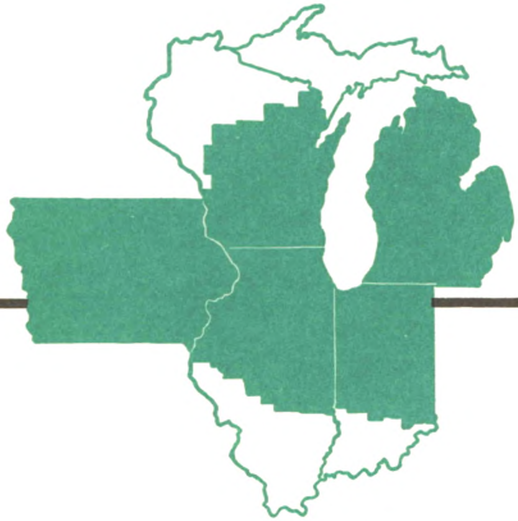
A review by the **Federal Reserve Bank of Chicago**

Business Conditions



November 1972

Contents

Mobile homes and the housing supply

In each of the past four years, about one-fifth of the new housing units produced in the United States have been mobile homes—factory-made, furnished, and shipped to the site as complete units. This proportion probably will be equaled, or exceeded, in 1973 and in years to come.

Experience with high-rise public housing, rehabilitation of dilapidated inner city dwellings, unfinished "shell" homes, and modular construction has not lived up to the expectations of enthusiasts and some conspicuous failures have been publicized. As a result, mobile homes stand out as the most successful innovation in low-cost housing in the past 20 years. Not only has this sector grown substantially, and almost continuously, but it has developed through the efforts of private businessmen and financial institutions with virtually no financial assistance thus far from the government.

The nation's housing goals

In the Housing Act of 1968, Congress, noting that the stated objective of the Housing Act of 1949 to provide "a decent home and a suitable environment for every American family" was not being achieved rapidly enough, established as a quantitative goal 26 million new or rehabilitated housing units by 1978. Last June, the President reported that the nation was 8 percent ahead of the path charted toward that goal. This statement depends upon the inclusion of mobile homes.

Despite vigorous industry efforts toward better understanding, mobile homes are still often confused with travel trailers, motor homes, or other recreational vehicles. (The head of a major producer of motor homes—built on a truck chassis and self-propelled—said recently, "a mobile home is an inexpensive house. A motor home is an expensive toy.") Manufacturers campaigned diligently for acceptance of the name "mobile home" in the 1950s because they wanted to differentiate their product from the tarnished image of the "house trailer" that suggested flimsy construction, a gypsy life-style, and crowded masses of humanity in "trailer courts." As mobile homes increased in size and durability in the 1960s—became less "mobile" and more "home" because once put in place they usually stay put—attempts were made to agree upon a more suitable name. None has been found to date.

The typical mobile home produced in recent years measures 12 by 62 feet with about 750 square feet of carefully planned living space. Many are substantially larger. They now cost $8.50 to $10 per square foot (under $7,000 for the average unit), compared to $15 to $18 per square foot for on-site construction—only half as much. Costs of mobile homes have remained relatively stable in recent years, while on-site construction costs have risen sharply. Moreover, mobile homes are sold completely equipped with furniture, major appliances, drapes, and carpets. Neither price includes the cost of land and improvements, but the differential between the cost of a space in a high-grade mobile park and a building lot in a residential area may be greater than differences in construction costs.

The surge in output

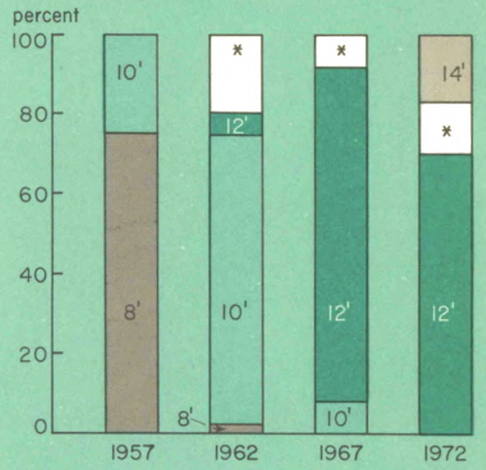
Almost 600,000 mobile homes will be produced and shipped in 1972, including government purchases and a few exports. Virtually all of these units will provide an inexpensive, year-round home for an American family. Units destined as offices, school rooms, or for other uses are not included in these data compiled by the Mobile Homes Manufacturers Association. A further rise in mobile home shipments is expected by housing experts in 1973, while starts on conventional units are widely expected to decline by about 10 percent or so.

During and after World War II, shortages of conventional housing, especially in areas near large defense plants, led to widespread use of travel trailers as living quarters. These units offered cramped living quarters 7 or 8 feet wide by 25 or 30 feet long that merely provided shelter with a minimum of amenities. The modern mobile home dates from the beginning of large-scale production of the "10-wide" (10 feet wide) introduced in the mid-1950s. These units accounted for 69 percent of production in 1958.

By 1962, the 8-wide had almost disappeared and the 12-wide was introduced. The 12-wide had superseded the 10-wide almost completely by 1967. In 1969, 14-wides came on-stream. Currently, a few 16-wides are being produced.

