

## The Changing Emphasis on Mobile Home Financing

The pros and cons of financing mobile homes are frequently debated among bankers. The lack of a consensus was apparent in a recent survey by the Federal Reserve Bank of Atlanta in which a variety of opinions and attitudes on this subject was expressed by Sixth District bankers. The responses did suggest, however, that an increasing number of bankers are enlarging the funds devoted to this type of instalment lending. Mobile home loans held by sampled banks more than doubled from 1961 to the end of last year, and the dollar volume grew nearly four-fold.

Specifically, the survey sought to determine the extent and manner in which bankers in this District are helping finance this expanding segment of the housing market and to obtain some idea of their overall impression of mobile home lending. The Southern region provides an excellent area to study the response of bankers to recent changes in the industry.

A representative sample of banks in this District was chosen for the study, including those that regularly report their consumer loan activity to the Federal Reserve Bank of Atlanta. The list

was then expanded to incorporate the 50 largest banks in the District. Thus, in addition to a sample of banks of all sizes, the survey also covered those banks which probably account for most of the outstanding mobile home loan volume in the Sixth District. The final list was made up of 121 banks to which a specially designed questionnaire was mailed in February of this year. Out of this number, 113 responded, and about one-half reported making mobile home loans.

When the responding banks were grouped according to size (using total deposits as the measure), it was apparent that larger banks made proportionately more mobile home loans. Banks with total deposits of \$26 to \$50 million were about equally divided between those making and those not making mobile home loans. Banks with deposits greater than \$50 million granted proportionately more of these loans, while the reverse was true for smaller banks.

While these figures indicate a direct relationship between bank size and mobile home lending, many large banks do not make instalment loans for this purpose. Sixteen of the 40 largest banks in the District do not presently make such loans. Thus, while close to two-thirds of the banks making these loans in 1966 had total deposits in excess of \$50 million, a large number in this deposit size category did not.

A much higher concentration of the outstand-

---

*Monthly Review*, Vol. LII, No. 5. Free subscription and additional copies available upon request to the Research Department, Federal Reserve Bank of Atlanta, Atlanta, Georgia 30303.

Table I: Banks Responding to Survey

Deposit Size	Making Mobile Home Loans	Not Making Mobile Home Loans	Total
Millions \$			
Under \$10.0	4	15	19
10.0—24.9	9	12	21
25.0—49.9	8	8	16
50.0—99.9	10	7	17
100.0 and over	24	16	40
All Reporting Banks	55	58	113

Table II: Banks Making Mobile Home Loans

Deposit Size	Volume Outstanding, End of Year 1966			Banks		Average Outstandings per Bank
	Thousands \$	%	Number	%	Thousands \$	
Millions \$						
Under 10.0	142.5	0.2	4	7.3	35.6	
10.0—24.9	395.5	0.4	9	16.4	43.9	
25.0—49.9	1,258.9	1.3	8	14.5	157.4	
50.0—99.9	3,270.8	3.3	10	18.2	327.1	
100.0 and over	93,030.8	94.8	24	43.6	3,876.3	
All Reporting Banks	98,098.5	100.0	55	100.0	1,783.6	

ing volume of mobile home paper was held by the larger banks. Banks with deposits below \$50 million accounted for about two-fifths of those reporting mobile home loans, but only about 2 percent of the outstanding volume. On the other hand, the largest two-fifths (those with deposits of \$100.0 million and over) held approximately 95 percent of the reported volume. Banks with deposits in excess of \$100 million held, on average, about \$3.9 million in mobile home paper, compared with average holdings of about \$1.8 million for all banks.

Changing Attitudes

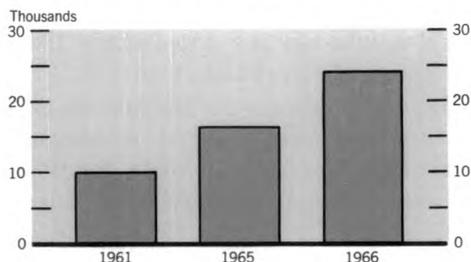
Unquestionably, many bankers in this region are seriously considering adding more mobile home loans to their consumer portfolios. Such loans at responding banks grew from around 10,000 in 1961 to slightly over 24,000 at the end of last year. The corresponding dollar volume at these banks increased from approximately \$21 million to around \$98 million during the same period.

