



Testimony of

Kevin Jewell, Consultant

Manufactured Housing Project

On behalf of

Consumers Union

Regarding

The FHA Manufactured Housing Loan Modernization Act of 2005

before the

Subcommittee on Housing and Transportation

of the

Senate Committee on Banking, Housing, and Urban Affairs

April 4, 2005

Consumers Union Southwest Regional Office
1300 Guadalupe, Suite 100
Austin, Texas 78702
Phone: (512) 477-4431
Fax: (512) 477-8934

Thank you Chairman Allard, Ranking Member Reed, and Members of the Subcommittee. My name is Kevin Jewell. I am speaking on behalf of Consumers Union. We are pleased to have the opportunity to share with you our research on the manufactured housing industry as it relates to *The FHA Manufactured Housing Loan Modernization Act of 2005*.

Since 2001, the Consumers Union manufactured housing project has been exploring a fundamental question: *Does ownership of a manufactured home present families with the same benefits that puts conventional homeownership in a special part of the American dream?* Our answer: No. The promise of low-cost-factory built housing all has been besmirched in real life by a market wrought with failure.

Conventional homeownership allows families to invest in an asset that historically has presented fairly stable positive returns for families. Stability of tenure strengthens communities, and investment results have historically build assets for families of all income ranges.

Why hasn't manufactured homeownership had the same sweeping success? The sales and financing process is ripe with abuse and variable product durability, warranty service, and code enforcement all contribute to a buyer-beware marketplace. Land tenancy for home-only units can be tenuous, leaving consumers at the mercy of the whims of landlords. Over time, manufactured homes without land general lose value. (*See Consumers Union's "Raising the Floor, Raising the Roof" for further discussion of these challenges. This report is available online at: <http://www.consumersunion.org/pdf/mh/raising.pdf>.*)

The bill before you (S. 2123) lies at an uneasy nexus of policy interest. On one hand, it facilitates the sale of a product that has yet to overcome its significant market problems. The home only loans allowed by the bill will put the many homeowners in a depreciating asset, on a long term note, but with a short term lot lease. In these cases, homeowners will find their investment lives at the whim of a landowner. Here, we find we are encouraging families to make a purchase without stability or investment potential.

We cannot expect the benefits of community or asset accumulation in this situation. On the other hand, this bill, with modification, could facilitate an appraisal-based chattel product that the private market has failed to provide. Reasonable loans on true inspected, installed, appraised values would be an improvement on loans on inflated values that have been all too common over the last decade in this industry.

But significant changes are needed for the potential benefits of this product to outweigh the problems in this industry. A purpose of these proposed changes is to bring stability to this marketplace. As an insurer, it is in the government best interest to bring stability to this market, but it is also in the public interest for FHA to avoid setting up borrowers for loans with a high probability of failure. A family with a failed loan is worse off than before the purchase.

Consumers Union suggests that this program be altered to remove eligibility for home-only loans in situations where the homeowner cannot demonstrate control of the land upon which the unit sits. Without control of the land, the homeowner and the lender lie at the whim of the landowner, and invites loan failure. In high loan-to-value loans such as allowed under this program, equity builds slowly in a depreciating asset. Our analysis indicates that the equity balance in the even the larger FHA title I loans would be such that it would not be worthwhile for a consumer to spend the cost of moving a home for 5-10 years after purchase. If rent was increased unacceptably, or a park was closed, it could be in the consumer's best interest to send the home back to the bank and walk away from the deal. This would also push most families to bankruptcy or and exit from the mainstream financial marketplace.

Control of the land does not have to be ownership, although that is the most common and conventional path for control. Co-op ownership has had success in New Hampshire. Freddie Mac has experimented, although with limited success, with a "leasehold" program. In the Freddie Mac program, buyers enter into a transferable lease that codifies rent increases and other rules for 5 years past the term of the loan. At minimum, FHA should require 5-10 year transferable leases for the home-only loans it makes. Until the equity in the loan matches the relocation cost, the borrower and insurer are at whim of the landowner.

Extending to FHA title I insured personal property home-owners the consumer protections enjoyed by real-estate home-owners is another important opportunity to create stability in this marketplace. The stability these protections offer the real estate market are an important reason for the historical success of that market.

Personal property loans are generally subject to state repossession rather than state foreclosure laws. Insured loan contract language could explicitly incorporate the right to cure and anti-deficiency balance language found in foreclosure statutes into insured loan contracts. RESPA protections, such as good faith

estimate of costs and kickback prohibitions, would place title I personal property retail installment contracts closer to par to real estate loans and rebuild trust in this market.

The lot product in the title 1 program has potential to benefit consumers by allowing them to escape a rental situation. The home and lot product offers little benefit over a title II real estate loan, but properly implemented the home and lot product could expand lender options in limited situations. In manufactured housing, even more than in conventional housing, the details matter. It takes a good loan and purchase transaction for manufactured homes to have a chance for asset-building and a successful homeownership transaction. More detailed commentary on this and other language in S. 2123 have been submitted in my extended comments.

But the lot and lot and home products are of secondary in this debate. Without additional protections insuring tenure and clean transactions, this program has the potential to facilitate, even incentive, further failed loans in the marketplace.