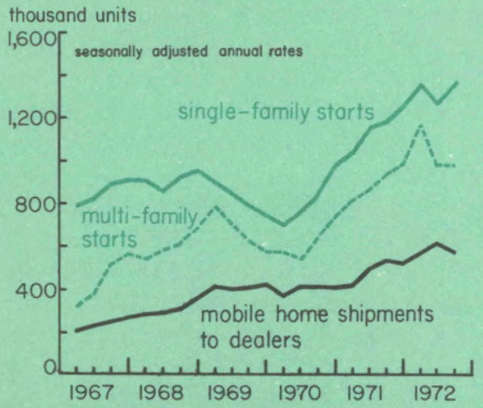
Since the late 1950s, the mobile home industry has produced expandables (with one or more rooms sliding out from the main structure) and double wides. Double

12-foot-wide units dominate the mobile home market



SOURCE: Mobile Homes Manufacturers Association.
*Expandables and double wides.

Mobile home shipments contribute to the housing boom

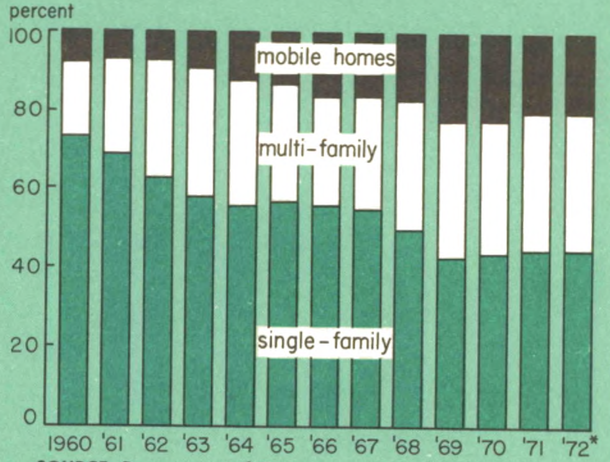


SOURCE: Department of Commerce and Mobile Homes Manufacturers Association.

wides consist of two sections, now commonly 12 feet by 62 feet, that are transported separately and are joined together at the site. Double wides often closely resemble conventionally constructed homes.

In recent years, very few 8- and 10-wide mobile homes have been produced. Seventy percent of this year's output are 12-wides, 17 percent are 14-wides, and 13 percent are expandables or double wides. The increasing width of mobile homes has been constrained mainly by state laws restricting the widths that can be transported over highways. Almost all mobile homes are towed to the dealer's lot, or the owner's site, by motor trucks under special license.

Mobile homes now account for one-fifth of new private housing



SOURCE: Department of Commerce and Mobile Homes Manufacturers Association.
*Estimated.

From 1958 through 1962, mobile home shipments averaged just over 100,000 annually. In the 1963-67 period, output averaged over 200,000. In 1968, output exceeded 300,000, and the 400,000 level was reached in 1969 and 1970. Last year's output was 500,000, and the 600,000 annual level is now within reach. Forecasts of 15 percent annual growth in mobile home output are common in industry circles. If so, the 1 million level could be reached by 1976.

This year, total housing production, including mobile homes, will be almost 3 million, eclipsing the 1971 all-time record high of 2.5 million, and double the annual totals of the early 1960s. Mobile homes will account for 20 percent of all housing production in 1972, and 30 percent of single-family homes. Ten years ago, mobile homes accounted for less than 8 percent of the total and only 11 percent of single-family homes.

Mobile homes average well under $10,000 in price, fully equipped. Almost no completed new conventional homes now sell for less than $20,000, and in many areas, including most of the Midwest, the minimum is about $25,000, including the lot.

Housing needs are expanding. Annual net household formations are averaging about 2 million in the 1970s as high birthrates of the late 1940s and early 1950s are reflected in marriages of young people. In the 1960s, net household formations averaged only 1 million annually. Inner city housing is being abandoned or demolished at a rapid (although unmeasured) pace. There are growing numbers of retired people who often prefer to retain their own living quarters, although on a reduced scale. Finally, more married couples are choosing to sharply limit family size.

Young married couples, retired people, and childless couples of middle years comprise the bulk of the market for new mobile homes. These groups will be expanding substantially in the years ahead.

Location of mobile homes

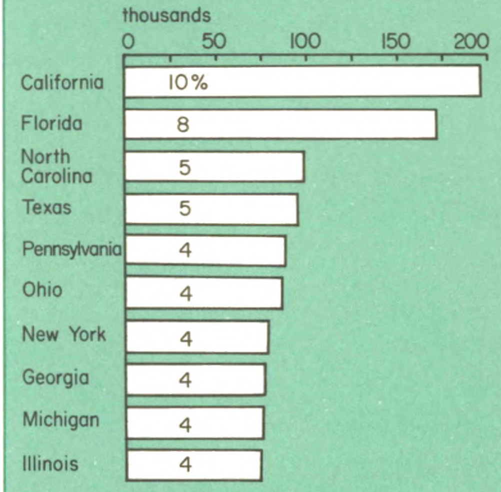
Revised Census estimates show 2.1 million mobile homes used as year-round housing in April 1970—3.3 percent of all households. In 1960, the count was less than 800,000—less than 1.5 percent of all housing units. Total shipments of mobile homes have exceeded 1 million units since the 1970 Census, and allowing for units taken out of service, the number of occupied mobile homes must be approaching 3 million with over 7 million inhabitants. Virtually all mobile homes are owner-occupied.

