

Testimony
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Hearing on the State of Manufactured Housing
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Financial Services Committee, House of Representatives

Good morning, Vice Chairman Hurt and members of the subcommittee. My name is Carla Burr and I have the honor of representing the 17 million families who live in manufactured housing. I live in a manufactured home of 1,800 of square feet that I purchased new for \$113,000 in cash from Realty Systems, Inc., which is a re-seller for Crystal Valley Homes, a Division of Patriot Homes, Inc.

Owners of manufactured homes are frequently ignored by federal housing policy so we are very grateful for the attention paid today to our recommendations. We believe if you want to understand why manufactured home sales are falling so dramatically, it is critical to ask the buyers and residents of manufactured homes. Would we recommend them to others? Would you want your child to buy one?

I would certainly recommend a manufactured home to others.

I love my home. Built after the regulatory codes were fully operational, my home is attractive and energy efficient. I have a disability that prevents me from working so affordability and being able to live on one level really improves my quality of life. I love my house.

As the largest single source of unsubsidized affordable homeownership in the country, it is the de facto source of affordable housing in many of the nation's most persistent poverty regions and high-cost housing markets. In one recent study, more than two-thirds of all new housing constructed over a three year period that was affordable to low-income families was manufactured.

Still, manufactured homes are frequently misunderstood and overlooked due to outdated stereotypes of "trailers" and "mobile homes." In reality, manufactured housing that is well built and maintained can be a wonderful option for families and the elderly.

However, there are elements beyond the quality of the homes that affect the deep decline in the number of manufactured home sales in the past year.

The decline in the number of manufactured home sales can be directly linked to the following factors:

- a weak economy;
- limited – and expensive – financing options
- limited access to homeownership benefits and assistance
- a feudal system that traps home owners and strips their wealth

I. Weak economy

The recession has hit working class people very hard. High levels of unemployment and falling wages make it difficult for families to assemble a down payment and buy a home. Many people are doubling up with family members and friends. They would buy a home if they could afford it; unfortunately, many cannot. Efforts to create jobs through targeted federal investment should be aggressively pursued.

II. Limited – and expensive – financing options

But the economy is not the whole story. When I went to buy my home, I was shocked that the best interest rate I could get was 10% for a 15 year loan. My excellent credit rating did not matter. I had owned a condominium so was used to the terms and rates for stick built homes. I had a 4.58% mortgage for the condo. Instead of taking a loan, I used the proceeds from the sale of the condo to pay cash.

However, many people cannot afford to make this choice. The loan choices are few and much more expensive. The products that are available have higher interest rates, shorter amortization time frames and fewer protections than regular mortgages. These loans are generally unnecessarily risky for consumers, especially as most owners of manufactured homes can only get personal property loans, often called chattel loans, not mortgages. Chattel loans have higher costs and fewer protections. These higher rates result in a higher monthly payment making a standard \$63,000 manufactured home much more expensive. Whether a home is classified as real or personal property significantly affects the home's asset-building potential, mostly due to tax and financing implications.

We applaud the Dodd-Frank Act and the creation of the Consumer Financial Protection Bureau. We need better regulations in this marketplace so people understand what financing they receive and avoid becoming delinquent or foreclosing due to balloon payments or placement on land where they could easily be displaced.

We eagerly await the confirmation of Richard Cordray as Director of the Consumer Financial Protection Bureau. Loans made to manufactured homebuyers should be covered under the CFPB. We also are looking forward to the rule from the Federal Housing Finance Agency detailing the duty to serve requirements related to manufactured housing. We strongly support duty to serve benefits focused on providing mortgages instead of personal property loans. We also want to see duty to serve rules push the market toward long-term leases and to support resident-owned cooperatives.

There is much that Congress, regulators and the industry can do to make the purchase of a manufactured home a better deal for buyers. Congress and the regulators should implement the Dodd-Frank Act to ensure that manufactured home owners benefit from security of tenure, with long-term leases. They need stronger legal protections from unscrupulous dealers who sell them loan products that end up being very expensive. They need to be able to purchase energy efficient homes that are accessible for aging populations and that have resale value.

