

FHA MANUFACTURED HOUSING LOAN MODERNIZATION
 ACT OF 2007

JUNE 21, 2007.—Committed to the Committee of the Whole House on the State of
 the Union and ordered to be printed

Mr. FRANK of Massachusetts, from the Committee on Financial
 Services, submitted the following

R E P O R T

together with

ADDITIONAL VIEWS

[To accompany H.R. 2139]

[Including cost estimate of the Congressional Budget Office]

The Committee on the Financial Services, to whom was referred
 the bill (H.R. 2139) to modernize the manufactured housing loan
 insurance program under title I of the National Housing Act, hav-
 ing considered the same, report favorably thereon with an amend-
 ment and recommend that the bill as amended do pass.

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AMENDMENT

The amendment is as follows:

Strike all after the enacting clause and insert the following:

SECTION 1. SHORT TITLE.

This title may be cited as the “FHA Manufactured Housing Loan Modernization Act of 2007”.

SEC. 2. FINDINGS AND PURPOSES.

(a) FINDINGS.—The Congress finds that—

(1) manufactured housing plays a vital role in providing housing for low- and moderate-income families in the United States;

(2) the FHA title I insurance program for manufactured home loans traditionally has been a major provider of mortgage insurance for home-only transactions;

(3) the manufactured housing market is in the midst of a prolonged downturn which has resulted in a severe contraction of traditional sources of private lending for manufactured home purchases;

(4) during past downturns the FHA title I insurance program for manufactured homes has filled the lending void by providing stability until the private markets could recover;

(5) in 1992, during the manufactured housing industry’s last major recession, over 30,000 manufactured home loans were insured under title I;

(6) in 2006, fewer than 1,500 manufactured housing loans were insured under title I;

(7) the loan limits for title I manufactured housing loans have not been adjusted for inflation since 1992; and

(8) these problems with the title I program have resulted in an atrophied market for manufactured housing loans, leaving American families who have the most difficulty achieving homeownership without adequate financing options for home-only manufactured home purchases.

(b) PURPOSES.—The purposes of this Act are—

(1) to provide adequate funding for FHA-insured manufactured housing loans for low- and moderate-income homebuyers during all economic cycles in the manufactured housing industry;

(2) to modernize the FHA title I insurance program for manufactured housing loans to enhance participation by Ginnie Mae and the private lending markets; and

(3) to adjust the low loan limits for title I manufactured home loan insurance to reflect the increase in costs since such limits were last increased in 1992 and to index the limits to inflation.

SEC. 3. EXCEPTION TO LIMITATION ON FINANCIAL INSTITUTION PORTFOLIO.

The second sentence of section 2(a) of the National Housing Act (12 U.S.C. 1703(a)) is amended—

(1) by striking “In no case” and inserting “Other than in connection with a manufactured home or a lot on which to place such a home (or both), in no case”; and

(2) by striking “: *Provided*, That with” and inserting “. With”.

SEC. 4. INSURANCE BENEFITS.

(a) IN GENERAL.—Subsection (b) of section 2 of the National Housing Act (12 U.S.C. 1703(b)), is amended by adding at the end the following new paragraph:

“(8) INSURANCE BENEFITS FOR MANUFACTURED HOUSING LOANS.—Any contract of insurance with respect to loans, advances of credit, or purchases in connection with a manufactured home or a lot on which to place a manufactured home (or both) for a financial institution that is executed under this title after the date of the enactment of the FHA Manufactured Housing Loan Modernization Act of 2007 by the Secretary shall be conclusive evidence of the eligibility of such financial institution for insurance, and the validity of any contract of insurance so executed shall be incontestable in the hands of the bearer from the date of the execution of such contract, except for fraud or misrepresentation on the part of such institution.”.

(b) APPLICABILITY.—The amendment made by subsection (a) shall only apply to loans that are registered or endorsed for insurance after the date of the enactment of this Act.

SEC. 5. MAXIMUM LOAN LIMITS.

(a) DOLLAR AMOUNTS.—Paragraph (1) of section 2(b) of the National Housing Act (12 U.S.C. 1703(b)(1)) is amended—

(1) in clause (ii) of subparagraph (A), by striking “\$17,500” and inserting “\$25,090”;

(2) in subparagraph (C) by striking “\$48,600” and inserting “\$69,678”;

(3) in subparagraph (D) by striking “\$64,800” and inserting “\$92,904”;

(4) in subparagraph (E) by striking “\$16,200” and inserting “\$23,226”; and

(5) by realigning subparagraphs (C), (D), and (E) 2 ems to the left so that the left margins of such subparagraphs are aligned with the margins of subparagraphs (A) and (B).

(b) ANNUAL INDEXING.—Subsection (b) of section 2 of the National Housing Act (12 U.S.C. 1703(b)), as amended by the preceding provisions of this Act, is further amended by adding at the end the following new paragraph:

“(9) ANNUAL INDEXING OF MANUFACTURED HOUSING LOANS.—The Secretary shall develop a method of indexing in order to annually adjust the loan limits established in subparagraphs (A)(ii), (C), (D), and (E) of this subsection. Such index shall be based on the manufactured housing price data collected by the United States Census Bureau. The Secretary shall establish such index no later than one year after the date of the enactment of the FHA Manufactured Housing Loan Modernization Act of 2007.”

(c) TECHNICAL AND CONFORMING CHANGES.—Paragraph (1) of section 2(b) of the National Housing Act (12 U.S.C. 1703(b)(1)) is amended—

(1) by striking “No” and inserting “Except as provided in the last sentence of this paragraph, no”; and

(2) by adding after and below subparagraph (G) the following:

“The Secretary shall, by regulation, annually increase the dollar amount limitations in subparagraphs (A)(ii), (C), (D), and (E) (as such limitations may have been previously adjusted under this sentence) in accordance with the index established pursuant to paragraph (9).”

SEC. 6. INSURANCE PREMIUMS.