The relative importance of mobile homes in the various states depends partly on local zoning regulations and local acceptance of this type of housing. But the most important factor governing sales of mobile homes in various areas in the past decade has been the rate of growth of households. As a general rule, areas with the largest number of the nation's new conventional dwelling units also have absorbed the largest number of new mobile homes.

California had almost 200,000 occupied mobile homes in 1970, followed by Florida with 170,000. North Carolina and Texas each had almost 100,000. Michigan and Illinois were in ninth and tenth place, each with about 75,000 occupied mobile homes. Indiana, with 68,000, was eleventh. The other Seventh District states, Wisconsin and Iowa, had 29,000 and 24,000, respectively.

Manufacturers' shipments to dealers in the various states is a good measure of the number of new mobile homes delivered to customers in those states because dealers usually sell within local markets. In 1971, Florida led the nation in manufacturers' shipments to dealers, with about 50,000 units, 10 percent of the total. Texas and California each accounted for about 7 percent of shipments to dealers. Michigan, with 23,000, or 4.6 percent, was the only Seventh District state in the top ten.

California and Florida have 18 percent of occupied mobile homes



Note: Figures in bars are percentages of the U. S. total.
SOURCE: Department of Commerce.

Nevada and Alaska had the highest proportion of households living in mobile homes in 1970, almost 13 percent in each case, far above the national average of 3.3 percent. Arizona and Wyoming each had 10 percent. Among the populous states that had large proportions of occupied mobile homes were Florida with 8 percent, and North Carolina with 7 percent. California and Texas, each among the top states in the number of occupied mobile homes and in the number of shipments to dealers in recent years, were below the national average in the proportion of households living in these units in 1970. Indiana, with 4 percent of its households in mobile homes, was the only Seventh District state with a higher proportion than the nation.

In 1970, 54 percent of all mobile homes in the United States were located outside the counties or groups of counties that make up metropolitan areas. In the Plains states and in the South, the proportion exceeded 60 percent. The greatest number of mobile homes in metropolitan areas are in parks. Those outside metropolitan areas are mainly on scattered lots.

Location of manufacturers

For more than 20 years, Elkhart County, Indiana, has claimed the title of "mobile home capital of the world." Elkhart has retained a concentration of manufacturers of components and suppliers, designers, consultants, and financial and legal experts, as well as producers of finished homes.

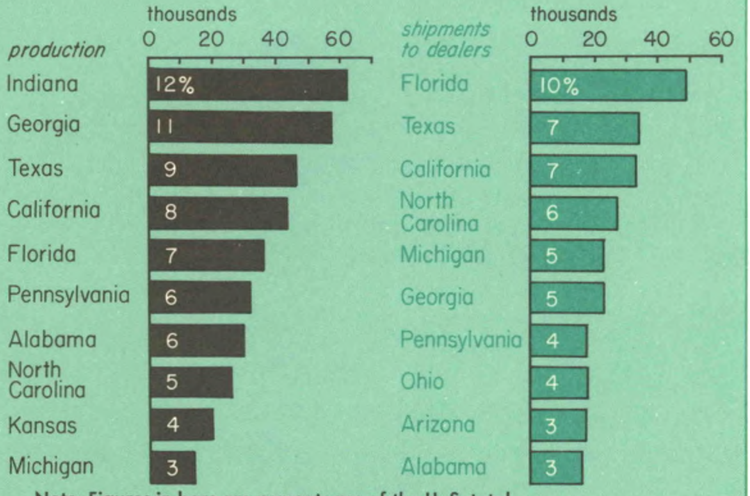
In most years, including 1971, the state of Indiana has led the nation in production of mobile homes, mainly because of the Elkhart activities. Although its production has increased substantially, Indiana's proportion of total output has declined in the past decade. In recent years, Indiana has accounted for 12 percent of mobile home shipments. In 1963, it had 21 percent.

In 1971, Michigan was in tenth place among the states producing mobile homes with less than 3 percent of the total. Ten years earlier, Michigan had been in first place, before relinquishing the lead to Indiana. Michigan's output has declined relative to other states each year since 1961, and has declined in actual numbers in recent years.

Together, Michigan and Indiana accounted for 35 percent of mobile home production in 1961. Last year, they accounted for 15 percent. The great bulk of Indiana's production of mobile homes is exported to other states, while Michigan is now a net importer from other states.

Georgia was in second place in mobile

Indiana leads in mobile home output; Florida in dealer shipments



Note: Figures in bars are percentages of the U. S. total. Data are for 1971.

SOURCE: Mobile Homes Manufacturers Association.

home output in 1971, followed by Texas, California, and Florida. The top five states had 48 percent of the nation's output.

There are currently about 360 manufacturers of mobile homes with more than 700 plants. The top four firms each now have annual sales exceeding $200 million and are believed to have 25 percent of the market. The top 15 may have 50 percent. Larger firms have ten or more plants in widely separated locations, and a few have more than 30. Some of these companies are "integrated," producing parts and components for their products. The typical plant of larger firms has 60 to 80,000 square feet and produced from ten to 15 units per day.