Lack of regulatory schemes to ensure consumer friendly loan products, and lack of protections against aggressive rent increases that are not linked to improvements in the manufactured housing community, also make it extremely difficult for manufactured home owners to sell their homes, never mind realize any equity increase in their investment.

III. Limited access to homeownership benefits and assistance

There are tax benefits and government assistance for homeownership that do not benefit manufactured homeowners to the same extent.

- Homeowners can deduct their mortgage interest and their property tax. However, the mortgage interest subsidy does not apply to chattel or personal property loans.
- For cooperatives, residents of a community who pull together and purchase our land as a cooperative, we cannot deduct our proportional share of the interest paid on the loan for the land. The Internal Revenue Code Section 216 that covers cooperatives only allows deductions from the building, not the land. Manufactured housing community coops should have the same tax benefits as other cooperatives and home owners.
- HUD's major housing programs—HOME and the Community Development Block Grant—allow communities to use their funds for manufactured housing at their discretion. This can lead to discrimination and ineligibility for manufactured home buyers receiving down payment assistance or manufactured housing being included in a housing plan. HUD's FHA Title I and Title II programs could also be improved by requiring identical manufactured housing foundation standards for both Title I and Title II loans. Title I programs should also remove prohibitions that disallow the financing of manufactured homes that have been relocated so long as the homes are in good condition. The deep cut to HOME and CDBG will hurt affordable housing efforts.
- USDA's Rural Development Section 502 Direct program could be made more accessible for manufactured housing as well by making sure that severe reductions in funding are prevented; increasing the loan term limits for manufactured homes; removing restrictions on the financing of subsequent purchases of manufactured homes; specifying a single foundation standard for manufactured homes that applies across states; providing loans for single-section homes; and expanding the use of 502 Direct loans for manufactured homes in cooperatives.

Not everyone lives in a manufacture home as gorgeous as mine. As many as 1.5 million people live in homes built prior to the national HUD code that went into effect in 1976. Some of these homes are in good shape but many, need to be replaced. These

homeowners are stuck. With incomes too low to replace their home without assistance, they cannot benefit from housing assistance as they are homeowners. Their homes are technically eligible for weatherization but for many, adding new windows or insulation is just a waste of money. Congress should prioritize replacing these homes. Some suggested investments include:

- The Department of Education's weatherization program should allow the weatherization allocation to count towards replacing a pre-HUD code mobile home with an ENERGY STAR manufactured home.
- Owners of pre-1976 mobile homes should be able to qualify as first time homebuyers and receive housing assistance for many programs including the Assets for Independence matched savings account program at the Department of Health and Human Services.
- Low-Income Housing Energy Assistance Program (LIHEAP) funds should be allowed to advance to provide a down payment to buy a new manufactured home. A GAO study on this possibility is currently underway at the request of Chairman Bingaman.

IV. A feudal system that traps home owners and strips their wealth

As I said, I love my home. I just made a mistake when I moved into a manufactured housing community, or park. About 2/3 of manufactured homes are placed on land owned or controlled by the home buyer but 1/3 of the homes are placed on land leased. Nationwide, there are 50,000 communities. Some are wonderful with respectful land owners who maintain high quality and keep prices affordable.

Then there are communities like mine. Established in 1972, there are 499 homes in my community. Unfortunately, many of us feel trapped. We each spent tens of thousands of dollars to buy our homes, yet the lot rent has increased exorbitantly. Next year, my lot rent is going to be \$919 a month. Seven years ago, the lot rent was about \$400. We have no control over the lot rent. If we don't want to pay it, one would expect we could pick up our homes and move but that is out of the question. Moving my home would cost about \$20,000. There is also simply nowhere to move. There are no communities near me and I cannot afford to buy land.

