

# Supporting Home Ownership: Improving Access to Safe and Affordable Financing

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*#ResilientCommunities*

# Supporting Homeownership

Improving Access to Safe and Affordable Financing

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Pew

# The Pew Charitable Trusts' Housing Policy Initiative

Improving access to safe and affordable home financing for low-cost homes.

## Manufactured home financing

Access and consumer protections for loans to purchase "HUD code" manufactured homes

## Small mortgages

Lack of mortgages under \$150,000

## Alternative financing

Ex: Lease-purchase, land contract, Seller financing

Increasing housing options and improving affordability.

## Zoning and land use

New approaches and research on how states and localities are reducing zoning barriers

# **Manufactured Housing**

Opportunities and challenges for affordable homeownership

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# Manufactured Homes Can Be a Lower-Cost Housing Option

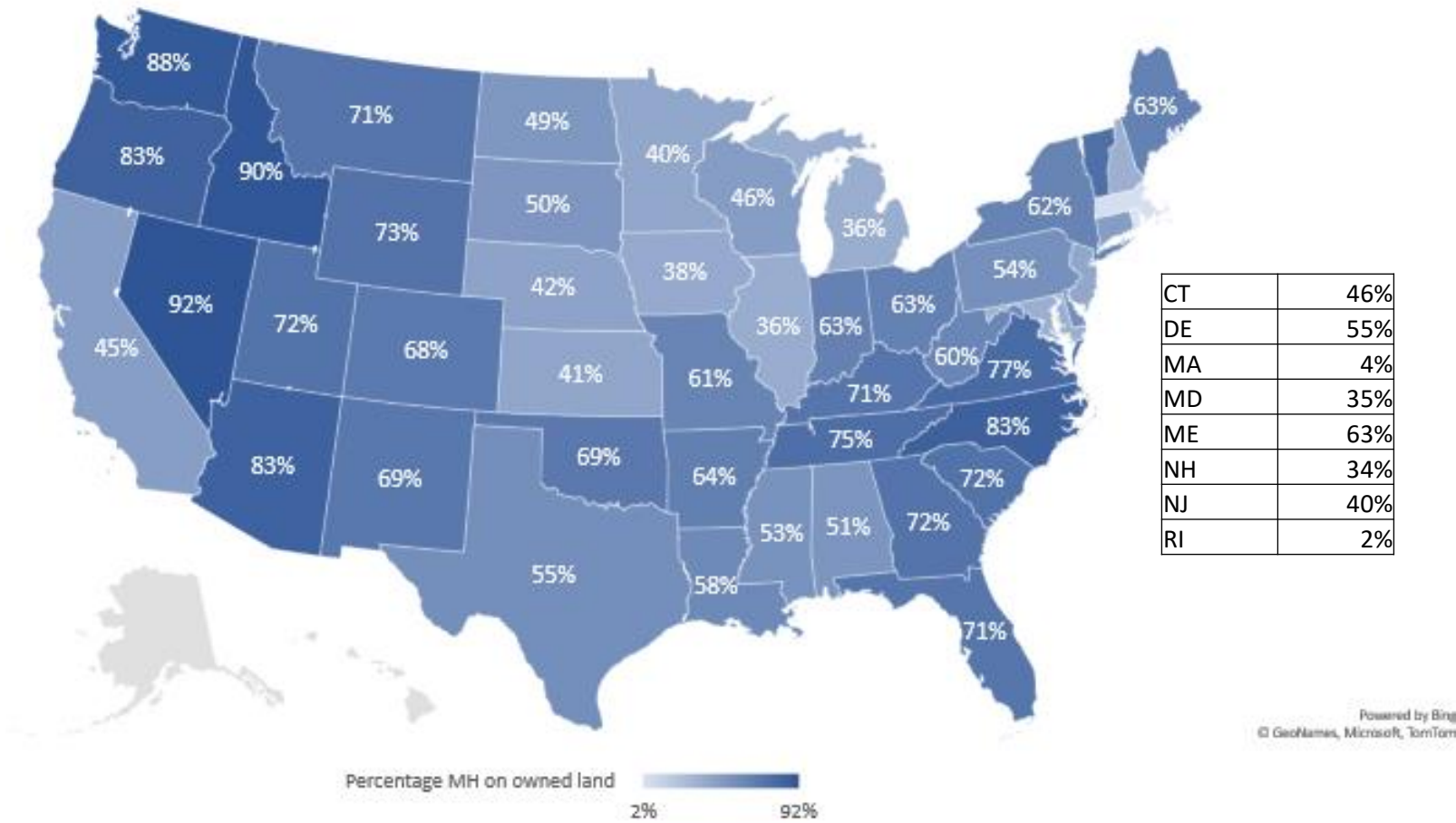
- **Federal housing standard:** Must be built to a national building code set by the U.S. Department of Housing and Urban Development (HUD) and updated periodically since 1976
- **Lower cost due to factory efficiency:** According to Census these cost half as much per square foot as site-built homes excluding land
- **Opportunities to fill housing supply shortage:** Lack of new, smaller, and more affordable starter homes



