Commercial Real Estate

2024 Manufactured Home Community Market Update and Financing Handbook

Second quarter 2024

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About the authors

Tony Petosa, Nick Bertino, and Matt Herskowitz specialize in financing multifamily properties — manufactured home communities (MHC) and apartments — for Wells Fargo Multifamily Capital. They have nearly 70 years of combined experience in the industry and are active in numerous trade associations and advisory councils advocating expanded lending opportunities within the MHC sector.

Wells Fargo offers Fannie Mae (FNMA), Freddie Mac (Freddie), CMBS (conduit), balance sheet, FHA/HUD and correspondent lending programs. Since 2000, Wells Fargo has originated more than $15 billion in financing within the MHC sector and has been the #1 commercial real estate lender in the U.S. since 2009 according to the Mortgage Bankers Association (MBA).

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We would like to extend a special thanks to **Greg Murphy** of Nova Group, GBC for contributing the article “Physical and Environmental Due Diligence: Action Steps to Avoid Problems and Delays” in Section 2.

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Preface

We published our first edition of this Handbook in 2006 at the suggestion of and with encouragement from George Allen, CPM Emeritus, MHM-Master. After being regular contributors of articles for George's newsletter and other trade publications, George made the observation that a Handbook with periodic updates would be a useful resource that both educates readers and promotes our lending activities. For this inspiration, we thank George.

Our goal is to provide insight on recent lending trends, economic conditions, and underwriting considerations impacting the financing of Manufactured Home Communities (MHCs). Hopefully for our readers this Handbook pulls back the curtain on how lenders and other market participants view the MHC sector. We also include additional commentary on the Federal government's role supporting lending programs as part of their mandate to back affordable housing.

Much has changed over the last 18 years since our first edition in 2006. Overall, MHCs have fared very well during various economic cycles, including the Great Recession and COVID-19 pandemic, and have gone from being an afterthought for many to one of the most in-demand property types for both lenders and investors. While challenges and risks may lie ahead, we do believe the MHC sector will remain resilient.

— Tony, Nick, and Matt

Section 1: Market update

Market insights

As we look back at the last year, the economy has performed much better than most forecasts predicted as we have so far been able to materially slow inflation while maintaining high employment and strong economic growth. We noted in the previous edition of this handbook how the pandemic resulted in many dramatic changes reshaping our personal and work routines. And while some normalcy has returned, we are still dealing with “the last mile” of reducing stubborn inflation that remains above the Federal Reserve’s target level and interest rates that remain much higher than many market participants have previously experienced. Consumers still face prices for core products that are significantly higher than pre-pandemic levels, particularly in housing, and there are fears that consumer debt is again increasing after peaking during the Great Recession. Concerns also persist over potential losses looming in commercial real estate loans within the office sector that banks hold on their balance sheets and the potential impact on the banking system when these loans mature. But despite these challenges, the U.S. economy has remained resilient in recent years while other economies have faltered. Have we achieved the desired “soft landing” the Federal Reserve (Fed) had hoped for?

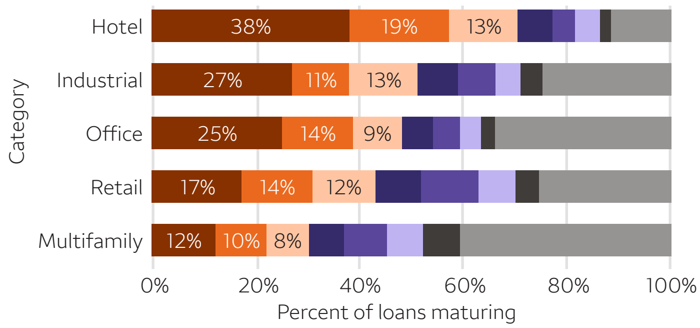
To address that question, let’s revisit the four phases of a real estate cycle as referenced in our previous market update: expansion, hyper-supply, recession, and recovery. Economists study real estate cycles, which often run from 18 to 20 years, as a framework for predicting future economic and market conditions. In the multifamily sector, which is a proxy for manufactured home communities (MHCs), we appear to have moved out of the hyper-supply stage (new construction); but have we gone through a recession?

The last recession is generally recognized as having ended in June 2009 although some would say we briefly went into a global recession in the first half of 2020, which was followed by monetary policy inducing 35% GDP growth in the third quarter of 2020. However, higher interest rates during the past two years have slowed some sectors of the economy such as single family and multifamily construction. Extremely tight monetary policy that resulted in 11 rate increases by the Fed over a 16-month period raised the Federal Funds rate to a 23-year high. This had a more immediate impact on certain sectors, such as housing and lending, compared to others. We may also be experiencing a rolling recession where different parts of the economy take their turns contracting, but not all at the same time. The economy overall continued to grow in 2023 while employment remained high as shown below:

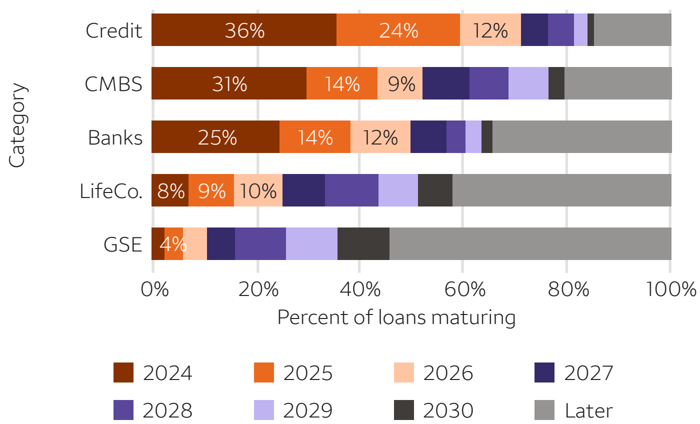
Annual Average:	**2019**	**2020**	**2021**	**2022**	**2023**
Consumer Price Index	1.80%	1.20%	4.70%	8.02%	4.11%
Real GDP	2.30%	2.80%	5.90%	1.90%	2.50%
Unemployment Rate	3.70%	8.10%	5.40%	3.60%	3.70%
Effective Fed Funds Rate	2.16%	0.36%	0.08%	4.10%	5.33%

