



The Power of
Vehicle Information

August 9, 2013

Mr. Robert deV. Frierson
Secretary
Attention: Docket No. R-1443, RIN 7100-AD90
Board of Governors of the Federal Reserve
System
20th Street and Constitution Avenue, NW
Washington, DC 20551

Mr. Alfred M. Pollard
General Counsel
Attention: Comments/RIN 2590-AA58
Federal Housing Finance Agency
Eighth Floor
400 Seventh Street, SW
Washington, DC 20024

Ms. Monica Jackson
Office of the Executive Secretary
Attention: Docket No. 2013-0020, RIN 3170-
AA11
Bureau of Consumer Financial Protection
1700 G Street, NW
Washington, DC 20552

Ms. Mary Rupp
Secretary of the Board
Attention: RIN 3133-AE21
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314

Mr. Robert E. Feldman
Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

Office of the Comptroller of the Currency
Attention: Docket ID OCC-2013-0009
400 7th Street, SW
Suite 3E-218
Mail Stop 9W-218
Washington, DC 20219

RE: "Appraisals for Higher-Priced Mortgage Loans – Supplemental Proposal"
Truth in Lending Act (Regulation Z) Amendment

Ladies and Gentleman:

This letter is in response to the request for comment on the supplemental proposal for Appraisals for Higher-Priced Mortgage Loans issued July 10, 2013, with comment by September 9, 2013. In the supplemental proposal, "the Agencies propose to exempt transactions secured solely by an existing (previously owned) manufactured home and not land from the HPML appraisal requirements, but seek comment on whether an alternative valuation should be

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required” (Supplemental Proposal, p. 11). The following responses are offered by NADAguides in an attempt to assist the Agencies with developing a concrete answer to this question.

NADAguides is an independent, third party valuation provider offering values for the automotive, recreation vehicle, marine, motorcycle, ATV, and manufactured housing industries. For over 40 years, we have offered an unbiased valuation source to manufactured home dealers, community owner/operators, finance companies, credit unions, insurance companies, taxing agencies, and appraisers.

The *NADAguides Manufactured Housing Connect* is approved for use with the Fannie Mae 1004C form, the Freddie Mac 70B form, and is recognized by the Department of Veterans Affairs as a cost source for manufactured housing. Additionally, the *NADAguides National Appraisal System* used with the *NADAguides Manufactured Housing Connect* is HUD FHA Title 1 approved for origination and repossession appraisals.

While manufactured homes have traditionally remained classified as personal property (not permanently affixed to and owned together with land), they exhibit many of the characteristics of real property. One of these characteristics includes a value for its sited location. NADAguides values the home only; and has a guideline for a land-lease community adjustment, if needed. We recognize this value as a separate line item from the value of the home; if the home is moved from its site, this line item is no longer applicable.

Values in the *NADAguides Manufactured Housing Connect* represent a depreciated replacement cost, in retail dollars, with traditional retailer mark-up, and include transportation and set-up costs. Active in the manufactured housing industry, we have developed the relationships that allow us to begin our valuation development with the analysis of actual manufacturer cost per square foot. This data, combined with other proprietary analytical processes, offers our customers a consistent and reliable method of valuation for manufactured homes, whether done from a desktop, or after a physical inspection and itemization of the components.

The recognition that manufactured homes are a unique type of construction that cannot be arbitrarily depreciated has made the NADAguides manufactured housing products unique among their kind. We believe this is the reason that the *NADAguides Manufactured Housing Connect* has become the most widely used, third-party valuation source for manufactured housing in the U.S.

Question 3: “The Agencies seek comment on whether consumers in these transactions would benefit by receiving from the creditor a unit value estimate from an objective third-party source, such as an independent cost guide” (Supplemental Proposal, p. 25).

NADAguides believes that there is a benefit to the consumer in having knowledge about the cost of a home they are purchasing. NADAguides currently offers to industry professionals,

manufactured housing values in a subscription-based product, *NADAguides Manufactured Housing Connect*. Consumers are able to access this information on its consumer website, *NADAguides.com*. Both sources provide assistance to industry professionals and consumers in making an informed decision about a home's valuation, whether for sale or purchase. The values offered in *NADAguides Manufactured Housing Connect* and on *NADAguides.com* represent the depreciated replacement cost of a home, in retail dollars. This value will consider the home's manufacturer, model, size, year, and region; while making additional adjustments for state location, and condition, as well as additional features. The depreciated replacement cost is a component of the cost approach, which is a traditional appraisal method utilized by real estate appraisers.

