

Daylor  
Written Testimony  
HB 161 Session of 2013  
April 30, 2014

Trailers were first used as year-round dwellings in the United States in the 1940's during World War II for defense workers. Today, trailer is an outdated term unless you are referring to a camper or camping trailer. The term trailer park has been replaced with the term "manufactured home community." The terms "single-wide" and "double-wide" have been replaced with the terms "single section" and "multi-section" respectively.

A mobile home is a factory-built home that was constructed prior to June 15, 1976, the date in which the HUD Code went into effect. After June 15, 1976 "manufactured home" became the acceptable term.

#### **DEFINITIONS OF MANUFACTURED HOUSING**

There are multiple definitions of manufactured housing.

HUD defines manufactured housing as follows:

*A manufactured home (formerly known as a mobile home) is built to the Manufactured Home Construction and Safety Standards (HUD Code) and displays a red certification label on the exterior of each transportable section.<sup>1</sup>*

The Manufactured Housing Institute indicates:

*A manufactured home is a single-family house constructed entirely in a controlled factory environment, built to the federal Manufactured Home Construction and Safety Standards (better known as the HUD Code).<sup>2</sup>*

For purposes of Fannie Mae's guidelines, a manufactured home is defined as:

*A "manufactured home" is any dwelling unit built on a permanent chassis and attached to a permanent foundation system.<sup>3</sup>*

Freddie Mac says:

*The Manufactured Home must be built on a permanent chassis in compliance with the applicable HUD Codes for Manufactured Homes (HUD Codes) in effect as of the date the Manufactured Home was constructed.<sup>4</sup>*

<sup>1</sup> <http://www.hud.gov/offices/hsg/ramh/mhs/faq.cfm>

<sup>2</sup> [http://www.manufacturedhousing.org/lib/showtemp\\_detail.asp?id=446&cat=1](http://www.manufacturedhousing.org/lib/showtemp_detail.asp?id=446&cat=1)

<sup>3</sup> Fannie Mae 2013 Selling Guide B2-3-05, Factory Built Housing (04/01/2009)

<sup>4</sup> Freddie Mac Single-Family Seller/Services Guide, Vol. 1, Ch H33: Manufactured Homes H33.2: Property eligibility (10/09/09)

In 1974, Congress passed the National Manufactured Housing Construction and Safety Standards Act. The purpose of this legislation was to allow the U.S. Department of Housing and Urban Development (HUD) "to establish appropriate manufactured home construction and safety standards, which meet the highest standards of protection, taking into account existing state and local laws relating to manufactured homes."<sup>1</sup> It mandated that after JUNE 15, 1976, all manufactured homes had to be built to the HUD Code.

According to the U.S. Department of Housing and Urban Development: "The Manufactured Housing Program is a national program established to protect the health and safety of the owners of manufactured (mobile) homes through the enforcement of the federal manufactured home construction and safety standards and administration of dispute resolution."<sup>2</sup>

Through this program, HUD's intention was to reduce personal injuries, deaths, property damage, insurance costs, and to improve the quality and durability of manufactured homes. The legislation gives HUD the right to inspect manufactured home factories, request records, and enforce standards directly. They also have the ability to establish State Administrative Agencies (SAAs), who have the ability to handle consumer complaints, conduct inspections, conduct hearings, issues subpoenas and handle enforcement. HUD handles these duties in the twelve states that do not have SAAs.

In addition to site-built homes, some factory-built homes such as modular homes, panelized homes, and kit homes are classified as **real property**. Manufactured homes may be classified as real or personal property.

**Real Property** is defined in the Dictionary of Real Estate Appraisal, 4th Edition as:

*All interests, benefits, and rights inherent in the ownership of physical real estate; the bundle of rights with which the ownership of the real estate is endowed. In some states, real property is defined by statute and is synonymous with real estate.*

**Personal property** is defined in the Dictionary of Real Estate Appraisal, 4th Edition as:

*1. Identifiable tangible objects that are considered by the general public as being "personal," for example, furnishings, artwork, antiques, gems and jewelry, collectibles, machinery and equipment; all tangible property that is not classified as real estate.*

*2. Consists of every kind of property that is not real property; movable without damage to itself or the real estate; subdivided into tangible and intangible.*

HUD Code homes were purchased as personal property by dealers and individual owners for numerous years. Just as with cars, boats, and motor homes, a purchaser of personal property receives a title, issued by the state. Typically, the lending agency, as part of the purchase and finance of personal property, will require a lien and will lend for shorter terms than typical 15 to 30 year mortgages (i.e. 5-10 years).