Trends in manufacturing

Entry into mobile home manufacturing has always been relatively easy for new firms. A fairly small one-floor plant, a relatively unsophisticated stock of equipment, a semiskilled work force, and basic "know-how" (usually learned in existing plants) are all that is required. Producers of lumber, aluminum sheeting, appliances, and furniture—usually large firms—supply these components on open-book credit for 30 to 90 days. Often, suppliers locate plants or warehouses close by mobile home plants. Manufacture of mobile homes is largely an assembly operation on a moving line patterned after the methods of the motor vehicle industry. It may take only a few hours from the start of assembly to the finished product. Inventories of parts and components turn over very rapidly. As a rule, manufacturers have no inventory of finished mobile homes.

About 70 percent of the sales price of a mobile home represents materials, and only 10 to 12 percent represents labor costs. In conventional construction, as much as 40 percent may represent on-site labor costs.

Wages paid in mobile home plants are similar to wages paid in other factories and are well below the union scales for the building trades. Many plants are not unionized, and commonly employed incentive pay systems tend to speed output and cut costs. Needless to say, factory production can proceed unhampered by bad weather.

The market area served by a mobile home plant tends to be limited by costs of transporting mobile homes—50 cents to $1.00 per mile. Competition usually restricts a plant to markets within 150 to 200 miles. But some units are shipped 700 miles or more. Transport restrictions, e.g., by states that bar 14-wides from their highways, also constrict market areas.

Despite ease of entry, the mobile home industry has witnessed a rather steady trend toward increased concentration in the past decade. Mergers have been frequent, and many firms have diversified or have been absorbed by a company that also produces lumber, other components, recreational vehicles, or quite unrelated products. Larger mobile home firms usually have access to the capital and money markets at more favorable terms than small producers. Firms that buy components in large volume are able to obtain lower average prices because of quantity discounts. They are able to spread overhead over a larger volume of business. Moreover, size and reputation help in building and maintaining a strong dealer organization and in helping dealers to obtain financing for inventories and sales.

Stricter enforcement of quality standards also favors large firms who can comply more effectively, again by spreading costs over a larger volume. Smaller firms also may have more difficulty in satisfying requirements of OSHA (Occupational Safety and Health Act).

Quality standards

The "fly-by-night" producer of mobile homes who may offer shoddy merchandise is gradually disappearing. This trend is likely to continue, and help to improve further the industry's image.

Under the auspices of the Mobile Homes Manufacturers Association, a production code called "ANSI A119.1" has been developed for mobile homes by the American National Standards Institute. This code, over 100 pages in length, has been adopted by 37 states and by the FHA. More than three-quarters of all mobile homes are now produced under the code. Some states enforce even more stringent standards.

The ANSI code for mobile homes is a "performance code" covering four major sectors: heating, electrical, and plumbing systems, and the frame and chassis. Emphasis is on safety (including fire resistance), durability, comfort, and convenience. A number of public and private agencies help maintain quality through periodic inspection of factories to assure that materials and construction methods are adequate. Seals of compliance are affixed to mobile homes that pass inspection. Many producers would favor the adoption of a uniform national standard, believing it would simplify compliance and increase public acceptance.

Every discussion of mobile homes considers the question of longevity. The Department of Housing and Urban Development (HUD) has concluded that no firm statement is possible on this point. Rules of thumb for some lenders suggest depreciation of 20 percent the first year, and 10 percent annually for the next four years. Others believe this is far too rapid.

Properly maintained and barring a catastrophe, a well-constructed mobile home can last indefinitely, like conventional housing. Experienced manufacturers insist they do not know how long their products will last. Many early models are still in use, and current standards of construction are much improved. Well-sited and well-maintained, it is possible for mobile homes to appreciate in value in certain cases.

Many mobile homes of older vintage, especially 8- and 10-wides, have been removed from the year-round housing inventory and have been converted into vacation homes, offices, or other uses. Obviously, there are no data concerning the length of this second life.

The dealer's function

There are several thousand mobile home dealers in the United States, many of whom also handle recreational vehicles. Some dealers sell only a few units annually, while others sell hundreds. Although dealers usually are independent, a growing number of manufacturers own some of their own outlets. Mobile home service companies also sometimes have their own lots to resell repossessed units.

Dealers usually comprise the only "middleman" between the manufacturer and the potential homeowner. Manufacturers sell through distributors to only a minor extent.

Most dealers operate only one lot, but chains of five or more lots are not uncommon. Multiple-lot operations permit customers to choose from a wider selection for immediate delivery. Many dealers also own or control one or more parks to provide spaces for their customers. These parks may be "closed" to units sold by other dealers.

Dealerships can be established with a relatively small amount of capital, perhaps

$25,000. But, as in any business, a knowledge of the trade and adequate access to credit are essential. Manufacturers normally build only to order and require cash payment, which the dealer usually obtains from the lending institution that finances his inventory.

Many dealers carry inventories equal to three or four months sales, but some have a more rapid turnover. Customers may inspect a variety of models, and choose from as many as 15 to 20 floor plans. Most sales are from the lot, but 10 to 20 percent of all sales are custom orders that require three to eight weeks for delivery from the factory.