# Two-Thirds of Manufactured Home Owners Also Own Their Land...

...But this varies widely by state due to:

- Zoning restrictions
- Ability to own (title) as real estate - home attached to land and owned as one property – just like a standard site-built home



Source: Russell, J., et al. (2021). Manufactured Housing Finance: New Insights From the Home Mortgage Disclosure Act Data, Consumer Financial Protection Bureau.

# Manufactured Home Buyers Face Financing Challenges



- **High denial rates** – 54% of manufactured home loan applications denied vs. 7% for site-built home loan applicants.
  - FHA/VA mortgages greatly improve access to credit but not for personal property buyers
    - FHA is working on updating a program that could expand access to credit
  - Challenges with financing can lead a buyer to use riskier alternative financing (rent-to-own or land contract), buy in cash, many are shut out of homeownership

Source: The Pew Charitable Trusts (2021). "Data Shows Lack of Manufactured Home Financing Shuts Out Many Prospective Buyers; Expansion of federal loan programs could boost access to this path to homeownership."



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# Manufactured Housing Key Takeaway

- **Source of housing supply** - Manufactured housing could be used to expand the supply of lower cost, smaller homes
- **Common hurdles** - Both zoning and financing hurdles can get in the way
- **Access to safe and affordable financing** - financing is a key factor in both the affordability of the home and housing stability for a manufacture home buyer.





