

# A CLOSER LOOK

*A Closer Look* takes topics from previous and current issues of *Bridges* and examines them from a local perspective.



## ...AT THE ARKANSAS REGION

## Arkansans Like Manufactured Homes, but Many Lose Them

This issue of *A Closer Look* is a follow-up to the cover story “Manufactured Housing Becoming Mainstream?” in a previous *Bridges* newsletter. It looks specifically at manufactured housing in Arkansas. For the purposes of this article, “manufactured housing” refers to single- and multi-section housing that is constructed and transported on a chassis with wheels.

The term “repo” seems odd to use when speaking of a person’s home. You usually hear it in connection with a car that has been repossessed. However, the term is correct when applied to manufactured housing. In Arkansas, where 14.9 percent of the population lives in manufactured housing, it is especially meaningful. Defaults on loans have hit the manufactured housing industry hard. Factors leading to this problem are varied.

### Impact of Industry Woes on Arkansas Retailers

It is fairly common knowledge that in the past six years the manufactured housing industry has experienced a significant downturn. In 2002, the slump in Arkansas resulted in the closure of the state’s only manufactured housing producer, Spirit Homes in Conway.

However, the downturn in the industry came after years of good sales.



The city of Sherwood, Ark., successfully integrates manufactured homes, such as this one, with site-built homes in a single-family, residential neighborhood.

Throughout the 1990s, manufactured home placements grew, fueled by easy financing provided by finance companies. Problems arose in the late 1990s when borrowers got into financial distress. The availability of loans, abusive lending practices and a sluggish economy all contributed to the hard times.

A 1998 *Consumers Report* article estimated about 12 per-

cent of a company’s manufactured housing loans ended in default. This was about four times the default rate on mortgages secured by site-built homes. During 2001 and 2002, default rates in Arkansas grew dramatically for some finance companies. This resulted in a glut of repossessed homes on the market. Repo companies estimate the figure rose to as high as 100 repossessions per

month in the state. To stay in business, many manufactured housing retailers have ridden the wave and turned to selling only repossessed homes.

### Manufactured Housing Buyers Pay More for Loans

Most of the manufactured homes in Arkansas are purchased with “home only” or “chattel financed” loans—meaning the customer borrows money to buy a house but not any land. Usually, the borrower already owns land for the home or places the structure on leased land, such as in a mobile home park.

While chattel financing is an option for borrowers, it is usually more expensive than a conventional mortgage. The borrower often has little or no equity in the home. The structure is considered personal property and can be repossessed without loss of the land. The loan transaction is easily voided, even if the borrower misses one payment.

There are a few banks, thrifts and credit unions in Arkansas that provide “land/home” mortgages on manufactured homes. A land/home mortgage is similar to a construction loan. Generally there is a construction phase, which could include digging a well, pouring a slab and other work. When everything is completed and in place, the loan is converted to a standard fixed-rate mortgage.

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### Steps Taken Toward Recovery

To protect consumers, the state of Arkansas is trying to alleviate the effects of substandard lending and borrowing practices. Since 2001, the state has enacted the following legislation:

*Act 1118*—enables the state to set up a mechanism to cancel or retire the certificate of title document on manufactured and mobile homes placed on land owned by the homeowner. The title denotes the manufactured home as personal property. Cancellation of the title means the home can be converted to real property, which is more likely to appreciate.

*Affordable Housing Accessibility Act*—created standard definitions of “manufactured homes” and “mobile homes,” making it easier to regulate placement of such structures; requires cities to allow manufactured homes in at least one residential (single-family) zone outside of mobile home parks; allows cities to impose regulations on manufactured homes comparable to those on other single-family dwellings in the same zone; allows cities to restrict placement of mobile homes that do not meet federal construction standards; and prohibits cities from passing laws that are more stringent than federal and state laws governing manufactured home construction.

*Arkansas Home Loan Protection Act (AHLPA)*—designed to prevent predatory lending practices.

In addition to legislation, numerous other activities are under way.

In 2003, mortgage purchasers Fannie Mae and Freddie Mac agreed not to buy mortgages that do not comply with the AHLPA or that are considered high-cost loans.



In the traditional trailer park, residents generally own the trailer but not the land.

*The overriding goal is to ensure that manufactured homes are safe, affordable and are appreciable assets for their owners.*

In January 2004, the Community Resource Group and Mid-South Delta LISC released a draft of a study titled “Manufactured Housing in the Mississippi Delta” detailing the market characteristics, needs and target issues. The final version of the study, which includes 56 counties in Arkansas, will be released this fall.

Last spring, the Arkansas Manufactured Housing Association conducted a seminar for real estate appraisers on how to appraise manufactured homes. As a result of feedback from participants, the association created a database of manufactured homes similar to the Multiple Listing Service used by real estate appraisers for single-family, site-built homes.

In June 2004, a focus group consisting of organizations

interested in affordable housing met to discuss the challenges of and next steps for manufactured housing in Arkansas. Focus group meetings are being held across the state throughout 2004 and 2005.

The overriding goal is to ensure that manufactured homes are safe, affordable and are appreciable assets for their owners.

## What Is Manufactured Housing?

The evolution of manufactured housing from trailers into today’s manufactured homes has taken well over 50 years. Just as the terms have changed, so has the housing they describe. New manufactured homes can be difficult to distinguish from other housing stock. Many still refer to all manufactured housing as “mobile homes” because it is built and shipped on a chassis with wheels. The chassis is permanent and is the characteristic that distinguishes it from other prefabricated housing. Wheels are used on the chassis so the home can be moved. Today, all elements that make the home portable are generally removed at installation. As a result, less than 5 percent of manufactured homes are ever moved from their original location.



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