In the case of the chattel loan, it is important to view the value of the home and of the site as separate line items, even though the asking price of the selling party may not recognize two distinct values. The two distinct values are: 1) the cost of the home only; and, 2) the contributing value of the sited location (In-Place Location Value, or IPLV). A lender may choose to accept this value including the IPLV; however, if the home is moved for any reason, the contributing value of the site location is no longer applicable.

Addressing referenced concerns that consumer advocates have regarding the accuracy of the data by not including the specific location's impact on value¹, it is NADAguides' position that only a qualified appraiser should adjust for a subject's exact sited location by virtue of a physical inspection. An appraiser is trained to examine the unique features specific to the subject home and the subject's sited location. The appraiser will then make positive or negative adjustments based on local market comparable sales to develop their opinion of value for the home, with specific amenities, and a specific location taken into consideration.

The NADAguides data offers a cost based on regional averages, for the home only, considering manufacturer, model, age, and size; with adjustments for condition, state location, and accessories. A lender may also choose to use an additional guideline offered by the NADAguides manufactured housing products for a land-lease community adjustment. This value is representative of a national average of the contributing value for land-lease communities with certain attributes.

Question 7: "The Agencies request comment on whether the consumer typically receives unit cost information in new manufactured home chattel transaction and what, if any, cost information from an independent third party source might be reasonably available to creditors, reliable, and useful to a consumer" (Supplemental Proposal, p. 27).

The typical manufactured home purchase agreement offers the retail price the consumer has agreed to pay for the home, options, warranties, set-up and installation, and the like. To the best of NADAguides' knowledge, an independent third-party source offering a manufacturer's

¹ Supplemental Proposal, page 26

suggested retail price does not exist. Unlike the auto industry's Monroney Sticker Law, the set retail price is determined by the retailer; not a posted manufacturer suggested list price.

For individuals needing a guideline for a new home value, the NADAguides manufactured housing products offer an adjustment to the "previously owned" value of a current-year model to allow for "new or like new" condition. The figure will be a reasonable approximation because the values published are based on actual original costs and current regional market activity, but can vary depending on site preparation, installation requirements, excessive upgrades to the home, etc.

Question 8: "The Agencies further request comment on the utility of third-party unit cost information to consumers in these transactions (even if the creditor is using a different method to value the home)" (Supplemental Proposal, p. 27).

Keeping in mind that the Agency's goal is to help educate and protect the consumer, in many cases different methods of valuation may result in differing indications of value. This would not serve to help the consumer make a more informed decision; it would simply make the process more difficult and confusing for the consumer.

Question 9: "The Agencies... seek more information about the impact on home value of a unit's location and whether cost services are available that account adequately for differences in location" (Supplemental Proposal, p. 28).

Recognizing that the value of the home-only is different than the value of the home on a sited location within a land-lease community, the NADAguides data offers a land-lease community adjustment guideline. This adjustment would be used if the subject home is located in a land-lease community and a general value guideline is desired. NADAguides utilizes five community types offering a description of in-community amenities to assist the user in type selection. In the current edition of NADAguides manufactured housing data, depending on selection of community type, this adjustment can affect value between -7% and 18%. The "standard" community type, defined as the most common manufactured housing community, offers a 13% upward adjustment for the subject home².

In an analysis of 1,025 physical appraisals completed on manufactured homes (one to 40 years old) as personal property, we derived the following statistics: The IPLV calculated by the appraiser contributed a median 13% of the total value indicated by the market approach. The maximum percentage contributed by IPLV was 33%, and the minimum contribution was -11%. The Agencies should be aware that the IPLV is no longer applicable if the home is moved from its particular location.

² NADAguides Manufactured Housing Connect Land-Lease Community Adjustment: <http://www.nadaguidesconnect.com>

NADAguides believes that the use of the land-lease community adjustment as a guideline is an economical way for a financial institution to recognize the IPLV of a manufactured home without incurring the burdensome costs associated with obtaining a physical appraisal.

Question 20: “The Agencies also seek commenters’ views on the efficacy and accuracy of any prevailing valuation methods used for these loans... HUD standards call for, among other requirements, the use of ‘an independent fee appraiser who has been certified by NADA to use NADA’s National Appraisal System... The Agencies have concerns, however, that appraisers trained to conduct the types of appraisals required by HUD for its Title I program may be limited, but seek information on the availability of individuals to perform appraisals compliant with HUD Title I standards.” (Supplemental Proposal, pp. 36-37).