Productivity gains appear to be playing a role in enabling the U.S. economy to continue to grow despite highly restrictive monetary policy. Nonfarm business sector labor productivity increased 3.2 percent in the fourth quarter of 2023 and 2.6 percent for the year compared with a long-term annual average of 2.18 percent. Continued adoption of artificial intelligence (AI) and other technologies should enable this trend to continue, but some other areas of economic stress remain. The banking industry became an area of concern in 2023 (and remains so in 2024) after several regional banks defaulted and others experienced financial troubles. Much of this was due to poor hedging strategies in their investment bond portfolios as opposed to traditional loan defaults, but there is also concern about the ability of borrowers to refinance the large volume of commercial real estate loans maturing in the coming years, particularly in the office sector where vacancies remain much higher than pre-pandemic levels.

Percent of total property type



Percent of total by lender type



Source: CoStar, Mortgage Bankers Association as of March 2024

The Financial Stability Oversight Council (FSOC) has identified commercial real estate among the major financial risks to the U.S. economy in 2024. There was nearly $6 trillion of commercial real estate loans outstanding at mid-year 2023 with roughly half of that being held by U.S. banks. Many banks have shifted focus from pursuing new commercial real estate loan originations to closely monitoring the performance of their existing loan portfolios. Floating rate loans, which have adjusted higher in lock step with the Fed rate hikes, are experiencing the most stress. Many properties encumbered by construction or bridge loans are failing to achieve proforma occupancies and rental rates due to new competition and delays in construction. With higher interest rates added to the mix, this has resulted in below breakeven debt service coverage ratios on some loans. To address these issues, lenders are requiring paydowns, loan restructuring, and/or repricing when agreeing to modify loans and push out loan maturities. As lenders work through problems related to existing loans, new construction loans have become much more difficult to obtain. Having said that, multifamily properties continue to be in high demand with most healthy lenders because of their low default rates and overall performance. While there are pockets of stress, the banking sector appears to be in good health overall due to increased capital requirements following the Great Recession.

Financing, in fact, remains readily available for stabilized multifamily assets including MHCs. At the close of 2023, FNMA and Freddie Mac had excess lending capacity as borrower demand waned last year as a result of elevated interest rates. The rise in rates during 2022/2023 was especially jarring because it came after an extended period of extremely low rates, which arguably was an aberration from long term averages following the extended slow growth period following the Great Recession. We do think it is a helpful perspective to view the current interest rate environment in the context of long-term averages. The 10-year Treasury is a common fixed rate index for commercial real estate loans. During the first quarter of 2024, the 10-year Treasury yield was as low as 3.88 percent, which is in line with the 30-year average as shown in the following table:

Summary	**UST10**	***High***	***Low***
2-year average through Dec. 2023	3.46%	4.91%	1.74%
10-year average	2.31%	4.91%	0.53%
20-year average	2.90%	5.22%	0.53%
30-year average	3.83%	8.02%	0.53%
40-year average	5.01%	13.84%	0.53%

Looking ahead, the Fed is expected to reverse course in the second half of 2024 and begin a period of accommodative monetary policy by lowering the Federal Funds rate. The Fed has a balancing act as they do not want to re-ignite inflation by easing too soon, but they also recognize there is a lag for their tightening to take effect. The timing of any rate cuts will be dependent on first achieving a further reduction in inflation that is closer to the Fed's target of 2 percent. We expect treasury yields, which are down from their 2023 highs, to decline further, providing a boost to the real estate and banking sectors. While we hope lower rates and more accommodative construction lending will result in the overall growth of the MHC sector and development of new MHCs, which many argue would help address our nation's affordable housing needs, the lack of construction financing and existing zoning requirements continue to present challenges. The Manufactured Housing Institute (MHI) estimates there are over 43,000 MHCs in the U.S., and according to a recent *Forbes* article about 22 million people live in MHCs, which is expected to grow not only due to affordability but also quality of life factors such as having a yard, convenient parking, community amenities and events.

We remain optimistic about the MHC industry and the U.S. economy going forward, but it is worth noting that headwinds remain and the risk of a recession in the near term has not been eliminated. Every cycle has its unique geopolitical backdrop, and our current environment is giving policy makers much to consider. The war in Ukraine continues and the outbreak of the Israel-Hamas war has only added to the global unrest. Additionally, this year 64 countries including the U.S. are having major elections, which always seem to elevate anxiety levels. Nonetheless, MHC owners should take comfort in the solid long-term performance of the MHC sector. The default rate on MHC loans remains the lowest of any property type which should ensure the continued availability of capital within that asset class. Only time will tell if we have avoided a recession and are experiencing a soft landing, but many signs seem to point in that direction.

MHC capital markets

Due to the outstanding historical performance of MHCs, borrowers continue to have an abundant array of attractive financing options available for acquiring or refinancing MHCs. While the same lending alternatives have been available for several years—the government-sponsored enterprises (GSEs), conduit (CMBS) lenders, life insurance companies, banks, and debt funds—each lending program offers distinct advantages and disadvantages in underwriting parameters, loan structures, rates and how the lender responds to the whims of the market. The following discussion provides an overview of the current lending environment and alternatives for MHCs and the overall multifamily lending market.