No attempt was made to estimate the total volume of mobile home paper outstanding at all District banks. However, since the survey did include a representative cross-section of banks, as well as the 50 largest, the results should provide an indication of the relative growth of this type of lending activity.

The more rapid rate of growth in volume outstanding than in number of accounts has resulted, in part, from the trend toward larger and more expensive units financed. For example, the average mobile home loan at the responding banks, including loans for both new and used units, increased from around \$2,000 in 1961 to approximately \$3,300 in 1965 and to over \$4,000 last year. Thus, roughly 20 percent of the increase last year was attributable to a gain in the average loan amount.

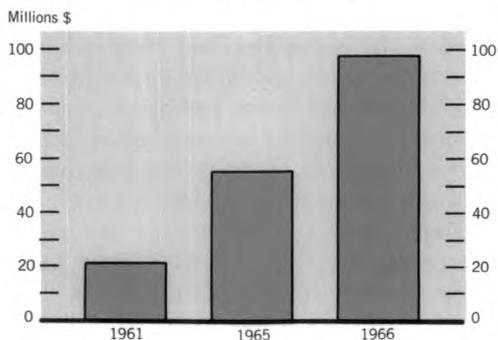
The rise in mobile home lending did not merely

Number of Loans at Responding Banks



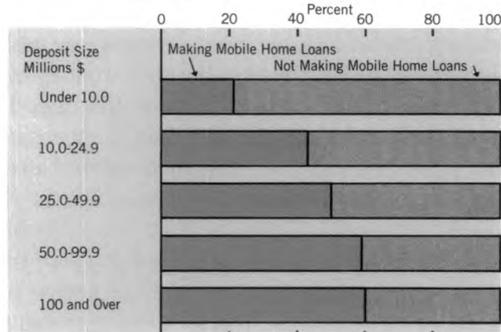
The number of mobile home loans at banks in the Sixth District responding to the survey has increased rapidly since 1961,

Outstanding Volume of Loans at Responding Banks



... and the dollar volume outstanding has grown faster.

Mobile Home Lending Activity By Banks of Various Sizes



Survey banks of all sizes reported making mobile home loans, but larger banks are the most active lenders in this field.

represent the more intensive lending activity of the same banks. The number of banks making mobile home loans has also increased. One-fifth of the banks making these loans in 1966 had less than three years' experience and one-half less than six years'. Thus, it would appear that mobile home lending, once limited primarily to the more specialized and experienced banks, is now attracting the attention of other banks in this area. Close to three-quarters of the increase in the number of accounts and about one-half of the increased volume between 1961 and 1966 were contributed by banks not previously engaged in this type of lending activity. These new entrants represented banks of all sizes, but over nine-tenths of the resulting volume was accounted for by those with total deposits of \$50 million or more.

In order to gain some insight into the attitudes of bankers, we asked them to summarize their current policy on mobile home lending. One-fourth were definitely attempting to increase this type of lending, and approximately 55 percent indicated no change. But the remaining one-fifth were trying to decrease their outstanding volume of mobile home paper. As mobile home lending becomes more pervasive, bankers are in disagreement on the relative merits of consumer financing of mobile home paper, primarily because of the lengthening of maturities and their poor repossession experience. Even though mobile home lending has become more pervasive, the varying experiences of bankers continue to contribute to a difference of opinion as to the relative merits of consumer financing of mobile homes.

Although these opinions cover the period of tighter credit conditions of 1966, they nevertheless express longer-run policy objectives. It could be that some banks' attempts to decrease volume reflected the overall credit restraint of last year. However, the overwhelming majority reported that neither their lending standards nor interest rates on instalment loans changed during this period. The small percentage reporting changes in lending standards or interest rates on mobile home loans generally cited changing money market conditions and the increased likelihood of younger borrowers being drafted as their reasons.

Less than one-tenth of the respondents classified mobile home loans as below average in risk, compared with other types of instalment lending. The majority of bankers apparently view these loans as equally desirable or more attractive than other types of consumer loans. This may be further evidence that a majority of bankers are attempting to increase mobile home lending and

possibly why lending standards in most instances were not changed last year.

The old axiom that the requirement of a good instalment loan is a good dealer has particular significance in financing mobile homes. Because of the mobility factor and the restricted market for used mobile homes, most mobile home paper held by banks is purchased from a dealer. This is true at practically all District banks. In most cases the bankers have full recourse to the dealers.

About three-fifths of the banks reported no differences in rates charged on direct and purchased paper. However, of the remaining two-fifths, a majority indicated that rates on purchased paper were generally more liberal.

