

Early Concept Document

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CONCEPT DOCUMENT



INTRODUCTION

For over 17 million Americans, the path to the American dream includes a manufactured home. With an average cost of only \$64,000, today's manufactured housing offers a high-quality and affordable entry into home ownership. This low price, when compared to a site-built home, underlines how manufactured housing can help more families build assets and achieve affordable housing.

Sadly, there are a number of obstacles in obtaining traditional financing on a manufactured home, specifically when the borrower is unable to afford a significant down payment. Private mortgage insurers have all but abandoned the first time buyer market for manufactured housing. And without private mortgage insurance, most lenders require a 20% down payment. In a recent survey of Filene credit unions, only 18% of respondents currently offer financing in excess of 80% loan-to-value (LTV). Additionally, these purchases are sometimes treated more like automobiles (personal property or "chattel") than real property, which results in higher APRs, increased fees, and shorter terms (to mitigate depreciation risk).

EXECUTIVE SUMMARY

CFED and the I'M HOME, Innovations in Manufactured Homes, initiative have been working since 2005 to establish a program that provides purchasers of manufactured homes in resident-owned communities a loan product that is comparable to those of traditional site-built homes. It has been determined that the success of the initiative will be based on the ability to provide home-buyers on a national scale the opportunity to access fixed-rate / competitive home financing.

MI CO-OP is a private mortgage insurance product that enables borrowers to purchase manufactured homes in a cooperative park with a limited down payment. This program will limit the lending credit union's risk and provide them with the opportunity to generate loan volume during a time when most credit unions are seeing a decline. Additionally, providing financing options on a national level has been a challenge for the I'M HOME initiative. The involvement of credit unions and a national insurer will aid in providing a broader network of origination channels.

Acquiring a quality, safe and affordable home is a goal of many Americans and it aligns itself with the credit union philosophy of "people helping people." MI CO-OP will support credit union members in achieving affordable homeownership and financial security by limiting risk for participating lenders and expanding product availability.

OPPORTUNITY

Private mortgage insurance is generally unavailable on higher loan to value manufactured home loans for two reasons: lack of knowledge and concerns about credit risk. While there are a number of companies working to increase awareness on the benefits of manufactured housing, there are very few tackling the credit risk component. However, if a private mortgage insurer was willing to offer some level of protection, some credit unions, and possibly other lenders, would likely offer a higher LTV product (1/3 of Filene credit unions surveyed who do not currently offer a manufactured home product in excess of 80% LTV said they would consider offering high LTV financing if PMI was available).

Convincing a private mortgage insurer to offer a product for higher LTV manufactured homes starts with reducing the risk exposure for the insurer (to ensure that premiums collected will not only cover anticipated losses, but also generate enough profit to make the program sustainable). Once accomplished, and a private mortgage insurer agrees to provide protection, manufactured home lenders can immediately begin serving the needs of these borrowers by simply increasing their current 80% LTV maximum to 95%.

As mentioned, a key component to creating a financing option is to develop a program that specifically reduces the perceived risk associated with higher LTV manufactured home loans. This will be accomplished in two ways: limiting coverage to loans made in a cooperative or not-for-profit manufactured home community, where the likelihood of repayment is greater than that of a traditional park, and leveraging a larger private benefactor to create a stop-loss for the insurer (through grant funds). The final and most difficult step will be the process of educating credit unions on the benefits of higher LTV manufactured home lending.

ENVIRONMENTAL SCAN

In a recent Bankrate.com survey of the top 20 mortgage lenders, seven offered no loans for manufactured housing. Even for those financial institutions that do, the interest rates are generally more comparable to auto loans than mortgage loans, and terms generally do not extend beyond 10-15 years or 90% LTV. While some lenders do offer high LTV products, in excess of 90%, terms are often much less attractive than other mortgage loans. The following are some examples of the current terms offered to a borrower with good credit:

Lender #1:

- 7.5-9.5% for a 20 year term
- 7.0-8.9% for a 10 year term

Lender #2:

- 8% for a 15 year
- 7% for a 7 year

Lender #3:

- 12% on a 7 year term

Lender #4:

- 13.18% on a 15 year term

Lender #5:

- 11.25% on a 5 year term

SOLUTION

A cooperative manufactured home community is one that is purchased by the residents of the park from private ownership (forming a cooperative). Roughly two percent of the nation's manufactured home communities are structured as cooperatives. These communities are generally considered more secure, from a lending perspective, than a traditional land-lease private park, as owners are invested in the land, as well as the overall success of the cooperative. A 2006 study by the University of New Hampshire also found that homes in a cooperative community have a higher price per square foot and are on the market for fewer days when placed for sale.

The MI CO-OP initiative was launched to provide credit union members with access to high loan-to-value financing for manufactured homes located in a not-for-profit or cooperative mobile home community. This program is made possible through a partnership with DGU Insurance Associates, LLC, which will provide the private mortgages insurance, in addition to a “to be determined” benefactor who will provide DGU with a deposit premium.