Subsection (f) of section 2 of the National Housing Act (12 U.S.C. 1703(f)) is amended—

(1) by inserting “(1) PREMIUM CHARGES.—” after “(f)”; and

(2) by adding at the end the following new paragraph:

“(2) MANUFACTURED HOME LOANS.—Notwithstanding paragraph (1), in the case of a loan, advance of credit, or purchase in connection with a manufactured home or a lot on which to place such a home (or both), the premium charge for the insurance granted under this section shall be paid by the borrower under the loan or advance of credit, as follows:

“(A) At the time of the making of the loan, advance of credit, or purchase, a single premium payment in an amount not to exceed 2.25 percent of the amount of the original insured principal obligation.

“(B) In addition to the premium under subparagraph (A), annual premium payments during the term of the loan, advance, or obligation purchased in an amount not exceeding 1.0 percent of the remaining insured principal balance (excluding the portion of the remaining balance attributable to the premium collected under subparagraph (A) and without taking into account delinquent payments or prepayments).

“(C) Premium charges under this paragraph shall be established in amounts that are sufficient, but do not exceed the minimum amounts necessary, to maintain a negative credit subsidy for the program under this section for insurance of loans, advances of credit, or purchases in connection with a manufactured home or a lot on which to place such a home (or both), as determined based upon risk to the Federal Government under existing underwriting requirements.

“(D) The Secretary may increase the limitations on premium payments to percentages above those set forth in subparagraphs (A) and (B), but only if necessary, and not in excess of the minimum increase necessary, to maintain a negative credit subsidy as described in subparagraph (C).”

SEC. 7. TECHNICAL CORRECTIONS.

(a) DATES.—Subsection (a) of section 2 of the National Housing Act (12 U.S.C. 1703(a)) is amended—

(1) by striking “on and after July 1, 1939,” each place such term appears; and

(2) by striking “made after the effective date of the Housing Act of 1954”.

(b) AUTHORITY OF SECRETARY.—Subsection (c) of section 2 of the National Housing Act (12 U.S.C. 1703(c)) is amended to read as follows:

“(c) HANDLING AND DISPOSAL OF PROPERTY.—

“(1) **AUTHORITY OF SECRETARY.**—Notwithstanding any other provision of law, the Secretary may—

“(A) deal with, complete, rent, renovate, modernize, insure, or assign or sell at public or private sale, or otherwise dispose of, for cash or credit in the Secretary’s discretion, and upon such terms and conditions and for such consideration as the Secretary shall determine to be reasonable, any real or personal property conveyed to or otherwise acquired by the Secretary, in connection with the payment of insurance heretofore or hereafter granted under this title, including any evidence of debt, contract, claim, personal property, or security assigned to or held by him in connection with the payment of insurance heretofore or hereafter granted under this section; and

“(B) pursue to final collection, by way of compromise or otherwise, all claims assigned to or held by the Secretary and all legal or equitable rights accruing to the Secretary in connection with the payment of such insurance, including unpaid insurance premiums owed in connection with insurance made available by this title.

“(2) **ADVERTISEMENTS FOR PROPOSALS.**—Section 3709 of the Revised Statutes shall not be construed to apply to any contract of hazard insurance or to any purchase or contract for services or supplies on account of such property if the amount thereof does not exceed \$25,000.

“(3) **DELEGATION OF AUTHORITY.**—The power to convey and to execute in the name of the Secretary, deeds of conveyance, deeds of release, assignments and satisfactions of mortgages, and any other written instrument relating to real or personal property or any interest therein heretofore or hereafter acquired by the Secretary pursuant to the provisions of this title may be exercised by an officer appointed by the Secretary without the execution of any express delegation of power or power of attorney. Nothing in this subsection shall be construed to prevent the Secretary from delegating such power by order or by power of attorney, in the Secretary’s discretion, to any officer or agent the Secretary may appoint.”

SEC. 8. REVISION OF UNDERWRITING CRITERIA.

(a) **IN GENERAL.**—Subsection (b) of section 2 of the National Housing Act (12 U.S.C. 1703(b)), as amended by the preceding provisions of this Act, is further amended by adding at the end the following new paragraph:

“(10) **FINANCIAL SOUNDNESS OF MANUFACTURED HOUSING PROGRAM.**—The Secretary shall establish such underwriting criteria for loans and advances of credit in connection with a manufactured home or a lot on which to place a manufactured home (or both), including such loans and advances represented by obligations purchased by financial institutions, as may be necessary to ensure that the program under this title for insurance for financial institutions against losses from such loans, advances of credit, and purchases is financially sound.”

(b) **TIMING.**—Not later than the expiration of the 6-month period beginning on the date of the enactment of this Act, the Secretary of Housing and Urban Development shall revise the existing underwriting criteria for the program referred to in paragraph (10) of section 2(b) of the National Housing Act (as added by subsection (a) of this section) in accordance with the requirements of such paragraph.

SEC. 9. REQUIREMENT OF SOCIAL SECURITY ACCOUNT NUMBER FOR ASSISTANCE.

Section 2 of the National Housing Act (12 U.S.C. 1703) is amended by adding at the end the following new subsection:

“(j) **REQUIREMENT OF SOCIAL SECURITY ACCOUNT NUMBER FOR FINANCING.**—No insurance shall be granted under this section with respect to any obligation representing any loan, advance of credit, or purchase by a financial institution unless the borrower to which the loan or advance of credit was made, and each member of the family of the borrower who is 18 years of age or older or is the spouse of the borrower, has a valid social security number.”

SEC. 10. GAO STUDY OF MITIGATION OF TORNADO RISKS TO MANUFACTURED HOMES.

The Comptroller General of the United States shall assess how the Secretary of Housing and Urban Development utilizes the FHA manufactured housing loan insurance program under title I of the National Housing Act, the community development block grant program under title I of the Housing and Community Development Act of 1974, and other programs and resources available to the Secretary to mitigate the risks to manufactured housing residents and communities resulting from tornados. The Comptroller General shall submit to the Congress a report on the conclusions and recommendations of the assessment conducted pursuant to this section not later than the expiration of the 12-month period beginning on the date of the enactment of this Act.