### Down Payments and Maturities

The ratio of down payment to total selling price and the length of the note have special significance for mobile home loans compared with other durable goods. Because of the rather limited market for resales, any changes in maturities and interest cost of the structure not offset by down payment requirements may have a direct bearing on the amount of equity the purchaser holds. A relaxation of terms in this manner could have a direct bearing on the possibility of repossessions.

Generally, banks in this region require between 10 and 30 percent down payment on a mobile home loan. The most frequently required down payment, however, is around 25-30 percent. Very seldom will the bank accept less than 10 percent down. In a few instances, however, the down payment is figured as the difference between the selling price of the unit and the dealer's invoice. For loans to purchase a new mobile home, the minimum down payment is usually around 15 percent, and for resales slightly more.

The average maturity of loans to purchase new mobile homes is generally from five to seven years. Over three-fifths of the loans outstanding at District banks in 1966 had maturities falling in this range. About one-quarter were to run for less than five years, while close to 10 percent had maturities in excess of seven years.

For loans to buy used mobile homes, virtually all of those outstanding in 1966 at surveyed banks were to run for less than seven years, and most of these were for less than five years.

### Delinquencies and Repossessions

Most banks reported an end-of-year delinquency rate between 2 and 3 percent in 1965 and 1966. In a few instances, the rate was 4 percent or

Table III: Delinquencies and Repossessions  
At Reporting Banks

	1965		1966	
	Number	Percent	Number	Percent
Total Accounts at Reporting Banks	16,556	100.0	24,188	100.0
Delinquent Accounts	385	2.3	729	3.0
30-59 days	291	1.8	550	2.3
60-89 days	66	0.4	103	0.4
90 days or over	28	0.1	76	0.3
Repossessions	476	2.9	647	2.7

slightly above, but this represented only a small percentage of the total accounts outstanding. In 1965, the average delinquency rate was 2.3 percent, with most of the overdue accounts in the 30-59 day range. The delinquency rate rose to 3.0 percent in 1966, as a result of the increase in past due accounts of less than two months.

A frequently used indicator of the quality of a group of loans is the repossessions ratio, the percentage of loans made during the year that subsequently must be repossessed. Banks in this area in recent years have experienced a repossessions rate of around 3 percent or less. In 1966, however, the rate of repossessions at District banks declined slightly to 2.7 percent from 2.9 percent in 1965.

### Mobile Home Living Today

Last year, while conventional housing was declining, dealer shipments of mobile homes held around their 1965 level of 216,000 units. With the trend toward more expensive mobile structures, last year's dollar volume probably increased. A better comparison of the impact on the total housing industry is the growing share of the market claimed by mobile homes. In 1965 one in every six single-family housing starts was of the mobile type. As recently as 1961, they represented less than one-tenth of the market. A significant factor in the growth of mobile home living has been the provision of less mobility and more housing. Mobile structures today may never be moved any farther than from the factory to the park. Even though the likelihood of movement is not as great as it once was, the potential for mobility is still available. This is particularly appealing to young married couples and retired persons, who represent the greater share of the market for mobile homes.

For young married couples, the home on wheels provides a completely furnished residence at a comparatively low price. The average cost

of a mobile home is around \$6,000, completely furnished, while the conventional home averages considerably more. The young married couple will not lose equity in the mobile home should they relocate; they will move their home.

### Who Are the Residents?

Part of the reason for banks' re-examination of financing mobile homes may be the shifting image of residents. The Mobile Home Manufacturers Association estimates that there are over 4 million mobile home owners in the U. S. The age-old idea that people lived in mobile homes because they could not afford to live elsewhere has proven erroneous by several recent surveys. A University of Michigan survey indicated that about two-thirds of all mobile home dwellers have annual household incomes in excess of \$6,000, with a median level of close to \$8,000.

The rising average income level for mobile home residents, which is above the average for all U. S. residents, largely reflects the changing composition of occupational groups preferring to live in a mobile home. This same survey reported that one-fourth of the mobile home heads of households are skilled workers, and about one-fifth are professionals, proprietors, or self-employed. Military personnel, accounting for about 10 percent by occupation, are not as prevalent among residents as they once were.

According to the 1965 University of Michigan survey, nearly half of the mobile homeowners previously owned conventional homes, and another one-fifth lived in apartments. Thus, it would appear that the convenience and mobility factors have certainly attracted a growing number of desirable tenants. This, coupled with the fact that approximately one-fourth have lived in a mobile unit for nine or more years, supports the view that this type of living is satisfactory to many families.