For the nearly 3 million people like me who whose homes are on leased land, we are in a financially precarious position. When manufactured home communities close, homeowners are forced to either sell their homes at a fraction of their value; move them, which causes them to lose value; or abandon them altogether. Laws that grant residents a right of first refusal, require advance notice from the landowner or provide a tax incentive for owners that sell to residents can help promote resident purchase opportunities, help them preserve their homes and neighborhoods and build wealth. Virginia state law offers no protection against the sale of a manufactured home community—community owners are not required to notify residents at all when they decide to sell the land beneath their homes.

States need to consider policies that protect residents' rights to assemble and go door-to-door to form homeowner associations and to advocate on their own behalf. Without such policies, residents are likely to fear eviction and loss of their homes if they attempt to create a resident association, organize to purchase their community or advocate for policies that promote resident ownership. Virginia laws protect broadly against retaliation but do not provide any affirmative protections for homeowners. Virginia does have a statute restricting grounds for eviction from manufactured housing communities, but offers no protection that prohibits community owners from arbitrarily denying the right of a homeowner to sell their manufactured home in place. There are practices of certain community owners that further erode the value of my investment if I want to sell. For example, landlords can refuse to sell to someone who wants to buy my home. They can limit how I market my home. They can steer potential buyers to the homes they own and not let them see my home. In my community, it has gotten so bad that elderly people are turning in the title of their home to the landlord and walking away. They cannot afford to pay the ever-increasing lot rent. We feel like prisoners in a feudal system.

The good news is that there is a real need for all of us – industry, advocates, communities and consumers to work together to improve the marketplace for manufactured home buyers.

In the past decade, we have seen many promising signs to support affordable housing through manufactured housing. These include:

- The establishment of the Manufactured Home Owners Association of America (MHOAA) of which I am a member. Nearly 20 state organizations exist representing community residents. The goal is to have all fifty states organized to become member states. Our community organization will be working with legislators and other organizations in Virginia to become a member state of MHOAA.
- The Corporation for Enterprise Development (CFED) developed the Innovations in Manufactured Homes Initiative (I'M HOME) to ensure that families who purchase manufactured homes reap benefits from the homeownership experience that enable them to live safely, securely and affordably and to build wealth.
- Resident Owned Communities USA (ROC USA®) has put together the financing and the technical assistance to enable residents of communities to buy the land and run the community cooperatively. If I could, I would buy my plot of land in a heartbeat! This would convert my home to real estate and my taxes would change from personal property to real property; the high lot rental would be eliminated, thereby putting more money in my pocket.
- Next Step™
is building a national network of nonprofit affordable housing developers to replace pre-HUD code manufactured homes with new ENERGY STAR manufactured homes through a partnership with my fellow panelist, Clayton Homes.

All of these partners are eager to share their ideas we have to make manufactured housing living a key component of the affordable housing landscape. We want potential purchasers to buy a manufactured home secure in the knowledge that the loan product is beneficial to them and that their home will have value for years to come. With an improved market, you might even encourage your child to buy a manufactured home. Manufactured housing can be part of the solution to our need to create jobs, save energy and provide attractive and affordable housing in a way that enables families to have economic mobility. There is much that Congress can do to improve the regulatory marketplace so buyers get the best possible loans, ensure that federal agencies can use their resources to help homeowners buy a quality home that they can afford and require protections for owners living in communities. Everyone, the people who build the homes, the people who sell the homes, the people who finance the homes and the people who buy these homes should work together to improve the outcomes for buyers like me. We would love to provide an unqualified recommendation for manufactured housing. Until we fix the financing, provide equal access to benefits and ensure secure tenure, manufactured home sales will remain slack.

Finally, as an owner of a manufactured home, I really look forward to the day when we have equal rights under the law as any other home owner, whether, stick-built, town home or condominium. We are also petitioning our local representatives in Virginia to pursue some sort of rent control or restructuring so that land owners cannot raise lot rents without some sort of ceiling.

Thank you for listening and allowing me to testify.