PURPOSE AND SUMMARY

The purpose of H.R. 2139 is to modernize the Federal Housing Administration (FHA) Title I loan insurance program for personal property manufactured homes. The bill includes a number of statutory changes to this program, in order to reverse the substantial decline in the number of Title I manufactured home loans insured by FHA over the last 15 years. The volume of such loans has fallen from an estimated level of over 30,000 loans in 1992 (which already reflected reduced levels related to a recession) to fewer than 1,500 loans last year—a level which makes the program of little practical value.

Manufactured housing plays a vital role in providing affordable homeownership opportunities for low- and moderate-income families. Historically, FHA loan programs have generally served as a reliable source of mortgage credit, in particular providing stability when other lenders exit volatile markets. Unfortunately, the severe volume reduction in FHA Title I manufactured home loans has meant that this program has not fulfilled this role for such loans in recent years. This has undermined the ability of lower income families to achieve homeownership through purchase of an important and affordable type of home, a manufactured home sited on leased land.

The purpose of the bill is to modernize the FHA Title I manufactured program through changes designed to encourage increased private sector lender participation in the program, to modify the form of the loan guarantee to make the program more acceptable in the secondary market, to raise loan limits to make up for an extended period in which statutory limits have not kept up with inflation, and to provide statutory provisions for loan fees and underwriting criteria to ensure that the program will be maintained on a sound financial basis.

BACKGROUND AND NEED FOR LEGISLATION

The basic FHA 203(b) mortgage loan program under title II of the Federal Housing Act insures loans for homes attached to land which is owned by the borrower. These 203(b) FHA loans are backed by the full faith and credit of the federal government, and as such, are readily securitized and sold into the secondary market through the Government National Mortgage Association (GNMA), thereby providing for highly competitive mortgage interest rates. The essential feature of the FHA guarantee for such loans is that GNMA can securitize these loans for a very low fee and still make money, because of the strong federal guarantee provided by law.

Title I of FHA was originally created to provide a federal loan insurance program for home improvement loans. Subsequently, Title I was expanded to include the authority to insure loans on personal property manufactured homes sited on leased land, to insure land on which such homes are sited, to insure a combination of the two, and to insure loans for alternations, repairs, and improvements to existing manufactured homes.

Manufactured homes sited on land owned by the borrower (which are generally characterized as real property loans) can be financed under the FHA Title II Section 203(b) loan program. However, manufactured homes sited on leased land, which are generally con-

sidered personal property loans, have a higher degree of risk. This is because of legal issues related to the leased land and also to the fact that the loan security does not include land, which is often a major source of home property appreciation. Alternative private sector loans on personal property manufactured homes are generally available at relatively higher rates and more restrictive loan terms than are available under private sector real property loans. This magnifies the importance of rejuvenating the FHA loan program for personal property loans, so that borrowers will have options for such loans at affordable rates and under reasonable terms and conditions.

STRUCTURE OF LOAN GUARANTEE

By statute FHA Title I loan programs operate under different terms and conditions than Title II loans (and Section 203(b) loans in particular). These differences have important consequences with respect to the ability to securitize such loans and thereby offer competitive rates. First the Title I program works more as a co-insurance loan program, since participating lenders assume 10 percent of the loss on any claim made for a foreclosed home (compared to Title II, in which the lender assumes less than 1 percent of any loan loss claim). Secondly, FHA limits the maximum exposure of any Title I loan loss for any one participating lender to only 10 percent of the lender's total Title I manufactured housing insured loans outstanding (whereas no such limit exists for Title II loans). The third difference is that the federal insurance is not provided to the loan, but to the lender. Finally, unlike Title II loans where the federal insurance is largely unconditional, FHA title II insurance is conditioned on a number of factors related to the loan and the lender, which reduce the certainty and value of the federal guarantee.

All these factors have created a substantial impediment to GNMA participation in securitizing FHA Title I manufactured housing loans. As a result, Title I loans have higher interest rates than would otherwise be available if GNMA were securitizing the loans. These factors have also discouraged private sector participation in the program. The result has been limited loan availability and the steep plunge in loan volume.

The bill makes a number of changes designed to conform the nature of the Title I loan guarantee more with the Title II guarantee, with the goal of encouraged increased lender participation and securitization. The bill eliminates the statutory portfolio cap that limits maximum FHA exposure to 10 percent of a lender's outstanding Title I loans. The bill also strengthens the federal loan guarantee in order to gain acceptance in secondary markets, by explicitly providing that the contract for insurance "shall be conclusive evidence of the eligibility" of the lender for insurance and that such insurance contract "shall be incontestable . . . except for fraud of misrepresentation on the part of such institution."

LOAN LIMITS

Existing statute sets dollar amount loan limits for Title I manufactured home loans. The statute provides that the maximum loan on a manufactured home only is \$48,600, the maximum loan on a lot only on which such a home is to be sited is \$16,200, the max-

imum loan on a home sited on a lot is \$64,800, and the maximum loan for the purpose of financing alterations, repairs, and improvements for existing manufactured housings is \$17,500.

These statutory loan limits have not been updated since 1992. Since that period, the median price of manufactured homes has risen by approximately 50 percent. Four years ago, Congress enacted legislation to update statutory loan limits for most FHA loan programs, to reflect housing cost increases since 1992, the last time limits had been updated. That legislation also provided that these loan limits would subsequently be adjusted each year according to an objective inflation adjustment.

However, that legislation did not update loan limits for FHA Title I manufactured housing loans. This bill would update the statutory loan limits, raising the maximum loan on a manufactured home only to \$69,678, raising the maximum loan on a lot only to \$23,226, raising the maximum loan on a home and lot combined to \$92,904, and raising the maximum loan for alterations, repairs, and improvements to \$25,090. The bill also provides that HUD shall develop a method of indexing these loan limits and shall provide an annual inflation adjustment according to such method.