Operation of a mobile home dealership resembles an auto agency, but with significant differences. In contrast to auto dealers, mobile home dealers almost always carry products of more than one manufacturer—often three or four. Second, manufacturers are prepared to repurchase mobile homes from dealers under certain conditions.

The retail markup on a mobile home averages about 20 percent from the manufacturer's price—somewhat more on higher-priced models. The manufacturer's invoice itemizes all the extras included in a given unit, and dealers may be advised on suitable markups on all items, i.e., "suggested list prices." However, mobile home dealers do not feature the "sticker prices" that have been required for automobiles since the late 1960s.

Out of his gross markup, the dealer must pay salesmen's commissions, lot expenses, interest, overhead, transportation to the customer's space, and the "set-up" costs required to put the unit in working order. An additional source of income to dealers is the rebate of a portion of the finance charge after the dealer's loss reserve, held by the lender or service company, has reached a prescribed level.

Mobile home parks

About half of all mobile homes are located in mobile home communities or parks. The other half are situated on scattered sites—often on farms, but often, too, on urban properties.

According to HUD, there are now 15,000 mobile home parks that have 15 or more spaces. Newer parks have 200 to 600 spaces. Monthly rentals usually range between $35 and $70 but can exceed $100.

At one extreme, the older mobile home parks are densely packed eyesores lacking lawns, curbs, recreational areas, or other redeeming features. At the opposite extreme are luxurious country club layouts with swimming pools, landscaping, and clubhouses. Some of these are found in the Midwest, but most are in such states as Florida, California, and Arizona. Some parks have strict rules prohibiting children and dogs. Others are largely restricted to retired couples.

Many cities and counties familiar with undesirable parks refuse to allow the establishment of new mobile home communities. Zoning authorities also fear that mobile home residents will not pay their share of municipal taxes. State laws vary substantially. Most commonly, mobile homes are taxed as motor vehicles or other personal property, but some states apply ad valorem tax rates. A trend toward taxation of mobile homes as the equivalent of real estate appears to be under way. The mobile home parks often are taxed under special rules.

Some states have passed legislation to shift control of zoning from local authorities to state authorities, at least for factory-built housing. There are no data showing the extent to which such laws have helped the construction of mobile home parks thus far. HUD has prepared a booklet of standards for construction of mobile home parks. This lengthy document outlines rules for spacing of units, and for the provision of pavements, parking areas, lighting, placement of utilities, and landscaping. Growth in the number of showplace parks may encourage more local governments to relax restrictions on new projects.

Spaces in mobile home parks are said to be available in most areas today—after rapid building in 1970-71. But the locations and nature of these parks may not be satisfactory to all potential buyers. There are few mobile home parks, good or bad, in the great cities of the Midwest and Northeast because of restricted zoning and building codes. Prospects are not favorable that this situation will change soon. The scarcity of parks in and around big cities is one reason for the low representation of blacks among mobile home households. Other factors may be restrictions on the number of children, and the difficulty that many blacks have in qualifying for credit.

Some investor groups have been developing a series of quality mobile home parks in widely separated areas. One such developer, also a manufacturer of mobile homes, operates more than 40 parks. Often parks are developed and owned by mobile home dealers to assure an outlet for their sales. FHA insurance is available for mobile home park loans with up to 40 years maturity and up to $3,500 per space, but most parks are conventionally financed.

Spaces in mobile home parks are not commonly sold to homeowners, although some trend in this direction may be under way. Rather, they are leased, or more commonly rented, on a month-to-month basis. These relationships tend to give the park operator considerable power over his tenants. Periodically, reports are publicized spelling out complaints of tenants over alleged failings, overcharges, or sharp practices of park owners. A number of mobile homeowners' leagues have been created to adjust such grievances.

Mobile home living

Surveys of mobile home households show a relatively large proportion with heads of households under 30 or over 55—both groups that are expected to grow faster than the intermediate groups in the years ahead. The median income of mobile home buyers is about $8,500, compared to more than $13,000 for buyers of conventional new homes. But there are wide variations for both types of homes. Mobile home households average about 2.5 people, indicating relatively few children, compared to about 3.5 for families in conventional homes.

Mobile homes range from about 700 square feet to more than 1,800 for large double wides. Conventional single-family homes average about 1,500 square feet. A few mobiles are placed on permanent foundations with basements, but most are on concrete pads with underpinnings of concrete blocks. Owners often add vestibules, patios, storage sheds, and the like in keeping with their means and inclinations.

Mobile homes come equipped with complete plumbing, heating, and electrical systems. The frame is wood, using studs, joints, and plywood; the chassis is made of steel I beams. They usually have aluminum siding and galvanized steel roofs, and are insulated and sealed against the weather. Increasingly, these homes are securely anchored with "hurricane straps" to prevent turnovers in severe windstorms. Continuous efforts are made to procure flame-resistant materials.

