

Spencer Roane's comments on Fannie Mae announcement to provide chattel financing

My 30+ years of experience selling over 300 manufactured homes in our 4 land lease communities (LLC) in Georgia and Texas suggests the following:

- Most in-LLC manufactured home buyers are first-time buyers who are renting now, and want to become homeowners.
- LLC buyers/residents/homeowners prefer manufactured homes to apartment rental because of privacy, less noise, yard, and private parking.
- Community owners (COs) are often willing to sell homes at cost to fill vacant sites (each adding \$30-50k to the value of the LLC), upgrade communities, attract better clientele/residents, and provide affordable housing.
- Buyers of homes in LLCs don't qualify for conventional loans, primarily because of employment history and credit history (because of medical costs, outstanding balances, dealing with creditors who don't report to credit bureaus, or absence of significant credit – eg cash buyers).
- Seller-financing by community owners (COs) is a very effective alternative to conventional financing since onsite management personnel have a personal relationship with residents who also rent lots.
- Lease-Option (L-O) is a form of seller "financing" which doesn't require mortgage licenses in many states.
- When buyers/borrowers are qualified for L-O "financing" based on downpayment, income, ability to repay (ATR), DTI ratios, rental history, and criminal history, and when L-O transactions are structured with 10-15% downpayments (option payment) and reasonable terms (12-14 years), default rates are below 2%/yr.
- Default costs are low because MHs don't have to be moved to another location to be rehabbed, then moved again to the new buyer's location.

Conventional chattel financing would succeed if the lender and the CO worked together. That's difficult, if not impossible, in today's regulated environment. **A model that could work in many states would involve COs "financing" the sale of new MHs via lease-option contracts, then refinance the seasoned buyer in a year or two with a conventional chattel loan.** In doing so, the borrower's monthly payments might be reduced, credit scores might be increased, and mortgage interest payments would be tax deductible. In the event of default on the conventional loan, the CO would backstop the loss by securing the home and either buying it or assisting with rehab and resale, avoiding 20-30% of repossession costs associated with relocation, offsite rehab, and another move.

Default rates might be reduced even further if applicants were provided pre-purchase counseling covering such topics as the benefits of higher credit scores, risks associated with co-signing for others, avoiding high interest loans, need for savings, budgeting for home maintenance, taxes, and insurance, and home ownership safety like smoke detectors and fire extinguishers.

Bio

Spencer Roane, MHM, is president of Pentagon Properties, Inc., Atlanta, Ga., which owns and manages four land lease communities in Georgia and Texas. His firm has sold over 300 new & previously-owned manufactured homes in his communities over the past 30+ years via Lease-

Option contracts. Over the past 7+ years they sold and seller-financed 77 new manufactured homes with only 8 defaults. Since passage of the S.A.F.E. & Dodd-Frank Acts he has written about and spoken often to advocate use of Lease-Option contracts to sell new and pre-owned manufactured homes in communities in most states. He is a member of the Georgia Manufactured Housing Association where he served as an officer and member of the board of directors. He served on the National Communities Council (NCC) and the Disaster Housing Task Force of the Manufactured Housing Institute (MHI). He is one of the organizers of the Southeast Community Owners (SECO) conference which will attract 350+ small and mid-size community owners at their 2017 conference. Spencer holds a B.S. degree in Electrical Engineering, a M.S. degree in Industrial Management, and both Mortgage Loan Originator and Mortgage Broker S.A.F.E. Act licenses. He is scheduled to be inducted into the RV/MH Hall of Fame in August 2017. Contact him at spencer@roane.com or (678) 428-0212. [Pentagon Properties, Inc. website.](#) [Linkedin profile.](#)