FINANCIAL SOUNDNESS

The bill includes a number of provisions designed to ensure that the modernized FHA Title I manufactured loan program is operated in a manner which maintains the financial soundness of the program.

First, language is included in the bill to require HUD to establish underwriting criteria for these loans "as may be necessary to ensure that the program under this title . . . is financially sound." This replaces the current structure in which participating lenders are given far greater latitude in establishing underwriting criteria and in approving individual loans.

Secondly, the bill gives HUD authority to charge an upfront fee ("premium") for such loans of up to 2.25 percent, and an annual premium of up to 1 percent of the outstanding loan amount. The bill requires HUD to set premiums in amounts that are sufficient to maintain a negative credit subsidy for the program, thus ensuring that an annual credit subsidy appropriation will not be needed to operate the program. As a result, the program will not require subsidies by federal taxpayers.

However, the bill also limits HUD's authority to set premiums, with language stating that the premiums that are to be established shall be in amounts that do not exceed the minimum amounts necessary to maintain a negative credit subsidy. This provision is designed to prevent fees from being set at unnecessarily high levels, in order to ensure that the program does not become a piggy bank merely to fund other federal programs or to subsidize federal general fund revenues.

Third, the bill provides HUD with general authority to handle and dispose of Title I manufactured home properties in the case of loan nonpayment, which is similar to authority HUD now has with regard to FHA Title II loans.

SOCIAL SECURITY ID REQUIREMENT

The bill provides that FHA may not insure Title I manufactured home loans, unless each member of the family of the borrower who is 18 years or older or is the spouse of the borrower has a valid social security number.

TORNADO STUDY

The bill provides for a GAO study, under which the Comptroller General shall assess how HUD utilizes the FHA Title I manufactured home loan program the CDBG program, and other programs and resources available to HUD to mitigate the risks to manufactured housing residents and communities resulting from tornadoes. The report must be submitted to Congress within 12 months after the date of enactment of the bill.

HEARINGS

No hearings were held on H.R. 2139 in the 110th Congress.

COMMITTEE CONSIDERATION

The Committee on Financial Services met in open session on May 23, 2007 and ordered H.R. 2139, the FHA Manufactured Housing Loan Modernization Act of 2007, as amended, favorably reported to the House by a voice vote.

COMMITTEE VOTES

Clause 3(b) of rule XIII of the Rules of the House of Representatives requires the Committee to list the record votes on the motion to report legislation and amendments thereto. No record votes were taken with in conjunction with the consideration of this legislation. A motion by Mr. Frank to report the bill, as amended, to the House with a favorable recommendation was agreed to by a voice vote. During the consideration of the bill, the Committee considered the following amendments:

An amendment by Mr. Bachus, No. 1, requiring a GAO study of mitigation of tornado risks to manufactured homes, was agreed to by a voice vote.

An amendment by Ms. Brown-Waite, No. 2, requiring the social security number for assistance, was agreed to by a voice vote.

COMMITTEE OVERSIGHT FINDINGS

Pursuant to clause 3(c)(1) of rule XIII of the Rules of the House of Representatives, the Committee has held hearings and made findings that are reflected in this report.

PERFORMANCE GOALS AND OBJECTIVES

Pursuant to clause 3(c)(4) of rule XIII of the Rules of the House of Representatives, the Committee establishes the following performance related goals and objectives for this legislation:

The objective of the bill is to modernize the FHA Title I manufactured program through changes designed to encourage increased private sector lender participation in the program, to modify the form of the loan guarantee to make the program more acceptable

in the secondary market, to raise loan limits to make up for an extended period in which statutory limits have not kept up with inflation, and to provide statutory provisions for loan fees and underwriting criteria to ensure that the program will be maintained on a sound financial basis.

NEW BUDGET AUTHORITY, ENTITLEMENT AUTHORITY, AND TAX
EXPENDITURES

In compliance with clause 3(c)(2) of rule XIII of the Rules of the House of Representatives, the Committee adopts as its own the estimate of new budget authority, entitlement authority, or tax expenditures or revenues contained in the cost estimate prepared by the Director of the Congressional Budget Office pursuant to section 402 of the Congressional Budget Act of 1974.

COMMITTEE COST ESTIMATE

The Committee adopts as its own the cost estimate prepared by the Director of the Congressional Budget Office pursuant to section 402 of the Congressional Budget Act of 1974.

CONGRESSIONAL BUDGET OFFICE ESTIMATE

Pursuant to clause 3(c)(3) of rule XIII of the Rules of the House of Representatives, the following is the cost estimate provided by the Congressional Budget Office pursuant to section 402 of the Congressional Budget Act of 1974:

JUNE 1, 2007.

Hon. BARNEY FRANK, *Chairman,*
Committee on Financial Services,
House of Representatives, Washington, DC.

DEAR MR. CHAIRMAN: The Congressional Budget Office has prepared the enclosed cost estimate for H.R. 2139, the FHA Manufactured Housing Loan Modernization Act of 2007.

If you wish further details on this estimate, we will be pleased to provide them. The CBO staff contact is Susanne S. Mehlman.

Sincerely,

PETER R. ORSZAG.

Enclosure.

H.R. 2139—FHA Manufactured Housing Loan Modernization Act of 2007

Summary: H.R. 2139 would amend the Federal Housing Administration's (FHA's) loan guarantee program for manufactured housing. Under title I of the National Housing Act, FHA insures loans for individuals for the purchase and improvement of manufactured housing—single-family homes constructed entirely in a controlled factory environment and built to a Federal code administered by the Department of Housing and Urban Development (HUD). This bill would require FHA to insure such loans on an individual basis, raise the maximum loan limits, require FHA to charge premiums necessary to maintain a negative credit subsidy (as estimated under the Federal Credit Reform Act) for the loan guarantees, and make other administrative changes to the program. Implementing the manufactured housing loan program, like all of FHA's insur-

ance programs, is contingent on the enactment of appropriation laws that provide annual commitment authority.

