

Re-Imagining Manufactured Housing in Rural Communities

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In the fall of 1982, I turned 16 years old. That year, I got what I really wanted for my birthday—a pair of Calvin Klein jeans (as modeled by Brooke Shields herself). The world was in the midst of an economic crisis. Ronald Reagan was president, and he spoke to me and the rest of the country as a poised and certain leader in uncertain times. In response to inflation, interest rates skyrocketed. My father, an auctioneer by trade, had just started a new business: a cattle stockyard. We were optimistic about selling our family farm for a new home and business. I was proud of my new home, and excited for our new adventure.

When the recession came to our rural community in the Appalachian region of Kentucky, we could not absorb the escalating interest rates for my father's new business and our home mortgage. We lost both. I remember trailing behind my father when the lender came calling to take our home.

For that reason, I've spent my career with vision toward sustainable homeownership. At Next Step Network, we strive not only to put homeownership within reach of everyone, but to ensure homeowners' success. These principles guide everything we do: supporting and educating homebuyers, ensuring home quality and finding the best loans that will allow people to build wealth and preserve assets.



A new manufactured home used for infill housing in San Bernardino, California. Credit: Neighborhood Partnerships Housing Services (NPHS).

However, the opportunity for low- and middle-income Americans to achieve affordable, sustainable homeownership is disappearing.

As the current housing crisis deepens, there is an urgent need to rethink how we meet the housing needs of our fellow Americans, particularly within immigrant communities and communities of color. Embracing manufactured housing as a key part of the solution in rural housing development will create pathways to affordable, sustainable homeownership opportunities, and allow for individuals and families to build the wealth and equity needed to break entrenched cycles of poverty.

Housing Challenges Facing Rural Communities

Housing affordability is often an issue associated with suburban and urban communities. However, in recent years, rural America has faced an affordability reckoning of its own. The National Low Income Housing Coalition reports that a full-time minimum-wage worker cannot afford a one-bedroom rental home at fair-market rent in almost any U.S. county.¹ Additionally, the Joint Center for Housing Studies of Harvard University estimates that 41% (5 million households) of rural renters are cost-burdened, paying more than 30% of their incomes for housing. Twenty-one percent of rural renters (more than 2 million households) pay more than 50% of their incomes on housing.²

Though the rural homeownership rate remains higher than in urban communities, challenges similar to those in both suburban and urban markets also abound for the rural homebuying market: a lack of housing supply and new construction to meet housing demand. Between 1999 and 2008, the average annual production in nonmetro areas totaled 221,000 housing units. In the period 2009 to 2017, average production fell to 68,000 per year.³ The Wall Street Journal recently highlighted the need for new-home construction in rural and farming communities, where there may be jobs available but almost no available housing stock.⁴

The existing single-family home stock is often in poor condition. The National Rural Housing Coalition estimates that of the 25 million units located in rural and small communities, more than 5% (or 1.5 million) of these homes are considered either moderately or severely substandard.⁵ This outlook is even more grim for the existing stock of older manufactured and mobile homes. In

2016, the Innovations in Manufactured Homes (I'M HOME) Network commissioned a study of existing manufactured and mobile homes in Appalachia. The results paint a picture of some of the worst housing stock in America, beyond the needs of conventional repair and rehabilitation:

Low property values, high energy usage and high vacancy rates among older mobile and manufactured homes are all evidence of the low quality of the oldest mobile and manufactured homes in Central Appalachia and Appalachian Alabama. Many residents of these housing units experience severe financial burdens because they earn low incomes and face relatively high housing costs, with more than 70,000 households paying more than 30% of their income for utilities alone. In many cases, a new, more energy efficient home would offer these households the opportunity for financial stability and, in turn, the opportunity to provide for their children, build wealth for the future and age in place.⁶

Compounding the economic and supply issues is the trend of disinvesting in rural communities. Both private-sector capital and private philanthropy are much more elusive for rural than for communities,⁷ making it difficult for developers, both for-profit and nonprofit, to effectively create more housing supply and choice.

What's desperately needed is a faster and more cost-effective way to create new, greener housing options for those living in rural America.

A Housing Solution in Plain Sight

People living in rural parts of the country are no strangers to manufactured housing. In fact, many folks may have memories of growing up or spending time in older mobile homes.

Homes constructed in a factory serve as the largest source of unsubsidized affordable housing in the U.S. The Housing Assistance Council estimates that there are 6.8 million occupied manufactured homes in the U.S., making up about 6% of the nation's total housing stock (and a much higher percentage in rural communities).⁸

So why is manufactured housing so often overlooked, or altogether ignored, as a potential scalable solution to address the tremendous housing need?

The answer may be rooted in some of those old memories of time spent in mobile homes, and in the continued existence of these homes, dotting the map from the Mississippi Delta through the Appalachian Mountains.

When most people hear the phrase “manufactured housing,” it paints a picture like the one above sourced by outdated stereotypes and stigmas that have been reinforced by popular culture over decades: old, rusted single-wides placed feet from one another in trash-littered trailer parks.