<sup>1</sup> [http://www.manufacturedhousing.org/lib/showtemp\\_detail01.asp?id=90&cat=features](http://www.manufacturedhousing.org/lib/showtemp_detail01.asp?id=90&cat=features)

<sup>2</sup> Hud.Gov website.

According to US Census Data, about half of manufactured houses today are located in rental parks on rented land and fall within the personal property status. The other half consist of manufactured homes that are located on owned land, many of which have transferred to real property status. In order for a property to become real property states must allow cancellation of title and assessors must transfer the taxable status of the property.

Many states allow manufactured homes to be classified as real estate. However, there are states that do not allow manufactured homes on leased land or owned land to be classified as real estate.

According the McKissock's on-line course titled *Appraising Manufactured Homes* "until recently, Fannie Mae and most primary lenders would only loan on manufactured homes classified as real estate. For owners of titled manufactured homes, the sole alternative was a personal loan (similar to a car loan) at a higher interest rate and shorter term than a typical house loan. FHA does have a Title 1 mortgage program for lending on titled manufactured homes."

"Most buyers of new manufactured homes (about 80%) took the financing package offered by the retailer. These personal property loans are not covered under the Real Estate Settlement Procedures Act and may have hidden fees and charges, including sales commissions to the retailer. This may lead to abuses and predatory lending."

"Relaxed standards among manufactured home lender specialists in the mid 90s led to a vulnerable situation. Some borrowers were approved for loans that they could not afford. It is estimated that 75,000 manufactured homes were repossessed in 2000."

## **MANUFACTURED HOUSING STANDARDS**

According to Fannie Mae guidelines, in order to obtain a mortgage loan, the manufactured home and the land must be classified as real property under state law and the loan must be secured by both by a single valid and enforceable note and first lien mortgage, or deed of trust or security deed that is recorded in the land records.

Fannie Mae classifies a manufactured home as "any dwelling unit built on a permanent chassis and attached to a permanent foundation system." Modular homes, sectional homes, kit homes, and other factory-built homes, which are not built on a permanent chassis, are not classified as manufactured housing.

## **MANUFACTURED HOME PROPERTY REQUIREMENTS**

(Source: Fannie Mae Appraisal Guidelines for Manufactured Housing)

The following eligibility criteria apply to any mortgage that is secured by a manufactured home:

1. The manufactured home must be built in compliance with the Federal Manufactured Home Construction and Safety Standards that were established June 15, 1976. Compliance with these standards will be evidenced by the presence of a HUD Data Plate. The HUD Data Plate/Compliance Certificate is a paper document located on the interior of the subject property that contains, among other things, the manufacturer's name, and trade/model number. In addition to the data required by Fannie Mae, the data plate includes pertinent information about the unit including a list of factory-installed equipment. The HUD Certification Label is a 2" x 4" metal plate (sometimes referred to as a HUD "seal" or "tag") located on the exterior of each section of the home.
2. The manufactured home must be a one-family dwelling that is legally classified as real property.