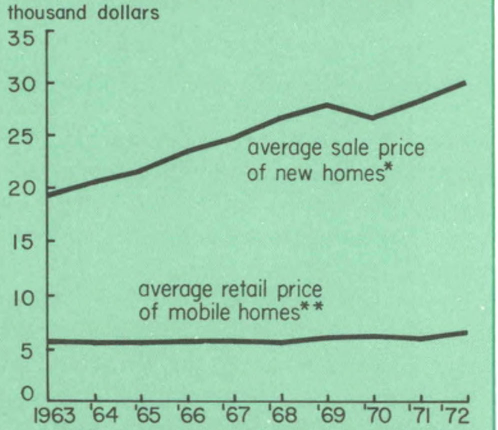
Larger units have two bathrooms and

three or four bedrooms. New furniture, appliances, carpets, and drapes are installed in the factory. Mobile home designers have had long experience in utilizing limited space effectively. But the typical mobile home does not have adequate areas inside for large parties, children's sports, or storage of possessions of people who "collect and accumulate." On the other hand, simplicity of design makes for ease of cleaning and maintenance—attributes appealing to elderly people and working wives.

Costs and availability

It is sometimes said that the rapid rise in construction costs has "priced the average family out of the market" for conventional new single-family homes, leaving mobiles as the only alternative. Actually, the income of most groups has more than kept pace with construction costs over the years, and government programs to aid the flow of funds to the mortgage markets have helped to keep funds available and monthly payments within reach. In any case, it is not valid to compare average family incomes with average prices of new homes. Typically, conventionally constructed new homes (annual production is seldom more than 2 percent of the existing stock) are purchased by families with above average incomes. Most families purchase existing homes, or they rent, or move in with relatives. But it is quite possible for a family of average income (about $11,000 currently), or less than average income, to own a new mobile home.

Mobile home prices remain fairly stable, while conventional home prices soar



SOURCE: Department of Commerce and Mobile Homes Manufacturers Association.

*Includes price of land.

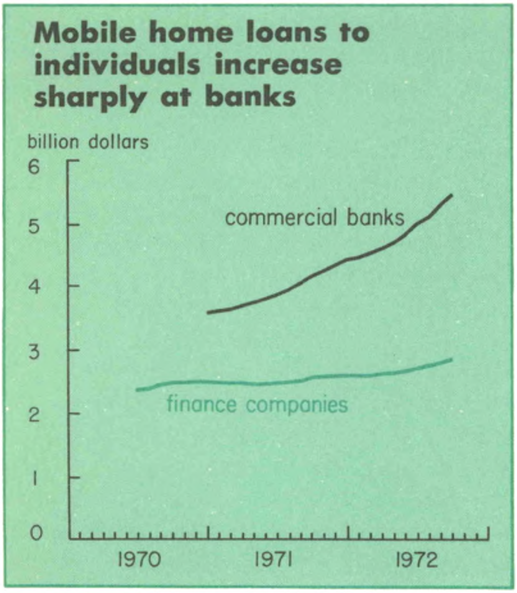
**Includes furnishings.

Although low relative to new conventional houses, the costs of owning mobile homes are not inconsiderable. For example, the monthly payment on a 90 percent loan to buy an $8,000 mobile home can be upwards of $130 when costs of interest, amortization, property damage insurance, and credit life insurance are included. In addition, space rentals in a suitable home park can easily be $50 or more monthly. These payments may or may not include costs of utility services.

One of the great advantages of mobile homes is their full availability as soon as they are brought to the site and "set up." This attribute enabled the federal government to give prompt relief to flood victims after last spring's disasters in South Dakota and in the East, especially in Pennsylvania. In August alone, HUD purchased 9,000 mobile homes for shipment to flooded areas. These units were not included in figures on shipments to dealers. Many people rendered homeless by the floods are still living in the mobile homes provided by the government.

Financing mobile homes

The expansion of the mobile home in-



dustry, in large part, has reflected the growing availability of credit to finance dealers' inventories and retail purchases. Dealers usually depend upon lenders to advance the entire invoice value of mobile homes shipped to them by manufacturers. At least 80 percent of retail sales are on credit, and the typical deal on a new mobile home involves an advance of 90 percent of the purchase price. In addition, a large volume of credit is required to finance inventories and sales of used mobile homes.

About $10 billion of mobile home retail paper was outstanding at the end of September 1972. Approximately 60 percent of this volume was on new units. The total includes the finance charge added to the basic amount borrowed, commonly adding 50 percent or more to the total advance. Commercial banks held $5.5 billion of the retail mobile home credit in September, finance companies held $2.8 billion, savings and loan associations held almost $1.0 billion, and other lenders, mainly credit unions, had upwards of $500 million. These totals have increased sharply in recent years. In September 1972, bank holdings of retail mobile home paper were up 31 percent from a year earlier, while finance company holdings were up 12 percent.

No aggregate data are available on floor plan loans, but these run about 10 percent of the volume of retail paper held by institutions. Probably about $1 billion of wholesale mobile home credit is now outstanding. Many banks, finance companies, and savings and loan associations have a program of floor planning combined with retail credit extensions. Credit unions are not permitted to make floor plan loans.

Banks may participate in mobile home financing in a variety of ways. Some banks, like credit unions, make only direct loans to their own customers. Others combine direct loans with a full program of floor planning and retail loans. Some banks purchase selected instalment contracts from mobile home finance service companies. Some rediscount blocks of retail paper for other lenders. Small banks sometimes participate in programs with their big city correspondents. Similarly, city correspondents purchase paper generated by banks in smaller towns. Other banks specialize in lending to finance companies that, in turn, operate a mobile home finance program.