GSEs

FNMA and Freddie are the two GSEs that actively lend on MHCs, and both have proven to be reliable sources of financing through numerous market cycles. (For an in-depth look at the history and MHC lending criteria of the GSEs, refer to the article "Fannie Mae and Freddie Mac: an inside look" in Section 2 below.)

The GSEs are known as one of the most reliable sources of financing in the MHC capital markets because of their underwriting predictability and certainty of execution.

As observed throughout the COVID-19 pandemic, both GSEs continued lending while many other financing institutions implemented a credit freeze. In recent years, they have accounted for approximately half of all multifamily debt outstanding according to the MBA.

Both Freddie and FNMA have been responsive to market changes in the MHC sector. For example, both GSEs over time have become more comfortable with higher percentages of rental homes within MHCs, and they have also demonstrated an increased willingness to lend on well-also demonstrated an increased willingness to lend on well-maintained two and three-star quality properties in most markets based on solid operating history and professional management. This is consistent with their push in recent years to lend on workforce housing.

The GSEs do not lend to borrowers directly, but rather through select institutions, such as Wells Fargo, which quote, process, close, and service these loans through maturity. Both Fannie Mae and Freddie Mac have a specific set of underwriting guidelines for MHCs so borrowers know what to expect at the outset. Of course, exceptions (waivers) may be granted depending on the circumstances.

Currently, maximum leverage for GSE loans is typically sized using a 75%-80% Loan-to-Value ("LTV") with a minimum 1.25x Debt Service Coverage Ratio ("DSCR"). Generally speaking, the lower the LTV and higher the DSCR of any given loan, the lower the quoted interest rate spread will be. However, larger loans (typically $6 million or more) currently garner significantly better pricing than smaller loans.

GSE loans are nonrecourse and typically allow borrowers to apply for a supplemental loan (second trust deed) after the first year of the initial loan term, which is a feature that distinguishes GSEs from most non-agency lenders whose standard programs prohibit secondary financing.

Commercial Mortgage Backed Securities (CMBS) lenders

CMBS, or conduit, lenders originate and pool loans that are sold in the capital markets. CMBS loans first gained popularity in the 1990s, filling a void in traditional lending that resulted from the savings and loan (S&L) crisis and the prolonged lending downturn that followed. The CMBS and securitization market provides lenders with liquidity by enabling them to sell their loans and distribute risk across a large pool of investors with different appetites for risk and returns. CMBS currently accounts for less than 4% of all multifamily debt outstanding according to the MBA.

The CMBS market went into hibernation during the Great Recession. Higher loan delinquencies during this time resulted in extensive CMBS bond defaults, making it difficult to attract investors back to the market. In 2010 the CMBS market began to reemerge with early transactions benefiting from more reasonable underwriting parameters. Annual CMBS volumes have continued to increase, benefiting from stable capital markets and improved pricing.

CMBS loans are nonrecourse, allowing sponsors to keep contingent liabilities off their books, and typically feature five to 10-year balloon payments with a 30-year amortization (full-term or partial interest-only is typically available depending on leverage). Similar to GSE loans, LTVs on conduit loans will typically be limited to 75%-80% LTV, and lower leveraged loan requests will usually receive lower interest rate spreads compared to full leverage transactions. Unlike GSE loans, however, CMBS loans typically prohibit secondary financing.

CMBS rates are typically higher than GSE or life insurance company lenders, but they have demonstrated a willingness to lend on lower quality MHCs or in situations that may not fit other lenders' guidelines (i.e., borrowers who have prior credit blemishes). Furthermore, CMBS financing is also at times more competitive for smaller sized loan transactions.

If you ultimately choose to move forward with a CMBS lender, it is important to choose one that has demonstrated its dedication and capacity to staying in the market for the long haul. It is also a good idea to select a CMBS lender that is involved in the securitization of the loans they originate. And, of course, be sure to work with a CMBS lender with a proven track record of closing MHC transactions.

Life insurance companies (lifecos)

Lifecos have an ongoing need to invest money in long-term, fixed-rate investments, which include commercial real estate loans with defined maturities. Lifecos are usually portfolio lenders (not selling loans after origination) and they are less affected by the day-to-day fluctuations of the capital markets. However, they do respond throughout the year to market conditions, and individual lifecos can become less competitive later in the year as they fill their annual lending allocations. Some lifecos will work directly with borrowers, particularly on larger transactions, but most of their loans are generated through networks of mortgage bankers who may also service the loans they originate. Lifecos account for about 11% of all multifamily outstanding debt according to the MBS.

Historically, lifecos have offered very competitive pricing and terms and with a focus on moderate loan-to-value (LTV) transactions, but some have recently demonstrated a willingness to move up the LTV scale on a selective basis for high quality properties and experienced sponsors. Since they are balance sheet lenders, lifecos often have flexibility on the structure of a loan and some can also provide additional funding during the term of the loan at their discretion.

Still, lifecos tend to be more selective on asset quality when assessing MHCs, and they also prefer larger loan transactions (often $20 million or higher). Like GSE and conduit lending programs, lifeco loans are non-recourse.

Because their loans are typically held in portfolio, lifecos can often be more flexible in offering early rate locks, longer loan terms, and modified prepayment penalty structures.

Banks

Banks and credit unions can be attractive alternatives for financing MHCs. These lenders tend to be relationship based and often are equally focused on both the sponsor and the real estate when assessing the soundness of a loan transaction. While some banks have a good understanding of MHCs (i.e., strong credit performance) and will therefore quote aggressive loan terms, others view MHCs as “special purpose” real estate and will only lend on a conservative LTV basis and/or on a short amortization schedule. It is important to assess early if the bank you are working with has a track record lending on MHCs. Banks currently account for about 30% of all multifamily debt outstanding according to the MBA.