This image, however, is not reflective of today’s manufactured homes on the market. Advances in building science, construction practices, energy-efficiency standards and design trends have all contributed to units not unlike modern site-built homes. But to understand the origin of the outdated misperceptions, the industry needs some context.

The term “mobile home,” in the context of the manufactured housing of today, is primarily used to refer to units built prior to the enactment of the federal Manufactured Home Construction and Safety Standards, also known as the HUD Code, in 1976. The U.S. Department of Housing and Urban Development (HUD) created this code as a national blueprint for the design, performance and installation of manufactured homes, enforced by HUD’s Office of Manufactured Housing Programs. Pre-HUD Code mobile homes are often cited as some of the worst housing stock in America, characterized by poor construction quality, lack of insulation and crumbling foundations. These units are incredibly energy inefficient and, by most estimates, consume 53% more energy than any other type of housing stock available.

The history of financing for mobile and manufactured homes also fuels negative perceptions. In the past, these homes were financed by personal property, or “chattel,” loans, characterized by higher interest rates and shorter loan terms. According to Home Mortgage Disclosure Act data, 68% of all manufactured home loans (both chattel loans and mortgages) are considered higher-priced mortgage loans, compared to just 3% of site-built home loans.⁹

These factors, some perceived and others based to some degree in reality, have defined the popular image of manufactured housing for more than half a century.

Fortunately, there have been tremendous advances in the manufactured housing industry conducive to faster, more efficient development

opportunities that address the affordable housing shortage, while also allowing for families to build wealth and equity through homeownership. It's a housing solution in plain sight, but it will require everyone to adjust their lenses.

The State of Manufactured Housing Today

Each year, the manufactured housing industry hosts events in various locales to showcase the newest homes. Whether in a massive event space that rivals an airport hangar in Louisville, or on a casino parking lot bordering the Gulf of Mexico, homes are shipped from manufacturing facilities far and wide and proudly displayed. In recent years, as I've walked alongside partners and allies from a diverse range of personal and professional backgrounds at these shows, the response is always the same: amazement.



A subdivision of manufactured, modular and site-built homes outside of Knoxville, Tennessee. Credit: Clayon Homes.

When it comes to the design and construction of today's factory-built homes, many of the features and aesthetics, both interior and exterior, are nearly indistinguishable from those of a site-built home. Advances in the factory-built housing industry, from both a building-science and financial viewpoint, are making manufactured homes a more appealing solution to address the affordable housing crisis in rural communities and beyond.

Perhaps the starkest example of this shift is the newest manufactured

homes built to the standards that allow them to be financed with new-mortgage loan products from Fannie Mae and Freddie Mac. These homes have strict requirements, including a specified roof pitch, an attached porch, a permanent foundation, and a garage or carport. Still built to the HUD Code, these homes are meant to help support an expanding gap in housing affordability, while retaining high-performance features and aesthetics that fit existing neighborhoods and communities. In addition to the exterior features, these homes have drywall throughout and energy-efficient features—such as high-performance windows, ENERGY STAR®-rated appliances, more-effective insulation, tighter construction and superior climate-control systems. These specs not only help to improve curb appeal and appreciation value, but save homeowners on their monthly payments. In nearly every part of the country, those looking to purchase a home find themselves priced out of the market. However, constructing homes indoors (in a controlled environment) controls costs and makes these homes ultimately more affordable for buyers.

The timing of this new class of housing development coincides with the release of new financing tools for manufactured homes from Fannie Mae and Freddie Mac. The MH Advantage and CHOICEHome programs, respectively, are affordable mortgage initiatives that offer financing for HUD Code-manufactured homes. One of the key benefits for homes constructed to meet MH Advantage or CHOICEHome finance specifications is that the homes can be appraised in comparison to site-built homes in the same neighborhood. This allows for homeowners and families to build wealth through equity in their homes.

Even though these mortgage products are relatively new to the market, there is evidence of manufactured home appreciation, which can greatly help individuals and families build wealth and equity. According to the Federal Housing Finance Agency's MH index, initial reporting indicates that the prices of manufactured homes purchased by Fannie Mae and Freddie Mac perform similarly to those of site-built properties.¹⁰

Home development using high-performance manufactured homes that are financed with more-traditional mortgage loans isn't just theoretical; it's been put into practice.



An example of a Next Step spec home placed in the Edgewood community in Morehead, Kentucky. Credit: Next Step Network.

In 2010, the Kentucky-based nonprofit organization Frontier Housing partnered with Clayton Homes, the largest builder of manufactured homes, and the Ford Foundation to undertake a demonstration of high-quality manufactured homes. The Community of Edgewood, a wholly new subdivision, features a collection of ENERGY STAR®-rated homes. All the homes in the neighborhood are placed on permanent Federal Housing Authority Title II foundations and financed with mortgage loans. Particular attention was paid to creating curb appeal and modern aesthetics identical to those of nearby site-built homes. These homes also include universal design features for improved accessibility, ensuring that homeowners can age in place comfortably. Over time, these homes have appreciated in value and blend into the neighborhood with site-built homes.