### Manufacturers

The improved design of the mobile home and more desirable parks have also contributed to the changing image of mobile home living. The trailer 10 feet wide by 50 feet long was in demand for many years. Now, because they are moved less often, the 12-wide has become very popular. This unit may be as long as 70 feet and include three or four bedrooms and two or three baths. If the units are to remain mobile, however, this is probably the maximum width attainable.

Recently, however, "Doublewides" (two inde-

pendent units joined together lengthwise at the site) and expandable units (one or more sections that fold or pull out from the basic unit) are being used quite frequently.

While the structures have changed, the same basic design is used in constructing most units. Manufacturers have taken advantage of cost reduction through mass production in building units, and the retail price has been held down. Of course, the interiors in most cases can be altered to suit the buyer without any appreciable change in costs. The assembly-line type production also provides almost instant housing.

According to the Mobile Home Manufacturers Association, approximately 350 mobile home factories are scattered in almost every state. However, certain areas remain important production centers. In 1965, over one-half of all mobile homes produced were in the East North Central and South Atlantic regions, and close to one-half of the plants were there. Within these regions, however, the major part of the production is localized in only a few states. Michigan and Indiana manufacture most of the units in the East North Central region, while Georgia is the number one producer in the South and the second in the entire nation. According to the Georgia Mobile Home Association, 41 mobile home manufactur-

ing plants are located in Georgia with annual payrolls of over \$12 million. Estimates show that these plants produced approximately 30,000 mobile homes last year and accounted for 11 percent of total industry production.

Travel trailer and recreational vehicles, as well as special unit structures not classified as mobile homes, are also increasing at many of these manufacturing plants. These special units are becoming more and more popular for use as school rooms, offices, and other types of structures.

### Implications

All indications point to a continued rapid growth in mobile home sales. The younger and older segments of the population are increasing rapidly and should continue to find this type of living desirable. The demand for mobile homes will probably also be stimulated by the growing number of families purchasing second homes.

The continued orderly and steady growth of the industry depends, to a large extent, on the ability and desire of lenders to provide adequate financing to dealers and customers. Recent experience indicates that 75-80 percent of all mobile homes sold are financed.

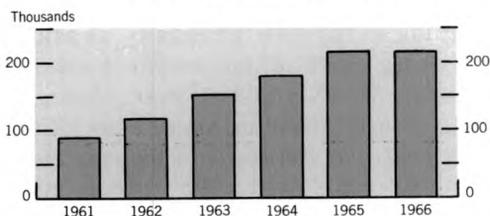
Historically, commercial banks and sales finance companies have supplied most of the direct retail financing of mobile homes, with the largest share going to the latter. Lending institutions specializing in housing loans such as savings and loan associations and mutual savings banks are legally restricted from making consumer loans. However, with mobile homes claiming an increasing share of the homebuilding industry, savings and loan associations are pushing vigorously for legislation to allow an expansion of their lending powers to cover consumer instalment loans, including mobile homes.

Many commercial banks, too, are now making a serious bid to become more active competitors for a larger share of the conventional home loan market. Loans to finance mobile homes could well be the competitive arena in which a claim on a larger share of the total single-family housing market will finally be decided.

How far the mobile home industry will be able to penetrate the housing market is uncertain. However, further penetrations will likely occur, which may hasten the aggressive bidding of lenders for a bigger share of the housing dollar. Whatever the outcome, some bankers now seem more willing and anxious to devote more funds to this type of lending.

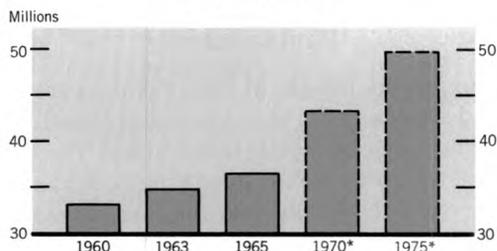
JOE W. MCLEARY

### Mobile Home Shipments



One indication of the growth of mobile home sales is the increasing number of shipments by U. S. dealers.

### U. S. Population 20-29 and 65-74



\*U.S. Department of Commerce, Bureau of the Census, projections.

A stimulus to increasing sales has been the enlargement in the number of residents in the younger and retirement age groups. It is currently estimated that these groups will expand at an accelerated rate in coming years.