At Seventh District commercial banks, retail mobile home credit now accounts for about 6 percent of loans to individuals, about the same as for the nation. Of course, some banks specializing in the field have a much larger proportion of mobile home paper, while others have none at all. Many Midwest banks do mobile home lending in states as far away as Florida and Texas.

One authority states that 1,200 commercial banks now participate in mobile home financing "in a major way," compared to about 200 in the late 1960s. Bank financing of mobile homes was pioneered in the early 1950s by a few banks in Grand Rapids, Michigan, which is close to the original centers of mobile home manufacture in Michigan and northern Indiana. Major finance companies, operating on a national scale, also began to finance mobile homes in the 1950s.

According to data compiled by the Mobile Homes Manufacturers Association, finance companies had a larger volume of mobile home loans than banks through most of the 1960s. Since 1968, however, banks have dominated the field, with an important assist from mobile home service companies. They now account for 55 percent of mobile home financing, compared to about 28 percent for finance companies, and 17 percent for other lenders. As competition for mobile home loans has increased, some banks, and some finance companies, have curtailed their operations in this field.

Savings and loan associations were first given the power to make mobile home loans in 1969—up to 5 percent of their assets. In June 1972, the Home Loan Bank Board increased this proportion to 10 percent. In mid-1972, S&Ls had less than one-half of 1 percent of their assets in mobile home loans. In the Seventh District, the proportion was even smaller. Most S&Ls have had little experience in financing instalment sales. Moreover, they usually lend most of their funds in their local market areas, and ample lending opportunities have been available in recent years. Nevertheless, a substantial increase in mobile home financing by S&Ls is anticipated in the years ahead.

Mobile home loan terms

A relatively small number of mobile homes placed on foundations on land owned by buyers are financed as real estate mortgages. Usually, these are larger-size units. But the great bulk of both new and used mobile homes are purchased on retail sales contracts, also called "security agreements." The retail sales contract represents a conditional sale, similar to the contracts used in financing automobiles.

Unlike real estate loans, where the mortgagor holds title subject to a lien, the lender retains title in a conditional sale. To obtain title, the buyer must honor in full the conditions of the loan, including, and especially, the obligation to complete scheduled payments. In case of a default that cannot be remedied, the lender or his agent can repossess the merchandise, a legal procedure that is relatively quick and uncomplicated compared to the often drawn out process of a mortgage foreclosure. Up to 10 percent of mobile homes purchased on credit are repossessed and resold.

Floor plan loans typically are made for the full wholesale price, less freight, shown on the manufacturers' invoice for each mobile home. These loans usually are for 90 days, but successive renewals are made if the borrower-lender relationship is satisfactory. Interest rates on floor plan loans made by banks currently are one to three points over the prime rate.

Floor plan loans are usually profitable to lenders, but the main income in a mobile home finance program is from retail paper. A dealer is obligated to offer the lender carrying his floor plan first chance to acquire his customers' retail paper. Eighty to 90 percent of these contracts held by banks come through dealer referrals.

Terms on instalment sales of mobile homes are now typically 10 percent down with ten years to pay at an "add-on" rate of 6 to 7¾ percent. This rate equals 11 to 14 percent simple interest—the "effective" annual percentage rate. "Truth in Lending" disclosure regulations specifically prohibit quoting add-on rates and require that the annual percentage rate be clearly shown.

While maturities on most new mobile home loans are for ten years, 12-year terms are available on double wides. The trend in mobile home lending has been to extend maturities as successful experience with these loans has accumulated. In the early 1950s, 36-month maturities were typical. Later in the decade, 48- and 60-month maturities were offered. In the late 1960s, the 84-month (seven-year) maturity became the norm before yielding to the current ten-year contract. Recent-model used homes often can be financed on 84-month contracts.

Experienced mobile home lenders believe that average net yields on these portfolios equal or exceed the returns on most other loans. The large size and long maturities on mobile home loans relative to other consumer loans help boost net yields. Even so, earnings on mobile home lending are much less than gross earnings. Allowance must be made for losses and expenses of operating the program.

A field for specialists

Articles on mobile home financing often state that this is "no business for amateurs." No lending operations, of course, are safe for amateurs. These writers are pointing out that successful mobile home financing programs require specialized knowledge and experience that is not acquired automatically in other fields of lending.

Large banks and other lending institutions sometimes have separate departments for mobile home financing with one or more officers and an adequate staff devoting full time to this activity. These specialists are familiar with all phases of the mobile home industry. They establish relationships with dealers, arrange floor plan loans, inspect inventories, analyze financial statements, check credit worthiness of retail customers, record documents, and handle collections.

Recent years have witnessed rapid growth of mobile home service companies, which have existed for more than a decade. Services offered by these organizations are especially useful to smaller lenders who do not have their own specialists.

Service companies perform a variety of functions. They investigate dealers and mobile home parks, contact lenders to encourage their participation, advise on market conditions, make retail credit investigations, check dealer inventories, handle collections and repossessions, and provide the several types of insurance essential to mobile home finance programs. Lenders may use some or all of these services on a fee basis.