In contrast to the non-recourse lending options provided by the GSEs, CMBS lenders, and lifecos, it is common for bank borrowers to be required to sign personal guarantees, particularly at higher leverage levels. The personal credit of the borrower will be a key component of their underwriting, but this also means they may lend more readily on properties that have not yet stabilized. Furthermore, we expect most banks to continue to focus on properties located in strong infill markets while shying away from tertiary markets. In fact, regional banks are typically not willing to lend on properties located outside of their retail footprint.

Banks offer lower closing costs and more flexible prepayment structures in comparison to other financing options discussed above, but they do not typically offer long term fixed rate options. Bank rates vary considerably and are generally higher than GSE and lifeco options; however, many bank lenders become more competitive on loans under $3 million.

For MHC owners who are building their portfolios with smaller properties or properties not yet stabilized, bank debt may be the best, if not only, available financing option. Additionally, for owners looking for value-add opportunities in the MHC space, a bank may be a viable option for obtaining debt through the renovation and repositioning period.

Debt funds and private lenders

Commercial real estate debt funds are private lenders that emerged from the Great Recession. A debt fund is an investment pool in which core holdings are fixed-income investments (debt) as opposed to equity investments (stocks). Debt funds are attracted to the generally predictable and dependable stream of cash flow that is available through real estate investments.

Debt funds offer borrowers the opportunity to obtain higher leverage on their loans in exchange for higher rates and additional loan structure. These lenders are also often utilized for re-positioning or stabilizing properties in the short term in anticipation of higher cash flow in the future. Be aware that these funds can be aggressive at foreclosing on a default, and it is recommended to check references.

Debt funds often compete for larger ($10 million and above) acquisition loans needing a flexible structure and timely certainty of close, but some can also lend on smaller transactions. A lot of debt funds have emerged in recent years, but the challenge can be finding one that has a good understanding of MHCs.

Debt fund loans can be particularly susceptible to market swings such as the rapid uptick in interest rates experienced in 2022 as many loans were sized based on debt coverage ratios tied to low floating rates at that the time of origination. Because debt funds, and private lenders in general, typically play in the riskier level of the capital stack, many observers will be keeping a close watch for any signs of distress in this corner of the market given the higher interest rate environment. We would expect that many debt fund loans that were originated with low floating rates will now require cash-in refinance transactions in order to pay off the existing loan balances.

Section 2: Financing handbook

A framework for evaluating loan alternatives

Because you likely have multiple lending options, it is important to have a clear vision of your investment goals and general business plan before moving forward on a loan.

After providing a preliminary quote, most lenders issue an application to the borrower. The application includes a summary of terms and underwriting assumptions.

When this application is returned to the lender, it will likely require a good faith deposit to cover closing costs, such as the cost of third-party reports. Therefore, you should assess your alternatives before selecting a lender and returning its application and deposit. This process should include an analysis of the advantages and disadvantages of various loan alternatives and how they match up with your priorities.

When determining investment goals, contemplate the following questions:

- Am I comfortable with personal recourse?
- What do I want to achieve over a five and 10-year horizon? Pay down debt or borrow additional money for other investments based on an increase in value? What is my likely timeframe for selling the property?
- Am I comfortable taking interest-rate risk with an adjustable-rate loan, which typically provides the most prepayment flexibility, or would I prefer to lock in a long-term fixed interest rate?

The answers to these questions will help determine what type and structure of loan is appropriate.

Many lenders offer both floating-rate and fixed-rate loan programs. While some floating-rate programs offer interest rate caps or are fixed for a period of one to five years, there still exists the risk of an interest-rate increase in the future. The major advantage of floating-rate loans historically has been that they often offer lower starting interest rates than fixed-rate loans, but many lenders add interest rate floors to their floating-rate loans, which diminish this advantage. Typically, floating-rate loans have the advantage of lower prepayment penalties when compared to fixed-rate loans.

Fixed-rate loans lock in an interest rate for a specific period of time and have been an attractive option for borrowers looking to minimize interest rate risk. Treasury rates, or yields, are the most common benchmark used to determine fixed-term interest rates. Longer-term fixed-rate loans enable an owner or investor to lock in his or her cost of capital for an extended period.

To achieve the lowest fixed rate, however, lenders typically need to structure fixed-rate loans with prepayment penalties that are usually more onerous than the prepayment provisions found on floating-rate loans. Prepayment penalties are largely the result of the lender needing to fix or “match fund,” the cost of capital for the entire loan term. While some fixed-rate loan programs offer a defined prepayment penalty, usually as a percentage of principal balance, the lowest fixed rates are usually achieved through a yield maintenance (YM) or defeasance type of prepayment penalty.

A YM penalty varies over time and is a function of the rate on the loan being paid off and treasury yields at the time the loan is prepaid, and also the remaining loan term and balance at the time of prepayment. As a general statement, YM prepayment penalties are minimized if rates have increased since the time the loan was originated and are typically very large when a loan is paid off in the early years of the loan term, especially if rates are the same or lower than they were when the loan was originated. It is important to note that most non-recourse loans offer an assumption provision, and a low fixed-rate loan can be attractive to a future buyer. Since a fixed-rate loan typically has an open prepayment window near the end of the loan term, it is advised that borrowers also match the fixed-loan term to the anticipated holding period for the property or to a target time for a cash out refinance.

Another important consideration is selecting the type of loan relative to your property's profile and business plan. For example, CMBS loans usually offer high leverage and attractive rates, particularly for lower quality properties, but are generally less flexible than portfolio loans in terms of accommodating changes in structure. CMBS lenders typically require structure such as escrows for deferred maintenance and ongoing replacements (and re-tenanting in the case of commercial projects), and may have a "cash management" requirement if debt coverage deteriorates to a defined level.