The program is currently structured as follows:

- Credit union provides a traditional 80% LTV first mortgage
 - No cash-out refinances, purchases, and home improvements are all allowed
 - Must have a fixed-rate for at least five years from inception
 - The longer the amortization the better (loans must be affordable)
- Credit union provides a second mortgage up to 95% LTV
 - DGU will insure the second mortgage at \$2.70 per \$1,000 (paid monthly)
 - Maximum loan amount \$50,000
 - Maximum 15-year amortization
- Member requirements:
 - Must contribute 5% cash down and closing costs (purchases)
 - Meet credit eligibility requirements (credit union and DGU defined)
 - Meet income verification and debt-to-income requirements
- Single-family detached manufactured homes less than 15 years of age

In order to offer this program, the MI CO-OP Initiative team must still secure the grant funds for the deposit premium. The next step is to work with P'M HOME and the CFED (idea partners) to prepare a grant application. Everyone is optimistic about the expected response.

MEMBER BENEFITS

The key member benefits are:

- Affordable home ownership in a cooperative community or not-for-profit community
- 95% financing
- Better loan terms (more affordable)
- Financing provided by a trusted partner – a local credit union

CREDIT UNION BENEFITS

The key credit union benefits are:

- Ability to meet member needs.
- Provide support to a local not-for-profit or cooperative organization
- Reduced risk exposure based on the private mortgage insurance
- Growth of new members
- Improved loan-to-share ratio
- Improved profitability

TARGET MARKET

The search for manufactured housing is generally dominated by young families looking for affordable housing and semi-retired or retired people wanting to downsize. Information provided by the Manufactured Housing Institute (MHI) states that 29% of retirees reside in manufactured homes. The manufactured home industry believes that this percentage will increase as the baby boomers continue to age. Given the recent economic downturn, the number of people choosing manufactured housing will most definitely grow.

OPERATIONAL AND OTHER CONSIDERATIONS

It is recommended that a credit union participating in the program be knowledgeable about manufactured home lending and have the ability to process loans in-house, versus using an outsourced operation, be located in close proximity to a cooperative community, and have an outside sales team in order to cultivate the relationship with the cooperative.

In terms of getting started, the first step is to apply for the private mortgage insurance with DGU. Once approved, the credit union should review the underwriting guidelines from DGU, make changes as necessary (can be more conservative, but not less), and then finalize an agreement.

The next step is to create marketing materials, product procedures and guidelines, and ensure that the credit union's origination, processing, and servicing systems can adequately handle these applications/loans. The credit union should also establish internal program limits as a percentage of net worth (good risk management will make the program more sustainable).

RETURN ON INVESTMENT

The MI CO-OP initiative allows credit unions to reach an under-served market, thus expanding their product mix and portfolio of profitable loans. While the costs to produce these loans will be greater than a traditional mortgage (added marketing expenses), and the average loan amount is relatively low, a credit union should benefit from the higher interest rates associated with manufactured home lending (assuming losses remain in check and PMI coverage is sufficient).

It seems safe to assume a relationship with a local community cooperative should result in not only new loans, but also new members, as the credit union should be actively marketing to these residents. Member acquisition costs vary from one institution to the next, as does member profitability and penetration, so the actual benefit from this membership growth could vary from credit union to credit union, but it seems reasonable to assume a lift.

PROOF OF CONCEPT

Due to the complexity of the project (national issue), along with the necessary partnerships needed in order to launch a successful solution (PMI partner, grant partner, etc.), a concept pilot was not possible within a six-month development time frame. However, as mentioned above in the Filene credit union survey results, there are credit unions willing to consider offering a product such as this to their community. The team hopes to continue their efforts to secure pilot partners once grant funding is secured by the idea partners.

GETTING STARTED

To get started, please contact Filene for additional information about the program.

MARKETING TACTICS

The recent Filene i3 survey yielded some key findings:

- The largest single reason for not offering the product now or in the future, even with private mortgage insurance, was a lack of demand for the product.
- When asked if there were cooperative or not-for-profit manufactured housing parks in their Credit Union's market area, 55% of respondents did not know.

To overcome this lack of market awareness among credit unions, it is essential that the following marketing tactics be implemented to ensure the program's success:

- Education of lending leaders is essential. Even with the private mortgage insurance, those who would not offer the product still cited risk as a major concern, along with the lack of experience or knowledge. Providing market data and loan loss history for manufactured home lending will help to overcome this knowledge gap.
- It is important that credit unions are able to identify opportunities to assist members in purchasing an affordable home and building wealth. A presentation for lenders, along with collateral material (brochures, home-buyers guide), should be developed to ensure all parties have a clear understanding of the features and benefits of the product.
- Participating credit unions must develop relationships with their local cooperative or non-for-profit manufactured home communities, as well as manufactured home builders. Representatives of those organizations will be your primary source of referrals; they deal with existing and potential homeowners on a daily basis.

We caution that no in-depth trademark or name search has been conducted for purposes of this paper. Further research is required prior to using "MI CO-OP" as a proprietary name.

RESOURCES

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PROJECT TEAM

Filene i3 is a creative group of insightful and energetic credit union professionals who develop new ideas, innovate, and implement for the benefit of the credit union system. Please visit filene.org/home/innovation or email innovation@filene.org to learn more. The team members who developed this idea are:

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