CBO estimates that implementing H.R. 2139 would result in a negligible cost or savings of less than \$500,000 a year over the 2009–2012 period, assuming enactment of appropriation laws necessary to implement the program. Until the reforms in the bill can be fully implemented, CBO expects that continuing the manufactured housing loan-guarantee program in 2008 would cost \$1 million. Enacting the bill would not affect direct spending or revenues.

H.R. 2139 contains no intergovernmental or private-sector mandates as defined in the Unfunded mandates Reform Act (UMRA) and would impose no costs on state, local, or tribal governments.

Estimated cost to the Federal Government: For this estimate, CBO assumes that the bill will be enacted near the beginning of fiscal year 2008. The estimated budgetary impact of H.R. 2139 is shown in the following table. The costs of this legislation fall within budget function 370 (commerce and housing credit).

	By fiscal year, in millions of dollars—					
	2007	2008	2009	2010	2011	2012
SPENDING SUBJECT TO APPROPRIATION						
Spending for Manufactured Housing Loan Guarantees						
Under Current Law ¹ :						
Budget Authority ¹	1	0	0	0	0	0
Estimated Outlays	1	0	0	0	0	0
Proposed Changes:						
Estimated Authorization Level	0	1	*	*	*	*
Estimated Outlays	0	1	*	*	*	*
Spending for Manufactured Housing Loan Guarantees						
Under H.R. 2139:						
Estimated Authorization Level ¹	1	1	*	*	*	*
Estimated Outlays	1	1	*	*	*	*

NOTE: * = costs or savings of less than \$500,000.

¹ The figure for 2007 is the estimated portion of the total credit subsidy appropriated for that year that will be used by FHA for the manufactured housing loan-guarantee program.

Basis of estimate: CBO estimates that over the 2009–2012 period, implementing the manufactured housing loan program would result in costs or savings of less than \$500,000 a year. Until the reforms in the bill can be fully implemented, continuing the loan guarantee program would cost \$1 million in 2008.

Background

Manufactured housing loan guarantees fall under title I of the National Housing Act; under title I, FHA also has authority to insure house improvement loans. The volume of manufactured housing loans guaranteed by FHA has fallen from 30,000 per year in the 1990s to less than 2,000 loans per year in recent years. Furthermore, in the late 1980s the Government National Mortgage Association (GNMA) experienced significant losses from its securitization of the manufactured housing loans. (GNMA is responsible for guaranteeing securities backed by pools of mortgages insured by the federal government. In exchange for a fee charged to lenders or issuers of the securities, GNMA guarantees the timely payments of scheduled principal and interest due on the pooled mortgages that back those securities.) As a result of those losses, GNMA imposed a moratorium on new issuers of manufactured

housing loan guarantees into its Mortgage-Backed Securities (MBS) program.

Moreover, financing options for manufactured housing are very limited. Currently, only two private lenders participate in the FHA program, and because no private secondary market exists, most private lenders and insurers have no incentive to make loans or loan guarantees for manufactured housing. Despite the fact that there are relatively few financing options available for manufactured housing, there are about 11 million manufactured homes in the United States (mostly in rural areas), according to the Manufactured Housing Institute (MHI). Most of those manufactured houses are financed through personal loans. Enacting this legislation would make several programmatic changes designed to increase demand for FHA's manufactured housing loan program.

Proposed changes

Under current law, FHA limits its loss exposure on manufactured housing loan guarantees by capping the lender's insurance coverage at 10 percent of the value of the lender's portfolio for the title I program. That is, FHA pays only lender claims amounts that are less than or equal to 10 percent of the value of the lender's loan portfolio for the title I loans. As a result, the amount of insurance that FHA provides for each loan varies. Enacting H.R. 2139 would eliminate this insurance structure for loans associated with manufactured homes and would direct FHA to insure 90 percent of each individual loan. Those changes would significantly expand government liability under the program.

Enacting this legislation also would raise the loan limits for insuring a manufactured home by about 40 percent and would require that the limits be indexed for inflation on an annual basis. According to FHA, the average cost of a manufactured home is about \$60,000. Current loan limits restrict the purchase of a manufactured home to \$48,000; under H.R. 2139, this limit would increase to \$69,678 after the program changes are implemented in 2009.

Currently, borrowers are charged a 1 percent up-front fee for a manufactured home loan guarantee. Because the fees collected are not expected to exceed the cost of defaults, FHA estimates that the manufactured housing loan guarantee program has a subsidy rate of about 1 percent. Enacting this legislation would require FHA to assess higher premiums that would offset the costs of expected defaults to yield an estimated negative credit subsidy rate for the program. Based on information from FHA, CBO expects that FHA would set the up-front premiums for borrowers at about 2.25 percent and the annual premiums at 1 percent. CBO expects that those fees may be sufficient to make the program's estimated subsidy rate near zero, assuming that the pattern of future default rates in this program is similar to recent history about—9.5 percent. Because there is essentially no private market for manufactured housing loan guarantees to compare to the federal program, it is uncertain whether those higher fees would result in a program with no net cost. On balance, CBO estimates that implementing the bill would result in net costs or savings of less than \$500,000 a year beginning in fiscal year 2009.

Cost of Program. Based on information from FHA and MHI, CBO estimates that it would take about one year to implement the changes proposed under the bill. Furthermore, CBO anticipates that significant outreach by FHA would be needed to identify and educate prospective borrowers and lenders about the manufactured housing program reforms. Thus, CBO estimates that the number of loans insured under the program would begin to grow by about 5 percent annually beginning in 2009. Assuming this gradual increase in demand and an estimated subsidy rate for 2009 and subsequent years that is near zero, CBO estimates that implementing this legislation would result in a net cost or savings of less than \$500,000 a year.