Still, CMBS loans remain an alternative to consider, particularly for properties or borrowers who do not qualify for or want a portfolio or GSE loan. It is also worth noting that CMBS loans, unlike GSEs loans, do not require MHC owners to implement tenant pad lease protections.

A portfolio loan, by definition, is held by a lender on its balance sheet during the loan term. These loans are typically originated by banks, credit unions, and life insurance companies. Conduit loans, by contrast, are intended to be held by a lender for a short period and are then securitized —sold to bond investors. A portfolio, or balance sheet, lender can in concept more readily modify certain aspects of a loan during the term should the need arise. However, there is no guarantee that a lender will agree to modify a loan in the future.

A common disadvantage of portfolio loans is that the interest rates are sometimes higher, particularly on longer-term fixed-rate structures, and LTVs can be lower because of the use of more conservative underwriting parameters. Additionally, portfolio lenders may have more restrictive requirements related to the borrower's commercial real estate experience, as well as the quality and location of the property. Also, many (but not all) portfolio lenders will require a personal guarantee from key principals of the property's ownership group. Before moving forward with a financing proposal, we recommend comparing your key goals and requirements with the available options. Ask additional questions if unsure of any terms and provisions quoted. MHC owners are fortunate to have multiple financing options and having a framework to evaluate these alternatives will ensure you are selecting the best option.

Fannie Mae and Freddie Mac: An inside look

The GSE programs are the dominant lending source in the MHC sector and multifamily lending overall, and currently account for approximately half of all multifamily mortgage debt outstanding in the U.S. according to the Mortgage Bankers Association. From the outset, the GSE programs offered attractive and dependable terms primarily because of the favorable capital and market access available to them. Seeing the success that FNMA experienced in lending to MHCs, Freddie tried to move into the MHC lending arena for several years, ultimately receiving regulatory approval in the latter half of 2014 to lend on MHCs. As illustrated in the table below, Freddie's entrance into the MHC financing sector created competition that boosted overall MHC lending volume for the GSEs:

Historical GSE MHC lending volume

Year	FNMA	Freddie	Total
2014	$496M	$249M	$746M
2015	$786M	$1.03B	$1.82B
2016	$3B	$1.25B	$4.25B
2017	$1.9B	$1.1B	$3B
2018	$2.9B	$1.8B	$4.7B
2019	$2.5B	$1.4B	$3.9B
2020	$5.5B	$2.2B	$7.7B
2021	$3.3B	$1.25B	$4.55B
2022	$2.7B	$1.3B	$4B
2023	$3.5B	$1.5B	$5B

Today, both FNMA and Freddie Mac provide attractive financing options to MHC owners.

Because the GSEs have been the preferred financing option for many multifamily borrowers, it is important for MHC owners to be familiar with the background and requirements of each GSE.

Fannie Mae

Initiated in 1988, the FNMA DUS program provides approved lenders the ability to originate and subsequently sell loans on multifamily properties, usually in the form of a mortgage-backed security (MBS). The MBS is purchased by investors at a low yield because the security is guaranteed by FNMA. The loan origination and closing process can be completed by the DUS lender without FNMA's involvement, as long as the collateral and borrowers meet established underwriting and pricing guidelines. MHCs were added as an eligible FNMA property type in 1999 when a pilot lending program was launched.

FNMA currently works with 25 DUS lenders, but only a handful of these lenders originate the bulk of the loans on MHCs.

DUS lenders typically service the loans they originate and retain a risk position through a loss-sharing formula with FNMA. Because of this, lenders can only receive and maintain the DUS designation by demonstrating financial strength, underwriting expertise, loan servicing experience, and capacity to generate and handle meaningful loan origination volume. As mentioned above, a DUS loan can be closed with little to no interaction with FNMA if the established lender guidelines for a given loan transaction are met.

FNMA DUS loans offer an assortment of financing structures. and attractive pricing for both age-restricted and all-age MHCs. Borrowers have the ability to obtain a loan with defined fixed- rate terms between five and 30 years and typically amortized over 30 years with a period of interest-only payments often being available. In addition to fixed-rate terms, FNMA also offers adjustable- rate programs.

If you believe FNMA financing may be a consideration for you, first determine whether your property is eligible based on FNMA's underwriting guidelines. While the entirety of FNMA's guidelines is too extensive to list here, some MHC requirements worth noting are as follows:

- Paved roads and driveways. Off street parking preferred
- Physical occupancy of at least 85% and economic occupancy of at least 80% (lower occupancies will be considered based on history and business plan to increase)
- Majority of the property, including the entrance, is not located in a moving water flood zone
- Professional skirting with home hitches covered/ removed
- Amenity package is not required, but must be common in the marketplace

If a property does not meet all of the guidelines, it does not necessarily preclude the property from qualifying for financing from FNMA, but it does require the DUS lender to obtain a waiver from FNMA. This is achieved by successfully presenting compensating factors.

FNMA loans are nonrecourse with standard recourse carve- outs, usually to the key principals, for actions such as fraud or unauthorized transfer of controlling interests. For lower leverage loans, the key principals may not even be required to sign the carveout guaranty document. FNMA loans are assumable (multiple times), subject to approval of the new borrower's credit and experience. Secondary or "supplemental" financing is typically available after the first year of the loan term. Supplemental loans are almost always coterminous with the first mortgage, and the interest rate on the supplemental loan is based on the then-prevailing FNMA rates for supplemental loans.

Freddie Mac (Optigo)

As previously mentioned, Freddie announced its entrance into MHC financing in 2014. Freddie Mac's arrival into the sector materially changed the competitive landscape, resulting in more aggressive overall loan terms for MHCs, including more accommodative guidelines for MHCs to qualify for GSE financing.