Service companies may furnish a complete mobile home finance "package" for smaller operators who need only provide the funds for financing. In this case, they usually take two "points" of the add-on rate. On a 7½ percent add-on rate, for example, the lender is left with 5½ percent. His net yield, however, is somewhat less than 5½ percent because the service companies' charge comes "off the top" at the time the loan is made. For this payment, the service company handles relations with dealers, collections from retail customers, and repossessions. It sets aside a finance participation reserve which is rebated to dealers periodically. Most important, the service company guarantees the retail paper, usually by arranging for credit insurance, often through an affiliate. Insurance commissions usually provide a substantial share of service company income.

Until the late 1960s, most retail mobile home sales contracts were written with recourse to dealers. "Recourse" means that the dealers are expected to buy back defaulted retail contracts. To help secure this arrangement, lenders hold a portion of the finance charge as a reserve against which losses are charged. If experience is favorable, and the loss reserve builds up to a predetermined level, rebates are made to dealers. In addition to or as an alternative to the recourse arrangement, lenders may use a repurchase agreement under which dealers buy back units that are repossessed for the amount of the outstanding credit.

Controlling risks

In recent years, recourse financing of retail mobile home paper has been replaced, in large degree, by credit insurance provided by a growing number of underwriters that specialize in the field. Since 1971, the FHA, which has insured residential mortgages as a federal agency since the 1930s, has offered mobile home loan credit insurance. Relatively few lenders have used the FHA credit insurance program for mobile homes because downpayments are very low, interest charges are restricted, and insurance charges are substantial. Recently, the Government National Mortgage Association (GNMA) has encouraged financial institutions to buy securities backed by pools of FHA-insured mobile home loans.

In addition to credit insurance, lenders are able to protect their interests by insurance for collision, fire, and extended coverage (both on the dealer's lot and after sale to customers), dealer fraud, and Vendors Single Interest (VSI) coverage. VSI insures lenders (not usually vendors) against concealment, conversion, or disappearance of the mobile home that secures a instalment contract. Customers may also carry credit life or disability insurance, with the holder of the contract as beneficiary.

Lenders usually have a schedule of "curtailment" payments for mobile homes in dealer inventories. Under the typical agreement, a dealer pays the lender 10 percent of the value of each unit after it has been on his lot three months. Additional payments are required periodically. The full balance usually must be paid in nine to 12 months. Curtailment payments provide an incentive for dealers to move mobile homes fairly rapidly through price cuts if necessary.

An added safety factor in mobile home finance are agreements of manufacturers to repurchase their products under various circumstances. Usually, the agreement is invoked when a lender finds it necessary to dissolve a floor plan arrangement with an unsatisfactory dealer. Manufacturers' repurchase agreements are usually predicated on the understanding that curtailments will be paid as scheduled.

Many mobile home loans are repaid ahead of maturity, because the homeowner either sells the unit or acquires funds to pay off the balance. In fact, the average actual life of ten-year loans is less than five years. Prudent accounting by lenders requires that adequate reserves be set aside to provide for rebates of prepayments of finance charges and insurance premiums.

Experienced lenders have found that mobile home financing requires trained personnel and constant vigilance. Insurance is no substitute for sound lending practices. Lenders must "know their dealers," require that all payments be made promptly, eliminate dealers who sell "out of trust," make physical checks of dealer inventories, and continually scrutinize financial positions. To maintain control, most lenders will not share a floor plan with another lender. Some will not finance dealers with several sales lots. Floor plan arrangements should be filed under the Uniform Commercial Code, where applicable, and title documents should be properly recorded. Collections on retail paper should be followed closely, and repossessions must be ordered when the situation requires.

A number of states have recently enacted legislation to amend the "holder in due course" doctrine so that customers can in certain cases withhold payments on debts held by third parties, if they have valid claims against manufacturers or dealers. Such legislation underlines the need for lenders to investigate the quality of their dealers and the mobile homes they sell.

Further growth expected

Mobile homes are now a major element in the nation's supply of new housing. The government's Standard Industrial Classification Manual, as revised in 1972, gives belated recognition to the fact that mobile homes are dwelling units rather than recreational vehicles, as indicated in earlier editions. Each year, new units are larger and their quality and appearance improve.

The soaring uptrend in on-site construction costs has moderated in the past year. Nevertheless, costs of building conventional houses continue to be about double the costs of building mobile homes. Capacity to produce mobile homes is being expanded, and could be increased further within a year. Private funds are generally available to finance mobile homes, and additional lenders are entering the field.

The prevalent method of taxing mobile homes as personal property is often inequitable and a barrier to the development of new parks. Doubtless, this differential will gradually be eliminated.

The main obstacle to more rapid expansion of mobile home living is the availability of suitable parks—especially in the Midwest and Northeast. The commitment of the federal and state governments to the goal of better housing for American families suggests that steps will be taken to encourage the development of more mobile home parks.

A few years ago some analysts were predicting that the mobile home industry would level off at 400,000 units annually, and then perhaps decline. But output in 1972 is expected to approach 600,000. It appears reasonable that further substantial growth will occur in years to come.

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