CBO estimates that in 2008, while the programmatic changes are underway, FHA would require an appropriation of about \$1 million to maintain the program at its current level.

GNMA Savings. According to GNMA, the agency would consider securitizing additional manufactured housing loans following an evaluation of the program after the proposed changes are implemented and to the extent FHA has begun to guarantee a significant number of loans, most likely with a face value close to at least \$1 billion. Because CBO estimates that it will take FHA many years to increase its business volume to that level, we do not estimate that any additional offsetting collections associated with GNMA's MBS program would be generated over the next five years.

Intergovernmental and private-sector impact: H.R. 2139 contains no intergovernmental or private-sector mandates as defined in UMRA and would impose no costs on state, local, or tribal governments.

Estimate prepared by: Federal Costs: Susanne S. Mehlman; Impact on state, local, and tribal governments: Elizabeth Cove; Impact on the private sector: Paige Piper/Bach.

Estimate approved by: Peter H. Fontaine, Deputy Assistant Director for Budget Analysis.

FEDERAL MANDATES STATEMENT

The Committee adopts as its own the estimate of Federal mandates prepared by the Director of the Congressional Budget Office pursuant to section 423 of the Unfunded Mandates Reform Act.

ADVISORY COMMITTEE STATEMENT

No advisory committees within the meaning of section 5(b) of the Federal Advisory Committee Act were created by this legislation.

CONSTITUTIONAL AUTHORITY STATEMENT

Pursuant to clause 3(d)(1) of rule XIII of the Rules of the House of Representatives, the Committee finds that the Constitutional Authority of Congress to enact this legislation is provided by Article 1, section 8, clause 1 (relating to the general welfare of the United States) and clause 3 (relating to the power to regulate interstate commerce).

APPLICABILITY TO LEGISLATIVE BRANCH

The Committee finds that the legislation does not relate to the terms and conditions of employment or access to public services or accommodations within the meaning of section 102(b)(3) of the Congressional Accountability Act.

EARMARK IDENTIFICATION

H.R. 2139 does not contain any congressional earmarks, limited tax benefits, or limited tariff benefits as defined in clause 9 of rule XXI.

SECTION-BY-SECTION ANALYSIS OF THE LEGISLATION

Section 1. Short title

Short bill title: “FHA Manufactured Housing Loan Modernization Act of 2007.”

Section 2. Findings and purposes

Provides findings and purposes—including establishing the value of the program, citing the decline in program loan volume, identifying factors that have contributed to that decline, and stating the purpose of modernizing the program.

Section 3. Exception to limitation on financial institution portfolio

Removes the existing portfolio cap that limits federal risk of loss related to each lender to 10 percent of that lender’s Title I manufactured loan insured portfolio. Retains the existing risk sharing, under which FHA takes the risk for 90 percent of any claim, and the lender takes the risk for 10 percent of the claim.

Section 4. Insurance benefits

Provides for a federal guarantee comparable to the FHA Title II loan guarantee—by providing that the insurance is based on the loan, instead of having FHA insurance being provided to the lender (as is now the case), and by stating that the insurance contract shall be incontestable except for fraud or misrepresentation on the part of the loan originator.

Section 5. Maximum loan limits

Updates the statutory dollar amount loan limits for manufactured homes and manufactured home lots, by providing an inflation adjustment from 1992 (the last time limits were updated) to the current year. Also provides for subsequent annual indexing of such loan limits.

Section 6. Insurance premiums

Authorizes HUD to charge, for FHA Title I Manufactured Home loans, an upfront premium of up to 2.25 percent, and an annual premium of up to 1 percent of the outstanding loan balance. Also authorizes HUD to increase such premiums up to amounts that are sufficient, but do not exceed, the minimum amounts necessary, to maintain a negative credit subsidy for the program.

Section 7. Technical corrections

Makes technical and conforming corrections.

Section 8. Revision of underwriting criteria

Requires HUD to establish underwriting criteria for the program to ensure it is financially sound.

Section 9. Requirement of Social Security account number for assistance

Prohibits loans for this program unless the borrower and each member of the borrower’s family over the age of 18, including the spouse of the borrower, has a valid Social Security number.

Section 10. GAO study of mitigation of tornado risks to manufactured homes

Requires the GAO to assess how HUD utilizes the FHA Title I manufactured home loan program, the CDBG program, and other programs and resources available to HUD to mitigate the risks to manufactured housing residents and communities resulting from tornadoes, and to submit a report on this to Congress within 12 months after enactment.

CHANGES IN EXISTING LAW MADE BY THE BILL, AS REPORTED

In compliance with clause 3(e) of rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italic, existing law in which no change is proposed is shown in roman):

NATIONAL HOUSING ACT

* * * * *

TITLE I—HOUSING RENOVATION AND MODERNIZATION

* * * * *

INSURANCE OF FINANCIAL INSTITUTIONS

SEC. 2. (a) The Secretary is authorized and empowered upon such terms and conditions as he may prescribe, to insure banks, trust companies, personal finance companies, mortgage companies, building and loan associations, installment lending companies, and other such financial institutions, which the Secretary finds to be qualified by experience or facilities and approves as eligible for credit insurance, against losses which they may sustain as a result of loans and advances of credit, and purchases of obligations representing loans and advances of credit, made by them [on and after July 1, 1939,] for the purpose of (i) financing alterations, repairs, and improvements upon or in connection with existing structures or manufactured homes, and the building of new structures, upon urban, suburban, or rural real property (including the restoration, rehabilitation, rebuilding, and replacement of such improvements which have been damaged or destroyed by earthquake, conflagration, tornado, hurricane, cyclone, flood, or other catastrophe), by the owners thereof or by lessees of such real property