3. The towing hitch, wheels, and axles must be removed and the dwelling must assume the characteristics of site-built housing.
4. The borrower must own in fee simple the land on which the manufactured home is situated, unless the manufactured home is located in a cooperative or condominium project. Mortgages secured by manufactured homes located on leasehold estates are not eligible.
5. Multi-width manufactured homes may be located either on an individual lot or in a project development (i.e., cooperative, condominium, PUD, or subdivision). Mortgages secured by single-width manufactured homes are eligible for delivery to Fannie Mae only if the manufactured home is located in a Fannie Mae-approved subdivision, cooperative, condominium, or PUD project development.
6. Project acceptance is required for multi-width manufactured homes located in a cooperative, condominium, or PUD project development. Project acceptance also is required if the property is a single-width manufactured home and the project is a PUD. In the case of cooperatives, both the land and dwelling must be owned by the cooperative. In the case of condominiums, both the land and dwelling must be subject to the condominium regime. For further information about project acceptance requirements, see Part XII.
7. The manufactured home must be at least 12 feet wide and have a minimum of 600 square feet of gross living area. Further, the manufactured home must have sufficient square footage and room dimensions to be acceptable to typical purchasers in the market area. We do not specify other minimum requirements for size, roof pitch, or any other specific construction details.
8. The manufactured home must be attached to a permanent foundation system in accordance with the manufacturer's requirements for anchoring, support, stability, and maintenance. The foundation system must be appropriate for the soil conditions for the site and meet local and state codes.
9. If the property is not situated on a publicly dedicated and maintained street, then it must be situated on a street that is community owned and maintained or privately owned and maintained. There must be adequate vehicular access and there must be an adequate and legally enforceable agreement for vehicular access and maintenance.
10. The manufactured home must be permanently connected to a septic tank or sewage system and to other utilities in accordance with local and state requirements.
11. The improvement is required to be completed, and fully paid for, when the mortgage is delivered. Specifically, the following must be completed: site preparation for delivery of the manufactured home, attachment of the manufactured home to the permanent foundation system, permanent connection to the septic or sewage system, and permanent connection to all necessary utilities (water, electricity, gas service, etc.). Exceptions to the foregoing may be only for minor items that do not affect the ability to obtain an occupancy permit (e.g., landscaping, a driveway, a walkway, etc.), subject to all requirements and warranties for new or proposed construction provided in our Part XI, Section 202. Mortgages secured by existing manufactured homes that have incomplete items, such as a partially completed addition or renovation, or defects or needed repairs that affect livability, are not eligible for purchase until the necessary work is completed and fully paid for.

## MANUFACTURED HOUSING APPRAISAL REQUIREMENTS

(Source: Fannie Mae Appraisal Guidelines for Manufactured Housing)

Fannie Mae requires market-based property valuations for manufactured homes demonstrated by a well-developed sales comparison approach to value. A cost approach to value is also required to be processed for all manufactured homes according to Fannie Mae guidelines. The appraiser must complete the Manufactured Home Appraisal Report (Form 1004C) in developing and reporting his/her opinion of market value based on the sales comparison approach to value and supported by the cost approach to value. In doing so, the appraiser must address quality of construction, physical condition of the property, acceptance in the market, support the contributory value of the site, etc.

The use of Form 1004C is intended to ensure that the appraiser has inspected, considered, and/or reported the required information including, but not limited to, the: manufacturer's name, model name, year of manufacture, serial number, certification label number(s) from either the HUD Data Plate or certification label(s), type of foundation and utility connections, detailed and supported cost approach, opinion of the market value of the site, and property's conformity to the neighborhood.

The following criteria below provide requirements for manufactured housing appraisals:

1. The manufactured home appraisal must be completed on Form 1004C, Manufactured Home Appraisal Report. Manufactured homes are not eligible for streamlined appraisals. The Form 1004C appraisal form must show evidence of both the HUD Data Plate/Compliance Certificate and the HUD Certification Label.
2. Fannie Mae's appraisal report forms require appraisers to develop an opinion of value solely for the real property as completed consisting of the manufactured home, site improvements, and the land on which the home on is situated.
3. The towing hitch, wheels, and axles must be removed.
4. Fannie Mae requires market-based property valuations for manufactured homes demonstrated by a well-developed sales comparison approach to value that is further supported by the cost approach to value. (An appraiser who is unable to locate sales of manufactured homes that are truly comparable to the subject property may decide that it is appropriate to use either older sales of similar manufactured homes or sales of similar manufactured homes that are located in a competing market so that he or she can establish a baseline for the "sales comparison analysis" and determine sound adjustments to reflect the differences between the comparable sales that are available and the subject property).
5. The appraisal must address construction quality, property condition, market acceptance, indicate value by the cost approach and support for the contributory value of the site.
6. If required information is not available at the time the appraiser is completing the appraisal forms, the appraiser may appraise the property subject to his or her receipt and review of the items as a condition of the appraisal. In such cases, prior to mortgage loan delivery, lenders must obtain a certification of completion from the appraiser that includes the previously unavailable information, including a summary of the appraiser's analysis of any previously unavailable dealer invoices, and certifies that the requirements and conditions of the appraisal have been satisfied.
7. For purchase money mortgages, the lender must provide the appraiser with a complete copy of the executed contract for sale of the manufactured home and land, or if the manufactured home and land are being purchased separately, the executed contract for each.