Freddie originates multifamily loans through a network of 23 lenders known as Optigo Lenders. Freddie Mac does not fully delegate any of its processes to its Optigo Lenders, and is more actively involved in the quoting and closing process than FNMA.

Freddie securitizes the vast majority of its MHC loans—typically putting approximately 5%-10% MHC loans into each of its securitizations. Freddie provides both fixed- and floating-rate loans with terms usually ranging from five to 10 years, but they can also offer longer-term fixed structures, such as 12- and 15-year terms. Amortization schedules are typically 30 years with interest only periods that may also be available. In general, Freddie Mac has similar property and MHC requirements as referenced above for FNMA.

Like FNMA, Freddie Mac loans are nonrecourse with standard recourse carveouts usually to the key principals for actions such as fraud or unauthorized transfers of controlling ownership interests. For lower leverage loans, it may be possible to waive the requirement of a carveout guarantor. Freddie loans are assumable, and Freddie also offers a secondary, or "supplemental," financing program. One notable differentiation from FNMA is that Freddie offers an "index lock" to qualified borrowers shortly after execution of a loan application designed to eliminate the volatility of the interest rate by locking in the treasury index. In order to take advantage of this option, the borrower is required to provide a 2% index lock deposit, which is refundable at loan closing. After index lock and before closing, the loan amount can move 5% up or 10% down without any unwinding cost. Unlike CMBS loans, there are no margin calls if rates decline and the hedge moves into a loss position.

Even if you do not borrow from Freddie or FNMA, their presence lending in the sector has provided more alternatives for borrowers and increased competition among lenders. The result has been better financing terms for MHC owners on a wider range of properties throughout the country.

The benefits of a supplemental mortgage loan

Given the higher interest rate environment in recent years, borrowers have not been motivated to refinance their existing loans. In most cases, MHC owners who closed fixed rate loans over the past decade or more will be subject to higher interest rates if refinancing in today's market. But for borrowers who currently have GSE debt on their property, there may be an opportunity to access untapped equity through a GSE supplemental mortgage loan.

A supplemental loan, often referred to as a second mortgage, is a subordinate debt tranche added to the balance of an existing GSE first mortgage. Both FNMA and Freddie Mac offer supplemental loans as part of their standard programs, which have dominated the multifamily lending market in recent years in terms of market share. Supplemental loans are an attractive feature of GSE mortgages, particularly in times of steady or rising rates, as they allow borrowers access to the equity a property has accrued over time without disturbing the interest rate or tripping the prepayment penalty provisions of the first mortgage. Although supplemental loans will typically have higher interest rates compared to first mortgage loans, many borrowers will find they can maintain an attractive overall "blended" interest rate after factoring in the lower rate on their existing GSE first mortgage.

While there are some differences in the underwriting and loan provisions of FNMA and Freddie Mac supplemental loans, the general terms are similar. For both programs, borrowers must wait 12 months from the origination of the first mortgage before applying for a supplemental loan. Additionally, any supplemental loan must be originated by the same approved GSE lender that originated and is servicing the first mortgage. As is the case with GSE first mortgages, GSE supplemental loans are non-recourse and assumable. Other provisions include:

- Term: Must be coterminous with the first mortgage, and typically a minimum of five years for FNMA and three years for Freddie Mac unless a waiver is granted.
- Amortization: Typically 30 years. Interest Only may be available.
- Interest Rate: Fixed or variable; interest rate spreads are typically 100 to 120 basis points above comparable first mortgage pricing at the time the supplemental loan is processed.
- LTV: As high as 75%. LTV is typically adjusted to more conservative parameters for shorter loan terms.
- DSCR: As low as 1.25x. DSCR is typically adjusted to more conservative parameters for shorter loan terms.
- Prepayment: Standard GSE fixed and floating rate provisions.

The underwriting and closing process for a supplemental loan is similar to that of a first mortgage but can usually move faster and more efficiently as the lender is servicing the existing first mortgage and is already familiar with the property. Information needed for underwriting primarily includes updated operating information such as the most recent year-end and trailing 12-month operating statements along with a current rent roll. Borrowers should check their operating statements to ensure consistency with any statements that have been submitted to the loan servicer during the term of the first mortgage. Additionally, borrowers should identify any non-recurring expenses and any expected property tax reassessment. A 12-month operating budget with stabilized expenses for comparison to actual expenses is also recommended. It is important for borrowers to reference any recent or planned changes in property operations as well as any capital improvements and/or expansions that have been completed since the first mortgage closed.

When underwriting and sizing a supplemental loan, the debt service of the first mortgage is deducted from the income similar to an operating expense. The resulting net operating income after first loan debt service is the cash flow available to size the supplemental loan using the applicable debt service coverage ratio and loan constant. To begin the supplemental loan closing process, a supplemental loan application is issued to the borrower and a deposit is required at the time the application is returned to cover any necessary third-party reports. Additionally, lender legal is engaged as new loan documents are required and title needs to be updated.

While the GSEs have always offered supplemental loan programs and expect to continue to offer them in the future, the availability and terms are left to the GSEs' discretion at the time the supplemental financing is requested. When closing a GSE first mortgage, it is important for borrowers to review their loan documents to see if there are any specific limits on the availability or underwriting of future supplemental financing during the loan term as occasionally limits may be put in place to address underwriting concerns that may have been present at the time the first mortgage loan was originated. Supplemental loans are typically available at least once during the loan term and possibly multiple times if supported by the property's net operating income growth and an increase in value.