Collaborative

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Manufactured housing communities also present a viable option for affordable housing opportunities. Though residents living in these communities don't own the land on which their homes are placed, innovative community ownership models are on the rise. Cooperative structures (as best illustrated by ROC USA¹¹) have created vibrant spaces in which individuals and families have an equitable share in community management and upkeep. Residents are empowered to make decisions that best serve the needs of themselves and the community at large.

To replicate successful models, like the Community of Edgewood, in more rural communities, further strides and partnerships will be needed to leap additional hurdles.

Creating a Path for the Future of Manufactured Homes

The current model for the finance and sale of manufactured homes is ripe for disruption.

Eschewing many of the popular online tools and resources available to those looking to buy a site-built home, the manufactured housing industry is still, in large part, dependent on a very traditional model: Prospective homebuyers visit a retail lot, where they are greeted by a sales representative. The rep takes them on a tour of the available homes on the lot and tries to get a better sense of their preferences and price point. Once walk-throughs are finished, the rep sits with the buyers in an office, where the rep checks the buyers' credit to determine whether the buyers qualify for a home loan. If the numbers crunch correctly, the rep highlights available lender options (which may include higher-priced chattel loans).

It's an enclosed process that takes place within an insular industry.

But the process and savings associated with building homes in a factory environment present tremendous opportunity. New players in the housing development space have the potential to serve several market needs, fostering multiple business channels. Individuals with ready access to owned land, or land owned by family, can place a new home faster and more affordably than using traditional site-built construction. There is also a pervasive need to replace older mobile homes with new, highly energy-efficient units. However, there is a lack of available programs that fund mobile home replacement strategies, and any new programs need to provide sufficient

subsidies per home to ensure successful replacement. Developers that focus on subdivision building—with a bent toward a streamlined online customer experience—could carve out a wholly untapped market for this housing stock.

A true change in the model would also require more lenders to participate in the market. As the model exists today, the small group of lenders making the majority of loans on these homes has close ties to both the manufacturing and distribution channels. The process is designed to nudge consumers toward a higher-priced home-only (chattel) loan. Expanded lender participation would mean pricing loans more competitively for prospective homebuyers and expanding the option to choose more-traditional mortgage loan products. As gatekeepers to the secondary market, the government-sponsored enterprises, like Fannie Mae and Freddie Mac, also have an important role to play in driving expanded lender participation. Under the eye of their regulator, the Federal Housing Finance Agency, both Fannie Mae and Freddie Mac have made strides with their mortgage loan products for manufactured homes. However, the current loan purchase volume requirements are too small to affect a real shift in the market. There is also a need for more concrete efforts to educate sellers/servicers about these new loan options for manufactured homes, as well as readily available tools (e.g., white papers, case studies) that show demonstrable returns on investment for lenders wanting to grow into the space.

Beyond getting folks into more-affordable homes, we have to make sure that they have the tools, resources and education needed to stay in their homes.

One way to help ensure this is by keeping the cost of homeownership as low as possible, starting with energy and utility bills. Homes built to higher energy-efficiency standards, such as ENERGY STAR®, lower monthly payments for homeowners, helping them better manage their budgets and save for health care, education, and other needs. Updating the woefully outdated construction and efficiency standards for manufactured homes should be a top priority for both incoming HUD policymakers and green housing advocates. The Biden administration inherited a mounting affordable-housing crisis, and now has the opportunity to think outside the box as to how the federal government might help address this issue. Though progress is being

made, the codes that dictate the energy efficiency of manufactured homes are not keeping pace with those governing new, site-built homes.¹² With more forward-thinking code changes, building high-performance, energy-efficient homes in factories will save homebuyers money and can be part of larger climate change mitigation strategies.

Resilient

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Housing counselors and homebuyer educators are a critical part of the homebuying support system. In a survey conducted by Next Step Network, 74% of counselors who attended recent training on manufactured housing reported the need for additional training and reported spending fewer than 15 minutes on counseling for this housing option. There is a need to expand their training to help buyers navigate financing and purchase decisions. HUD should work to include manufactured housing in its core housing counseling curricula and national counselor exam; this expanded training can be provided through HUD counseling intermediaries that support the field.

By embracing manufactured housing as a key part of the affordable housing solution, rural communities can not only solve their own housing challenges, but serve as a laboratory for potential changes to the broader housing market that can scale and address the need nationwide. With leadership, focused investment and sound policy, we can build a national housing production strategy that exponentially increases housing supply and encourages healthier and more diverse communities.

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Endnotes

- ¹ See National Low Income Housing Coalition.
- ² See Joint Center for Housing Studies of Harvard University.
- ³ See Rapoza.
- ⁴ See Raice.
- ⁵ See Rapoza.
- ⁶ See Jones et al.
- ⁷ See Anarde.
- ⁸ See George, pp. 6-10 to 6-13.
- ⁹ See Consumer Financial Protection Bureau.
- ¹⁰ See Goodman et al.
- ¹¹ See Resident Owned Communities (ROC) USA.
- ¹² See *Federal Register*.