8. The lender must provide the appraiser with a copy of the manufacturer's invoice if the manufactured home is new.
9. The appraiser must analyze the contract and manufacturer's invoice for new homes and provide a summary in the appraisal report.
10. The valuation conclusion cannot include any non-realty items such as insurance, warranties, furniture, etc.
11. For new manufactured homes, not yet attached to the land or not yet constructed, the appraisal may be based on either plans and specifications, or an existing model home (prospective value). A certification of completion must be obtained before the mortgage loan is delivered to Fannie Mae. Photographs of the completed improvements attached to the permanent foundation must be included.
12. The property site must be of a size, shape, and topography that is conforming and acceptable in the market area. The appraisal report also must indicate whether or not the site is compatible with the neighborhood. If it is non-conforming such that a reliable appraisal cannot be made, the mortgage is not eligible.
13. The property site must have competitive utilities, street improvements, adequate vehicular access, and other amenities.
14. The appraiser must address both the marketability and comparability of a manufactured home by selecting comparable sales of similar manufactured homes.
15. Since amenities, easements, and encroachments may either detract from or enhance the marketability of a site, the appraiser must reflect them in the analysis and valuation. If the site has adverse conditions or is not typical for the neighborhood, the appraiser must comment.
16. The appraiser must use a minimum of two comparable sales of similar manufactured homes. The sales cannot be "created" by combining vacant land sales with contract prices of manufactured homes.
17. The appraiser may use either site-built housing or a different type of factory-built housing as the third comparable sale. When site-built housing or a different type of factory-built housing is used as the third comparable, the appraiser must: explain why site-built housing or a different type of factory-built housing is being used for the third comparable sale, and make (and support) appropriate adjustments in the appraisal report.

## MANUFACTURED HOUSING DATA SOURCES

Traditional appraisal data sources for site-built homes such as the Multi-List and public records do not provide enough quality manufactured home data. Therefore, the appraiser must have access to other data sources such as manufactured home dealers and builders and installers of manufactured homes.

Two of the most widely used sources for manufactured housing information in order to develop a cost approach are the *NADA Manufactured Housing Appraisal Guide* and the *Marshall & Swift Residential Cost Handbook*.

**1. The NADA guide** produces a depreciated cost called the “base structure value” based on the subject property’s manufacturer, model, size, and year built. The guide lists general manufactured homes’ depreciated replacement values based on original factory construction categories in a step-by-step process for arriving at the average retail book value for a manufactured home. The NADA chart values assume the home is in average condition but makes considerations for homes in excellent, good, fair, and poor condition.

NADA has the CONNECT program, in which data about the manufactured home being appraised is input with calculations being done automatically and a written report being generated. A large data base is searched to match the manufacturer and model and determine the quality level. This cost system only applies to manufactured homes.

Value charts of qualified closed sales from the open marketplace provide the basis for the analysis for basic structure valuation in various regions throughout the country (state locations can be adjusted for). An estimated value for the structure only, unfurnished, and within 300 miles (includes transportation and installation on pier/block), and excluding any additional costs is produced based on its initial price per square foot. This rate represents depreciated replacement value in current year retail dollars, assuming average condition with traditional retailer mark-up.

The base chart figures include components (features or items such as heating/cooling, appliances, roofing, windows, floor coverings, etc. that are built into the home. Upgraded equipment must be added and downgraded equipment must be subtracted. The values assume that the home is in average condition, but adjustments can be made up or down. Accessories or items that are added to the home after installation such as skirting, porches, awnings, etc. are also added. There may also be additive values or additional features such as yard or land improvements that were not accounted for in the previous sections.

The NADA data base has collected data for over 50 years and includes over 750 manufactures and 6,000 models.

**2. Marshall & Swift** provides information that allows the appraiser to create a replacement cost new of an improvement based on quality of construction, condition, etc. which play an important role in the value and marketability of manufactured homes.

After a base cost is determined (\$/SF) adjustments for deviation from the average model can be made for items such as heating/cooling, flooring, roofing, etc. Lump Sum adjustments (specific dollar amounts made to the end cost) can then be made for items not included in the base cost such as plumbing fixtures, fireplaces, porches, etc.

The Marshall & Swift programs cover all kinds of construction including manufactured home costs. An indicated value is arrived at by subtracting any depreciation and adding the site value.