Supplemental financing can also be an attractive option for buyers looking to maximize leverage on a purchase transaction. GSE loans are typically assumable, and, depending on the remaining loan term on the first mortgage and the financial performance of the property, a qualified buyer may have the option to obtain a supplemental loan at the same time they assume the first mortgage and close on the purchase transaction. Utilizing this strategy, a buyer may be able to achieve a higher loan-to-purchase price (after topping off the financing with a new supplemental loan) at a lower all-in interest rate (based on the weighted average of the combined first and supplemental loans) than could be achieved by obtaining a new loan.

As a property's value increases, the equity in the property grows but, in many cases, remains trapped until the property is refinanced or sold. The GSEs' supplemental financing programs allow multifamily owners to unlock their equity during the loan term, providing cash to either reinvest in the property or deploy into alternative investments. Multifamily investors purchasing properties with GSE debt may be able to structure favorable financing terms by adding on a supplemental loan. When used strategically, supplemental mortgage loans have proven to be a valuable tool for multifamily property investors.

Preparing your property and information for financing

It is strongly recommended to start the financing process early in case unexpected delays occur. Before contacting a to be submitted for financing. This review should take into account the physical condition of your property, the state of financial records, and market competitiveness of your community. In addition, you should prepare documents that will be needed to underwrite the loan and consider the manner in which information should be presented.

Take a step back and assess the overall asset quality, or curb appeal, of your community. Is the landscaping adequate and well maintained? Are the entrance and signage welcoming? Remember, these are your property's "front doors." Do the homes reflect pride of ownership, and are community regulations being enforced? Is the skirting surrounding the homes intact and in good shape? Is the average age of the homes, density of the community, and amenities in line with competitive properties in the local housing market? If not, be prepared to explain how you compete for residents and plan to sustain occupancy and rental rates going forward.

These are all questions a lender will consider when screening a property. During periods of high inflation, we see an increased focus from lenders on deferred maintenance and asset quality as some owners/operators may put off spending money on certain maintenance items in an effort to continue making cash flow distributions to themselves and their investment partners.

Have a good handle on market conditions and be prepared to identify and comment on the competitive set of properties. Are rents at market when compared to nearby manufactured home communities? What is the general demographic profile of the local housing market, and how does the property successfully compete for new residents?

After assessing the condition of the property and its market, it is likely that there will be some shortcomings. At the very least, have a plan for mitigating potential concerns, particularly if financing an acquisition. For example, perhaps the community being purchased has older homes. The business plan may be to replace or renovate these homes over time. Make the lender aware of your long-term plan and describe how it will be implemented. If you have been successful completing similar improvements in a community you currently own, draw the lender's attention to that and provide details.

The next step is to evaluate the financial condition of the property, which includes a review of your financial records. Typically, a lender will ask for a current rent roll along with property operating statements (income and expenses) for the past three years, as well as the most recent 12-month period, ideally broken out by month (commonly referred to as a trailing 12-month statement or “T12”).

When examining the rent roll, the lender will likely look for rental, lender- owned, or investor- owned homes in the community. While lenders over the years have become more receptive to communities with a higher percentage of rental homes, they do have a preference for resident owned homes. Generally, lenders will not want to take homes as collateral; therefore, they will discount additional rental income derived from rental homes and underwrite rental income solely based on the site rent. A correctly structured rent-to-own program is more appealing to lenders than a rental without a path to resident ownership. Since lenders are generally unable to capture rental home income in their underwriting of net operating income (NOI), it is also best practice to identify or remove rental home data, both income and expenses, on the property’s operating statements.

The trend of monthly rent collection figures on the trailing 12-month statement will be a key focus. Lenders will want to see that rent collections are stable and/or trending upward from month to month. This is especially the case when a recent rent increase has been implemented to verify not only that the higher rent is being collected, but also that it has not caused any residents to move out.

In addition to the income stream from the site rents, lenders will examine the collection history of other income items. It is important that other income items are segregated on the historical statements, meaning separate line items for utility reimbursements, laundry facilities, late fees, and so on, should be detailed. A loan underwriter will focus on historical performance when determining if these are sustainable income streams. Typically, as long as a good history of collecting ancillary income is demonstrated, lenders will include this income in their underwriting.

In the evaluation of the property’s historical income and expense statements, identify any large fluctuations in the numbers on either the income or expense side. For example, if there has been a significant increase in annual rental income in recent years, be able to explain why. Did the property experience a high vacancy rate during a prior year and, if so, why? What has been the history of rent increases, and are rents competitive and in line with the market?

You should conduct the same kind of analysis and explanation on the expense side, particularly with respect to expenses that may be unique to your ownership operations. If home office overhead is allocated to the property in lieu of a management fee, be sure to identify that expense, perhaps with a footnote, as a lender will automatically input a management fee even if one is not charged.

While it is common for property owners to expense (for tax purposes) as many items as possible on their operating statements, it benefits the property owner to identify and explain any expenses that are not directly related to the property’s ongoing operation. An underwriter only needs to include expenses that the lender would incur if operating the property; therefore, you should provide an itemized breakdown of any capital or nonrecurring expense items that are embedded within the operating statements.

If identified, the lender can remove these expenditures from the underwritten expenses because it will already be including a replacement reserve deduction for long-term improvements. The goal is to maximize the “highest defensible” underwritten net operating income because this will typically translate into higher loan proceeds or a lower interest rate on the loan.

Many lenders will ask to review or audit at least a sample of leases to compare with the rent roll for accuracy. We have encountered operators who do not maintain written leases and if that is the case with your property, we recommend discussing this with the lender early in the underwriting process. Various states around the country allow for oral or unwritten lease structures for residents at MHC’s. For example, Florida allows for a prospectus structure whereby the tenant is issued an unsigned agreement laying out the lease terms and community rules and regulations.

