

State Of The Manufactured Housing Community (MHC) Lending Market 2009

The MHC lending market has now been strongly impacted by the mortgage meltdown. Always considered to be a specialized asset class by banks, this historically underserved market constricted further as risk weary banks restricted their lending practices in the second half of last year. Some of the larger, national banks like Citigroup and La Salle were the first to go in 2007, followed by many lesser peripheral lenders in 2008. The remaining local and regional banks sought to manage risk by raising rates, tightening underwriting guidelines, reducing territories or exiting the market entirely. In 2008 the CMBS (Commercial Mortgage Backed Securities) lending market imploded, drying up the source for most conduit and larger balance MHC financing as institutional lenders like insurance companies curtailed their buying of these securitized loans and borrowers became priced out of the market by excessively high rates. Eventually this shake-out process may weed-out the weaker, less committed players and make the market stronger overall, but where does it leave us now?

FNMA To The Rescue:

The strongest source of MHC financing is undisputedly, the now nationalized government agency, Fannie Mae (FNMA). There are only around 25 specialized FNMA DUS (Delegated Underwriting and Servicing) lenders in the country, authorized to fund and service multifamily loans (5+ Units). Only a handful of them are actually doing MHC financing. Here are some things you need to know about FNMA financing availability:

Communities/Borrowers must meet as many of the following Loan Qualification Criteria as possible: High quality properties, well maintained, paved (with curbing), lighted, 50% of spaces large enough to accommodate double-wides, off-street parking, amenities (club house, swimming pools, etc) and be located in an area of population density. Also, there should be no more than 10% park-owned homes and 10% vacancies. Borrowers should live near the community, be creditworthy and experienced, with other sources of income and good liquidity and net worth greater than the requested loan amount.

The good news is that waivers for these criteria are possible under certain circumstances if there is a plausible explanation. Exceptions can be made if the situation is temporary or can be remedied and other compensating factors such as the quality of the guarantors and the property are taken into account.

FNMA Loan Program Features

Loan Size: \$500k - \$50MM

Most DUS lenders maintain a \$1MM minimum with greater incentives for loans of \$2MM or more. There are only a few “small balance” lenders doing loans of less than \$1MM.

Loan-To-Value (LTV)

FNMA uses “Risk Based” pricing – meaning that the lower the LTV and the higher the Debt Coverage Ratio (DCR) the better the rate. Typical rate quotes on a 10 Year Fixed Rate, 30 Year Amortized loan would be:

80% LTV/ 1.20 DCR, Rate 6.20%

65% LTV/ 1.35 DCR, Rate 6.10%

55% LTV/ 1.55 DCR, Rate 6.00%

80% LTV (High Leverage) loans are possible but most high quality communities are not usually priced to Net Cash Flow to support that much financing. Keep in mind that any deviation from the Loan Qualification Criteria that requires a waiver may result in the reduction in LTV. An example is more than 10% park- owned homes (if allowed) might restrict LTV to 70%.

FNMA loans are amortized over 30 years and balloon or come to term at the end of the fixed period. Some DUS lenders allow fixed periods of any duration between 3 and 30 years! An example rate quote is a 15 Year Fixed @ 6.50% or a 30 Year Fixed @ 7.00%. Customized loan terms like this are usually for loans of \$2MM+. Adjustable or floating rate loans are available as well. All the loans come with prepay penalties that usually last for the duration of the payment period. The borrower has a choice of Yield Maintenance or Step-Down penalties for early payoff of the loan. Step down prepay penalties have higher associated loan rates by around .40 bps. Fannie allows for Supplemental Loans to take advantage of rising property values and increased cash flow over time. You will be able to tap into your accrued equity without triggering a prepay penalty. Lenders and brokers will charge points in order to be compensated for a successful loan transaction (usually 1-2 points total) because FNMA does not pay rebates or loan fees to these parties.

FNMA loans are readily available for higher-quality communities across the country through a small and select group of specialized lenders. Low rates and flexible structure options make them the best financing method for the many properties that qualify.

Conventional/Portfolio Lenders

These are the few regional or local banks still doing MHC loans independently of FNMA. They tend to manage risk by tightening loan terms and restricting territory. Portfolio lenders (they keep the loan) can go up to 10 or 15 years fixed periods but most will not lend for more than 5 years fixed (they can only borrow money themselves for 5 year fixed periods). Amortization periods are from 15 to 30 years. 25-year amortizations are typical. Some can do unconventional loans with park-owned homes or unpaved properties.

Loan Size \$400k - \$5MM

Example Quotes:

5-Year Fixed, 6.50 – 7.25%, May Rollover/Reset for another 5 Years Fixed.

10-Year Fixed, 6.75 – 7.00%

15-Year Fixed, 7.00 – 7.25%

Unconventional Lenders/Co-Brokered Lending Groups

Fewer and farther in between – these are sources of loans that can be made all over the country that don't fit into most conventional lending criteria. They do still exist and can lend on communities with the following characteristics: higher than 10% park-owned homes, higher than 15% vacancy, not paved, RVs, etc. Low occupancy communities can be financed to the extent that the existing income will support the loan amount. Park-owned home rent premium is deducted from qualifying income (considered personal property). Only the pad rent can be counted. Points are higher on these loans (usually 2-3 Points) but terms can still be attractive and much better than Hard Money Loans.

Loan Size \$400k - \$10MM

Example Quotes:

5-Year Fixed, 7.25 – 7.50%, 25 Year Amortization, Resets for another 5 Years

5-Year Fixed, 6.60 – 7.00%, 20 Year Amortization

Adjustable Rates Loans of Prime (4%) + 2 - 3%

Summary

Although the economic crisis has impaired credit markets for MHCs, there are still some viable sources of funds available. Rates are very attractive (a silver lining) and lenders are fewer and more cautious but do still exist. MHCs are an asset class that deserves financing because there will always be a need for quality, affordable housing. Many of the structural changes that are taking place will eventually be resolved, resulting in a stronger and more efficient lending market. The future still looks very promising for this unique and evolving industry.

Please call **David Harley** for further information regarding the availability of loan programs for your MHC financing needs. (877) 552-2700. Email me at:

DavidHarley1@comcast.net or visit my website: MobileHomePark-Loans.com