posts, including a seat on the Board of Selectmen. Rents in the co-op are now stable, and major improvements to the water, road, and septic systems are complete.

A community meetinghouse has been established through the co-op's purchase of a former member's home. Volunteers from the park refurbished the home and, with profits from tag sales and bake sales, bought a new refrigerator and stove to support hosting neighborhood functions.

park every day for one thing or another – drunks fighting in the street, domestic violence, kid problems. Now, the police rarely come here – people don't put up with it anymore. We found a new beginning . . . no, we *made* a new beginning."

The Loan Fund provides training and support to all co-op leaders with a front-line staff of five full-time specialists in finance, infrastructure, and organizational development. In

addition to one-on-one technical assistance and training, the Loan Fund staff also generates a quarterly newsletter, arranges regional leadership training sessions, and organizes a biannual conference.

### Home Loans in Resident-Owned Communities Are an Emerging Market

Housing finance in parks is largely rooted in consumer lending practices and dominated by nonbank subprime lenders. The manufac-

ured housing finance system treats the home as personal property rather than real estate. (For some historical perspective, see the sidebar "The Bottom Line: What Manufactured Housing Is and Why It Doesn't Work Better.") This means that the regulatory oversight that would happen with real estate loans is absent from the financing of many manufactured homes; dealer kickbacks and referral fees, for example, are not prohibited. In recently reported cases, these financing deals have included yield-sharing agreements between lenders and dealers, sales-price excesses, and other predatory-like conventions. In addition, distribution networks and merchandising methods remain focused on quick sales and indirect financing.

Cooperatives steady the land beneath members' homes, but co-op homeowners must still contend with a critical and destabilizing home financing issue: Subprime and other high interest rate lenders control 85 percent of the market. The following statistics tell a story by themselves: \* One in five mortgagers in New

Hampshire's cooperative parks pays in excess of 14 percent interest on his or her home loan.

\* The median interest rate paid by homeowners in cooperative parks is 11.8 percent.

Furthermore, even though three in ten houses in parks are mortgage-free, home-equity loans for value-enhancing home improvements are not available to manufactured housing owners in parks.

Many homeowners manage to meet their obligations despite these harsh conditions. "We had to pay 17 percent," said one park resident. "We either paid it or we didn't get the house." And as noted by Richard Genz of Housing and Community Insight in "Why Advocates Need to Rethink Manufactured Housing" (*Housing Policy Debate*, 2001), it is unlikely that manufactured housing borrowers are charged higher interest rates because they are inherently a riskier group. In practice, manufactured housing owners are "subprime" because of their housing choice, not because of their credit quality.

To address the lack of reasonably priced home mortgage loans the Loan Fund is beginning a new program founded on the belief that homeowners in resident-owned communities represent a better risk profile than the market recognizes. The Loan Fund's role as a community development lender is to demonstrate the possibilities within targeted lower-income markets and pave the way for traditional banks to increasingly serve this market.

The Loan Fund's new Cooperative Home Loan Program will originate, season, pool, and sell standardized home mortgage loans from resident-owned parks. The program's goal is to introduce single-family loan practices and attract bank capital into a homeownership market that desperately needs and deserves it. The Loan Fund believes it can offer banks CRA-rich manufactured home loan pools that offer an attractive rate of return. Currently the Loan Fund is working with several banks in New Hampshire to structure a collaborative initiative that will take advantage of the Loan Fund's strong consumer ties, market knowledge, and balance sheet to leverage bank capital on a continual basis. The Loan Fund's long-term objective is to see conventional lenders meeting the mortgage loan needs of lower-income homeowners in resident-owned communities.

Resident-owned land and healthy housing finance markets are key elements for making manufactured homes a stable and appreciating source of affordable housing for working and retired citizens. New Hampshire's cooperatives are proving it is possible, one locally controlled community at a time. ~

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### REJECTING MINIMUM STANDARDS

Shirley Hooker has lived in the same Tilton, NH, location since 1975. She's seen a lot of changes. "When I first moved here the lot rent was \$50 a month. But it kept going up, close to \$200 before we bought the park in 1993," said Hooker, former treasurer of the Windy Hill Housing Co-op.

The 77-year-old massage therapist says the previous owner did little to maintain the park. "Everything was minimal," she said. "He used the cheapest materials and that's why everything kept breaking."

But tenants got a break in 1993. They beat out a competing buyer to purchase the 48-site community with loans from the Loan Fund and a local bank. In nine years, lot rents have increased once – by five dollars. At the same time, roads have been repaved, water systems improved, and septic systems replaced.

"The co-op is such a wonderful idea," said Hooker. "That we have low-cost living is such a nice situation."