under a lease expiring not less than six months after the maturity of the loan or advance of credit; and for the purpose of (ii) financing the purchase of a manufactured home to be used by the owner as his principal residence or financing the purchase of a lot on which to place such home and paying expenses reasonably necessary for the appropriate preparation of such lot, including the installation of utility connections, sanitary facilities, and paving, and the construction of a suitable pad, or financing only the acquisition of such a lot either with or without such preparation by an owner of a manufactured home; and for the purpose of financing the preservation of historic structures, and, as used in this section, the term "historic structures" means residential structures which are registered in the National Register of Historic Places or which are certified by the Secretary of the Interior to conform to National Register criteria; and the term "preservation" means restoration or rehabilitation undertaken for such purposes as are approved by the Secretary in regulations issued by him, after consulting with the Secretary of the Interior. **[In no case]** *Other than in connection with a manufactured home or a lot on which to place such a home (or both), in no case* shall the insurance granted by the Secretary under this section to any such financial institution on loans, advances of credit, and purchases made by such financial institution for such purposes **[on and after July 1, 1939,]** exceed 10 per centum of the total amount of such loans, advances of credit, and purchases **[: Provided, That with].** *With* respect to any loan, advance of credit, or purchase **[made after the effective date of the Housing Act of 1954],** the amount of any claim for loss on any such individual loan, advance of credit, or purchase paid by the Secretary under the provisions of this section to a lending institution shall not exceed 90 per centum of such loss.

* * * * *

(b)(1) **[No]** *Except as provided in the last sentence of this paragraph, no* insurance shall be granted under this section to any such financial institution with respect to any obligation representing any such loan, advance of credit, or purchase by it if the amount of such loan, advance of credit, or purchase exceeds—

(A)(i) * * *

(ii) **[\$17,500]** *\$25,090* if made for the purpose of financing alterations, repairs and improvements upon or in connection with existing manufactured homes;

* * * * *

(C) **[\$48,600]** *\$69,678* if made for the purpose of financing the purchase of a manufactured home;

(D) **[\$64,800]** *\$92,904* if made for the purpose of financing the purchase of a manufactured home and a suitably developed lot on which to place the home; and

(E) **[\$16,200]** *\$23,226* if made for the purpose of financing the purchase, by an owner of a manufactured home which is the principal residence of that owner, of a suitably developed lot on which to place that manufactured home, and if the owner certifies that he or she will place the manufactured

home on the lot acquired with such loan within 6 months after the date of such loan.

* * * * *

The Secretary shall, by regulation, annually increase the dollar amount limitations in subparagraphs (A)(ii), (C), (D), and (E) (as such limitations may have been previously adjusted under this sentence) in accordance with the index established pursuant to paragraph (9).

* * * * *

(8) INSURANCE BENEFITS FOR MANUFACTURED HOUSING LOANS.—Any contract of insurance with respect to loans, advances of credit, or purchases in connection with a manufactured home or a lot on which to place a manufactured home (or both) for a financial institution that is executed under this title after the date of the enactment of the FHA Manufactured Housing Loan Modernization Act of 2007 by the Secretary shall be conclusive evidence of the eligibility of such financial institution for insurance, and the validity of any contract of insurance so executed shall be incontestable in the hands of the bearer from the date of the execution of such contract, except for fraud or misrepresentation on the part of such institution.

(9) ANNUAL INDEXING OF MANUFACTURED HOUSING LOANS.—The Secretary shall develop a method of indexing in order to annually adjust the loan limits established in subparagraphs (A)(ii), (C), (D), and (E) of this subsection. Such index shall be based on the manufactured housing price data collected by the United States Census Bureau. The Secretary shall establish such index no later than one year after the date of the enactment of the FHA Manufactured Housing Loan Modernization Act of 2007.

(10) FINANCIAL SOUNDNESS OF MANUFACTURED HOUSING PROGRAM.—The Secretary shall establish such underwriting criteria for loans and advances of credit in connection with a manufactured home or a lot on which to place a manufactured home (or both), including such loans and advances represented by obligations purchased by financial institutions, as may be necessary to ensure that the program under this title for insurance for financial institutions against losses from such loans, advances of credit, and purchases is financially sound.

[(c)(1) Notwithstanding any other provision of law, the Secretary shall have the power, under regulations to be prescribed by him and approved by the Secretary of the Treasury, to assign or sell at public or private sale, or otherwise dispose of, any evidence of debt, contract, claim, personal property, or security assigned to or held by him in connection with the payment of insurance heretofore or hereafter granted under this section, and to collect or compromise all obligations assigned to or held by him and all legal or equitable rights accruing to him in connection with the payment of such insurance until such time as such obligations may be referred to the Attorney General for suit or collection.

[(2) The Secretary is authorized and empowered (a) to deal with, complete, rent, renovate, modernize, insure, or sell for cash or credit in his discretion, and upon such terms and conditions and for such consideration as the Secretary shall determine to be reason-

able, any real or personal property conveyed to or otherwise acquired by him, in connection with the payment of insurance heretofore or hereafter granted under this title and (b) to pursue to final collection, by way of compromise or otherwise, all claims against mortgagors assigned by mortgagees to the Secretary in connection with such real or personal property by way of deficiency or otherwise: *Provided*, That section 3709 of the Revised Statutes shall not be construed to apply to any contract of hazard insurance or to any purchase or contract for services or supplies on account of such property if the amount thereof does not exceed \$1,000. The power to convey and to execute in the name of the Secretary, deeds of conveyance, deeds of release, assignments and satisfactions of mortgages, and any other written instrument relating to real or personal property or any interest therein heretofore or hereafter acquired by the Secretary pursuant to the provisions of this title may be exercised by an officer appointed by him without the execution of any express delegation of power or power of attorney: *Provided*, That nothing in this paragraph shall be construed to prevent the Secretary from delegating such power by order or by power of attorney, in his discretion, to any officer or agent he may appoint.】

(c) *HANDLING AND DISPOSAL OF PROPERTY.*—

(1) *AUTHORITY OF SECRETARY.*—*Notwithstanding any other provision of law, the Secretary may—*