# Alternative Financing

Understanding an overlooked market, laws, and risks

# What Is Alternative Financing?



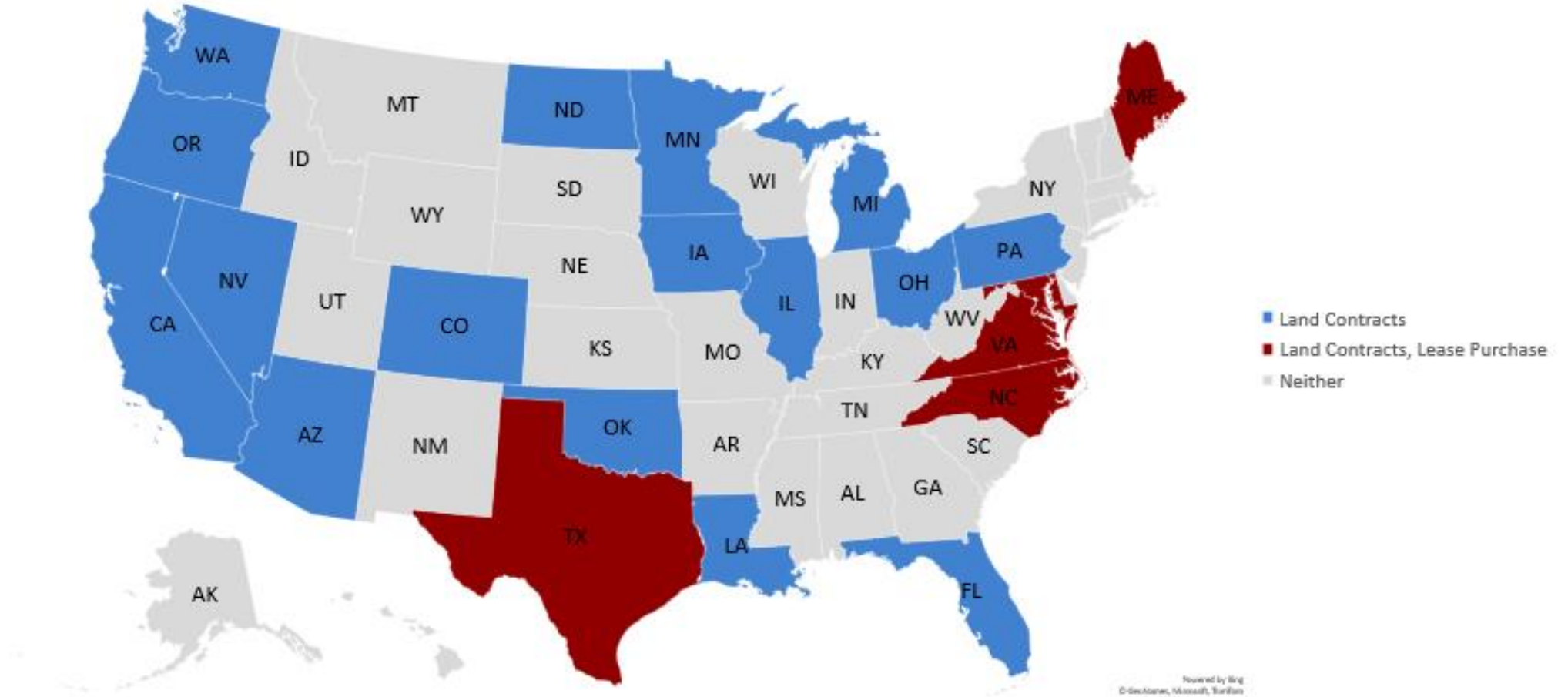
- Land contracts or contracts for deed
- Lease-purchase or rent-to-own agreements
- Seller-financed mortgages
- Personal property, chattel, or home only loans for manufactured homes

# Millions of Americans Have Used Alternative Financing to Buy Homes

- **36 million Americans** (1 in 5 home financing borrowers) have used an alternative arrangement at some point.
  - 1 in 3 Hispanic borrowers have used alternative financing, more than any other racial or ethnic group.
- **7 million homeowners** are currently in an alternative financing arrangement.
  - Homeowners with household incomes less than \$50,000 are more likely (21%) than those with higher incomes (3%) to use alternative financing

Source: The Pew Charitable Trusts (2022). Millions of Americans Have Used Risky Financing Arrangements to Buy Homes.

## Less Than Half of States Have Alternative Financing Laws



Source: National Consumer Law Center (2021). Summary of State Land Contract Statutes.

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# Absent Legal Provisions, Risks Accompany Land Contracts, Lease-Purchase Agreements

## Risks to buyers

- Lack of title and official ownership
- Often excluded from homeowner and/or tenant protections
- Lack of equity, unable to borrow against home
- Eviction/foreclosure
- Challenges with habitability
- Unclear responsibilities (such as for taxes and upkeep)

## Risks to state & local governments

- Unclear tax and maintenance responsibilities
- Possible decline in values of neighboring properties if unclear responsibilities lead to deferred upkeep and maintenance
- Lack of records a barrier to resource distribution during disasters, e.g., pandemic

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## Considerations for Your State

- **Definitions:** Does your state define what these arrangements are?
- **Recordation:** Do you know the scale of these markets in your state?
- **Gaps in protections:** How does your state approach protections or supports for these homeowners relative to other homeowners or renters particularly in disaster or emergency relief? Is there case law through the courts that fills that role?
- **Closing loopholes:** Are there statutes in your state that address all forms of alternative financing?



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## Key Takeaways

- 1. Types of Housing and Financing Vary:** It's important not to overlook the variety both in housing type and financing arrangements when setting policy as access to homeowner supports helps ensure housing stability.
- 2. Homeowners Face Gaps in Legal Protection and Supports:** Depending on the state and arrangement, laws may treat manufactured home owners or those with alternative financing differently from other homeowners. But often they don't have renter protections either, leaving them especially vulnerable to financial loss.
- 3. Opportunities for Structured Data Collection:** Recordation requirements for alternative financing arrangements have helped policymakers get a better picture of the role of alternative financing in their states.

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