August 2007

GAO

Accountability·Integrity·Reliability

Highlights

Highlights of GAO-07-879, a report to congressional requesters

FEDERAL HOUSING ADMINISTRATION

Agency Should Assess the Effects of Proposed Changes to the Manufactured Home Loan Program

Why GAO Did This Study

Pending legislation to the Federal Housing Administration's (FHA) Title I Manufactured Home Loan program would increase loan limits, insure each loan, incorporate stricter underwriting requirements, and set up-front premiums. GAO was asked to review (1) selected characteristics of manufactured housing and the demographics of the owners; (2) federal and state consumer protections for owners of manufactured homes; and (3) the potential benefits and costs of the proposed changes for borrowers and the federal government. In addressing these objectives, GAO analyzed select Census data; researched federal laws and laws in eight states; interviewed local, state, and federal officials; and analyzed various scenarios that might affect Title I program costs.

What GAO Recommends

GAO recommends that the Secretary of Housing and Urban Development (HUD) direct FHA to assess the effects of the proposed changes to the Title I program and develop an approach for collecting the information needed to effectively manage the program. HUD agreed with these recommendations.

www.gao.gov/cgi-bin/getrpt?GAO-07-879.

To view the full product, including the scope and methodology, click on the link above. For more information, contact William B. Shear at (202) 512-8678 or shearw@gao.gov.

What GAO Found

According to 2005 American Housing Survey data, most manufactured homes (factory-built housing designed to meet the national building code) were located in rural areas in southern states, and most were occupied by lower-income owners rather than renters. Although the market for new manufactured homes declined substantially from 1996 to 2005, buyers increasingly bought larger homes and placed them on private property rather than in manufactured home parks. In addition, some states are experiencing park closures, with the properties being converted to other uses. Overall, manufactured homes can be an affordable housing option, with monthly housing costs lower than for other housing types.

Owners of manufactured homes generally have more consumer protections if their homes are considered real rather than personal property, but protections provided by laws in the states GAO examined vary. Consumer protections extending to lending and settlement processes for personal property loans are not as broad as those for real property loans (mortgages). Also, delinquent Title I borrowers can be subject to repossession or foreclosure, but the consumer protections for repossession are often less extensive than those for foreclosure. State laws give owners of manufactured homes on leased land varying levels of notice, protection, and compensation related to length of leases, rent increases, evictions, and park closures.

According to some FHA and lending officials, potential benefits of the proposed changes for borrowers include loans big enough to buy larger homes and more financing as more lenders participate in the program. The program insured about 24,000 loans in 1990 but only about 1,400 loans representing $54 million in mortgage insurance in 2006. While the changes could benefit borrowers, according to FHA and the Congressional Budget Office, the potential costs could expand the government's liability. To gain an understanding of the effects of the proposed changes, GAO presented various scenarios. Although risk factors unique to manufactured home lending (such as placement on leased land) as well as commonly used predictors of loan performance (such as credit scores) are associated with default risk, these data were not available. Instead, GAO modeled different variations of borrower default risk and other factors (such as premiums and lender recovery) that were based on the experience of FHA loans to illustrate how variations in these key factors could affect potential gains and losses to FHA's General Insurance Fund. The analysis suggests that in all instances where borrowers had medium or high default risk, the fund would experience a loss. However FHA has not articulated which borrowers would be served, how the loans would be underwritten and priced under a risk-based structure, or collected data on credit scores and land ownership type. FHA explained that among other reasons, it had not done so because the Title I program was currently a low-volume program. As a result, the effects of the proposed changes are unclear.