The appraised value derived from a physical appraisal is, by definition, the appraiser’s opinion of value and is supported by the appraiser’s inspection, research, and analysis. Each appraisal completed is specific to the subject home and cannot be applied to any other subject home. The accuracy of this method is dependent on the appraiser’s skill, as well as the availability of data for analysis. The cost approach to value has long been an acceptable appraisal method for real estate appraisers in the absence of appropriate comparable sales. Typically, the appraiser will utilize local cost data, as well as data from published cost sources to assist them in producing a completed cost approach appraisal. NADAguides analysts utilize this type of approach to value to create the values found in the NADAguides manufactured housing products by collecting data directly from the industry’s manufacturers.

Using 1,025 physical appraisals as a sample set, NADAguides found that their *NADAguides Manufactured Housing Connect* offered a median difference of 4.5% of the appraised market value when properly adjusted for state location, condition, accessories, and IPLV (home and IPLV). If IPLV is removed as a line item, we found that the *NADAguides Manufactured Housing Connect* value offers a median difference of 11% of the appraised market value when properly adjusted for state location, condition, and accessories (home-only). Again, it should be reiterated that the IPLV is no longer applicable if the home is moved from its sited location.

The course referenced in the HUD FHA Title I standards is not taught directly by NADA or NADAguides; it is offered by the American Association of Real Estate Schools and Colleges (AARESC)³. The AARESC offers a designation course in manufactured housing personal property appraisals using *NADAguides’ National Appraisal System*. This designation is known as the Manufactured Home Valuation (MHV) designation. Since 2008, 89 individuals have received this designation⁴. The number of personal property appraisers has dwindled, as the utilization of the HUD FHA Title I program has decreased. This is in comparison to the late 1980’s, when over 1,000 individuals across the U.S. held the MHV designation for this type of valuation.

³ American Association of Real Estate Schools and Colleges, MHV designation course: <http://www.appraisemanufacturedhousing.com>.

⁴ MHV Roster: http://appraisemanufacturedhousing.info/Appraiser_Registry.html

Due to the limited number of available MHV designated appraisers, the HUD FHA Title I guidelines were revised on April 9, 2009, in TI-481, appendix 8, section 8-9(C,1)⁵, to allow for the use of an FHA Title II roster appraiser to complete an appraisal in the event that a lender is unable to locate an MHV designated appraiser. NADAguides does not operate as an appraisal management company, and does not have statistics to offer with respect to how often an FHA Title I lender must use a FHA Title II roster appraiser.

The conclusion NADAguides has drawn with regard to the demand for personal property manufactured housing appraisers, based on conversations with MHV designated appraisers that have left the industry, is that the decrease in available appraisers can be viewed as a direct correlation to both the contraction of the manufactured housing industry, as well as, the lack of demand for Title I appraisals.

Question 23: "The Agencies also request comment on whether the proposed exemption would appropriately be conditioned on the creditor obtaining, and providing to the consumer, a valuation of the dwelling that uses an independently published cost guide with appropriate adjustments for factors such as home condition, accessories, location, and community features, as applicable." (Supplemental Proposal, p. 38).

Absolutely.

Question 24: "The Agencies request comment on whether use of a cost service with adjustments generally involves a physical inspection of the property, who conducts that physical inspection, and whether any condition on the proposed exemption allowing use of a cost service estimate with adjustments should require a physical inspection of the unit" (Supplemental Proposal, p. 38).

The NADAguides manufactured housing cost products have been designed to offer users an economical way to estimate the average value of a subject manufactured home, without requiring a costly physical inspection. The NADAguides manufactured housing cost products require a minimum: the manufacturer, model, length, width, year manufactured, and state located. A selection of construction qualities is offered in the event that the manufactured and/or model are not available to the user. The values presented represent retail worth, assuming average condition with certain components. Except for the adjustments of actual condition, inventoried components, and accessories and local site value, the value will be a reasonable approximation because the values published are based on actual original costs and current regional market activity. It is the intention of the *NADAguides Manufactured Housing Connect* to reflect depreciated replacement cost values (not reproduction cost), as indicated by the influences of each of the nine regional marketplace indicators.

⁵ HUD Title I Announcements: <http://www.hud.gov/offices/adm/hudclips/letters/title1/index.cfm>

We hope our responses to the above questions help to further your understanding of our products and their usage. Independent third-party valuation sources, such as the *NADAguides Manufactured Housing Connect*, can serve to help both financial institutions and consumers make a better informed decision during the sale/purchase and loan underwriting processes.

Thank you in advance for your consideration.

Best regards,

A handwritten signature in black ink, appearing to read "Don Christy, Jr.", with a horizontal line extending to the right.

Don Christy, Jr.
President and CEO