

December 22, 2010

Jennifer J. Johnson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenues N.W.
Washington, DC 20551

RE: Home Mortgage Disclosure Act, Docket No. OP-1388, RIN Number 7100-AD51

Dear Ms. Johnson:

I understand from my December 3rd meeting at the Federal Reserve that the Board of Governors is willing to accept additional comments about proposed updates to the collection and distribution of data in the Home Mortgage Disclosure Act (Regulation C).

I would like to reiterate the point that I made during our meeting. I would encourage the Federal Reserve to change how it reports loans made for manufactured housing properties.

I was able to give testimony during the Atlanta hearings in July. Due to time and to the goal of staying within the topic, I was not able to include this point in my comments.

The Relevance of Manufactured Housing to the Intent of CRA and HMDA

The market for financing on manufactured housing is one of the most broken areas in housing finance. These borrowers face tight credit prospects, regardless of their credit. Even now, the majority of loans made for the purchase, rehabilitation, or refinance of a mobile home are made at higher-cost interest rates.

Manufactured housing provides shelter to a distinctly different segment of households than any other sector. It is primarily a product for low-and-moderate income households. It is more likely to be located in either an ex-urban or a rural area than are either single-family homes or multifamily units. It has a slight population bias toward older people.

To the extent that clusters of manufactured homes are located in any neighborhood, that area is likely to exhibit the classic characteristics attributed to "redlining." The impact is concrete.

The result is that homes in these areas are often financed with second-tier financing. Many homes are purchased with chattel loans that have higher interest rates and shorter loan terms. These homes don't give their owners the same set of consumer protections.

In North Carolina, manufactured housing is a vital element of our housing stock. It housed approximately one in six North Carolina households during the last Census. In many rural counties, manufactured housing accounts for more than thirty percent of new housing starts.

Requested Change to HMDA Data

I would like the Board to consider making a distinction between loans secured against real property and loans written against property that is considered “personal” or “chattel.” This new indicator could be included in existing data points. I imagine that it could become a part of the property type field or the loan type field.

The change would remove confusion about manufactured housing lending. I have queried staff at the Federal Reserve on three occasions about the distinction between personal property and real property. On one occasion, I was told that personal property loans were not included. On another occasional, I was told that they were collapsed together, provided that the manufactured home was used as a habitation. On the last call, I was told that all manufactured housing loans were in the data set.

My understanding from the meeting is that personal property loans are in the existing data. That is the assumption that I have been working with in my own research. However, the distinction is very important because the underwriting for these loans are so different. In general, loans on personal property are given far more scrutiny. Moreover, the terms are usually different. The interest rate is higher, the loan term is shorter, and the consumer protections are scant.

One of the challenges for analyzing manufactured home loans is the inability to sort these two loan types. If they were taken as homogenous, then it creates the wrong picture about many lenders. The next table shows the overall market data for this sector. Clearly, borrowers have a very difficult time getting these loans, and when they do, the interest rates are far above those experienced by borrowers seeking loans for other types of housing.

Purpose	Originate	Accepted, not Made	Denial	Denial Rate	Share of Loans with High Cost Interest Rate
Purchase	114,447	82,560	244,849	55.4%	49.0%
Rehab	14,245	1,502	15,512	49.6%	31.2%
Refinance	93,500	12,750	58,098	35.4%	27.4%
Sum	222,192	96,812	318,459	49.96%	38.8%

Source: 2009 HMDA

My desire as an advocate would be to determine the treatment of lenders for these borrowers. As I emphasized earlier, the ability to access capital is very reminiscent of the earlier conditions that popularized the idea of “redlining.”

Many of these borrowers have credit scores that do not merit this treatment. I have a small set of manufactured housing loans in the First American Core Logic database. The 225 records represent loans made to borrowers in Virginia and North Carolina during this summer. As a group, they do not demonstrate a high-risk profile. Indeed, 47.1 percent of these borrowers had credit scores greater than 720.

If we could eliminate the noise in the different loan types, than the dialogue about manufactured housing lending would be more fruitful.