(A) *deal with, complete, rent, renovate, modernize, insure, or assign or sell at public or private sale, or otherwise dispose of, for cash or credit in the Secretary's discretion, and upon such terms and conditions and for such consideration as the Secretary shall determine to be reasonable, any real or personal property conveyed to or otherwise acquired by the Secretary, in connection with the payment of insurance heretofore or hereafter granted under this title, including any evidence of debt, contract, claim, personal property, or security assigned to or held by him in connection with the payment of insurance heretofore or hereafter granted under this section; and*

(B) *pursue to final collection, by way of compromise or otherwise, all claims assigned to or held by the Secretary and all legal or equitable rights accruing to the Secretary in connection with the payment of such insurance, including unpaid insurance premiums owed in connection with insurance made available by this title.*

(2) *ADVERTISEMENTS FOR PROPOSALS.*—*Section 3709 of the Revised Statutes shall not be construed to apply to any contract of hazard insurance or to any purchase or contract for services or supplies on account of such property if the amount thereof does not exceed \$25,000.*

(3) *DELEGATION OF AUTHORITY.*—*The power to convey and to execute in the name of the Secretary, deeds of conveyance, deeds of release, assignments and satisfactions of mortgages, and any other written instrument relating to real or personal property or any interest therein heretofore or hereafter acquired by the Secretary pursuant to the provisions of this title may be exercised by an officer appointed by the Secretary without the execution of any express delegation of power or power of attorney. Nothing in this subsection shall be construed to prevent the Secretary*

from delegating such power by order or by power of attorney, in the Secretary's discretion, to any officer or agent the Secretary may appoint.

* * * * *

(f)(1) *PREMIUM CHARGES.*—The Secretary shall fix a premium charge for the insurance hereafter granted under this section, but in the case of any obligation representing any loan, advance of credit, or purchase, such premium charge shall not exceed an amount equivalent to 1 per centum per annum of the net proceeds of such loan, advance of credit, or purchase, for the term of such obligation, and such premium charge shall be payable in advance by the financial institution and shall be paid at such time and in such manner as may be prescribed by the Secretary.

(2) *MANUFACTURED HOME LOANS.*—*Notwithstanding paragraph (1), in the case of a loan, advance of credit, or purchase in connection with a manufactured home or a lot on which to place such a home (or both), the premium charge for the insurance granted under this section shall be paid by the borrower under the loan or advance of credit, as follows:*

(A) *At the time of the making of the loan, advance of credit, or purchase, a single premium payment in an amount not to exceed 2.25 percent of the amount of the original insured principal obligation.*

(B) *In addition to the premium under subparagraph (A), annual premium payments during the term of the loan, advance, or obligation purchased in an amount not exceeding 1.0 percent of the remaining insured principal balance (excluding the portion of the remaining balance attributable to the premium collected under subparagraph (A) and without taking into account delinquent payments or prepayments).*

(C) *Premium charges under this paragraph shall be established in amounts that are sufficient, but do not exceed the minimum amounts necessary, to maintain a negative credit subsidy for the program under this section for insurance of loans, advances of credit, or purchases in connection with a manufactured home or a lot on which to place such a home (or both), as determined based upon risk to the Federal Government under existing underwriting requirements.*

(D) *The Secretary may increase the limitations on premium payments to percentages above those set forth in subparagraphs (A) and (B), but only if necessary, and not in excess of the minimum increase necessary, to maintain a negative credit subsidy as described in subparagraph (C).*

* * * * *

(j) *REQUIREMENT OF SOCIAL SECURITY ACCOUNT NUMBER FOR FINANCING.*—*No insurance shall be granted under this section with respect to any obligation representing any loan, advance of credit, or purchase by a financial institution unless the borrower to which the loan or advance of credit was made, and each member of the family of the borrower who is 18 years of age or older or is the spouse of the borrower, has a valid social security number.*

* * * * *

ADDITIONAL VIEWS OF RANKING MEMBER SPENCER
BACHUS

H.R. 2139 includes several important reforms to the Title I manufactured housing program, which will encourage greater private sector participation and increase the availability of FHA loans for manufactured housing. The manufactured housing industry has evolved in the last decade to deliver a higher quality product that saves as much as 25 percent of development costs associated with traditional single-family homes.

During the markup of H.R. 2139, the Committee adopted an amendment I offered directing the Government Accountability Office (GAO) to assess how the Secretary of Housing and Urban Development utilizes the FHA manufactured housing loan insurance program and other programs administered by HUD to mitigate the risks to manufactured housing residents and communities resulting from tornadoes.

Every year, an average of 800 tornadoes sweep across the United States, resulting in 80 deaths, more than 1,500 injuries, and millions of dollars in property damage. One of nature's most powerful and violent storms, large tornadoes often record wind speeds in excess of 250 miles per hour. These natural catastrophes can strike with little warning, forcing communities to confront a loss of infrastructure, and, unfortunately, a loss of life. In my home state of Alabama in early March, eight people were killed, including students, when a powerful tornado ripped through a high school.

Many residents of homes have a place to go in the event of a tornado, whether it is a basement or an interior room. Manufactured housing residents do not have a basement and they often do not have an interior room. Despite rapid advances in tornado warning technologies, residents of manufactured housing communities often do not have adequate access to proper shelter. In 2003, I authored legislation authorizing communities to use Community Development Block Grant (CDBG) monies to construct or improve tornado-safe shelters located in manufactured housing parks. Unfortunately, this authority is not used often enough.

As we improve the Title I manufactured housing loan program, it is important that Congress do everything in its power to ensure that residents of manufactured housing communities have adequate protection from natural catastrophes such as tornadoes.

H.R. 2139 will facilitate greater access to manufactured housing, and my amendment will help to ensure that residents of manufactured housing communities can acquire sufficient resources to prepare and protect their families from the next tornado.

SPENCER BACHUS.