After providing the necessary information on the property, provide a general overview or biography of yourself. What is your background and real estate experience, and how many other properties do you own? If you are utilizing a third-party management company to manage your property, provide a resume that details their experience and expertise.

What is your financial strength in terms of net worth and liquidity? In general, most lenders want to see that the property owners have a combined net worth equal to or greater than the proposed loan amount and liquidity ideally equal to 10% or more of that amount. But this is not a hard and fast rule, particularly for larger loans above $10 million.

It is important to provide a business plan for the asset being financed, especially for a new lending relationship or a property not yet stabilized. The lender will look at you not only as a borrower but also as a business partner, so outline your plan for operating the asset and demonstrate why the lender should do business with you. The manner in which you present information is important. For example, rent rolls should be detailed and accurate, arranged by unit number, no more than one month old, and should have totals and a summary at the end. Be prepared to provide a history and current record of any rent delinquencies. It is also helpful to provide recent, good- quality color photos of the property.

Remember that first impressions are critical. By being prepared in advance you will be able to respond in a timely manner to questions and requests during the lender's due diligence process, facilitating a much smoother loan approval and closing process.

GSE financing for MHCs with tenant pad lease protections

In 2022, the GSEs' mandate from the FHFA required borrowers on all newly originated MHC loans to implement Tenant Pad Lease Protections (TPLPs). This requirement stems from the GSEs' goals to lend based on their mission-driven affordable housing goals. The GSEs define mission-driven business as loans for multifamily properties that possess certain affordability characteristics that serve families of modest income with the goal of providing safe and affordable housing in the United States. The GSEs generally provide their most competitive interest rates for properties designated as mission business.

TPLPs were first introduced in 2019 as part of the GSE's 2018-2020 Duty to Serve ("DTS") plan. In response to the disruption and uncertainty caused by COVID-19, the FHFA instructed the GSEs to structure their 2021 DTS activities as a one-year extension of the 2018-2020 Plans. As the TPLP programs rolled out in 2019, the GSEs worked with industry stakeholders to shape and implement the TPLP programs. During this time, Freddie Mac commissioned an extensive survey of all 50 states that identified which TPLPs are provided to MHC homeowner residents by current state laws.

While this study is somewhat dated, and state laws are subject to change over time, the study revealed that the vast majority of MHCs in the U.S. were already subject to state laws that provided many of the lease protections outlined below. In any case, where the TPLPs conflict with state law, the GSEs have made it clear that the state law prevails.

While there are slight differences between the GSEs' TPLP programs, the eight TPLPs are essentially the same and outlined below:

1. One-year renewable lease term
2. 30-day written notice of rent increase
3. Five-day grace period for rent payments
4. Tenant's right to sell the manufactured home without having to first relocate it out of the MHC

5. Tenant's right to sell the manufactured home in place within 45 days (30 days for Freddie Mac) after eviction by the MHC owner

6. Tenant's right to sublease or assign the pad site lease to a new home buyer provided they meet the minimum MHC rules, regulations, and credit quality

7. Tenant's right to post "for sale" signs

8. Tenant's right to receive at least 60 days' notice of planned sale or closure of the MHC

There are two ways by which MHC owners can implement TPLPs at their properties. The first (and easiest) option is through amending the MHC's rules and regulations when the MHC's standard lease agreements make reference to the MHC's rules and regulations. When utilizing this option, the MHC owner is simply required to amend the MHC's rules and regulations to incorporate all eight TPLPs and then provide each resident a written notification that lists all eight TPLPs. The MHC owner's form of written notification and the updated rules and regulations must also be submitted to the GSE lender.

The second (and more onerous) way to incorporate TPLPs is through new or amended lease agreements, which explicitly list all eight TPLPs. What makes this approach more challenging when compared to amending rules and regulations is that the MHC owner will need to obtain countersignatures from each of the MHC residents in order to comply with the program.

Whether incorporating TPLPs through amending rules and regulations with notices sent to residents or through new or amended lease agreements, MHC owners will be required to show that all eight TPLPs have been incorporated within 12 months of loan closing. At the time of loan closing, a loan agreement rider is added to the loan documents for both GSEs to memorialize that the lease protections are required to be in place for the life of the loan. After loan closing, borrowers will need to provide a written certification that the protections are in place and a lease audit will also be required.

As MHC owners review financing alternatives, it is important to factor in both the pricing benefits and subsequent requirements of TPLPs when considering GSE financing.

Physical and environmental due diligence: Action steps to avoid problems and delays

Commercial real estate financing requirements typically include the preparation of a Property Condition Assessment (PCA) and a Phase I Environmental Site Assessment (ESA). The purpose of the PCA report is to evaluate the current condition of the subject property improvements as well as provide an estimation of anticipated capital needs over the required evaluation term (typically looking 12 years ahead). The objective of the ESA report is to evaluate the current environmental condition of the subject property through on-site inspection, interviews, review of property and vicinity use history, and contact with regulatory agencies. ASTM International (formerly known as the American Society for Testing and Materials) provides the industry standard scopes for ESA and PCA reports. While life insurance companies, banks, CMBS and GSE lending programs generally adhere to the ASTM base scopes, the GSEs each amend their scopes with several requirements unique to MHCs.

There are a few steps that MHC owners or prospective buyers can take to avoid costly pitfalls, excessive money placed in escrow, and loan closing delays during the financing process. Because MHC owners refinancing properties their properties typically have unobstructed property access during the due diligence process, some of these tasks are easier to complete compared to issues identified during an acquisition transaction when property repairs cannot be made prior to closing and when operational history is not readily available. For the Phase I ESA scope, there is typically less preparation that can be done other than making sure your lender and their consultant receive historical ESA and subsurface investigation reports along with as much information as is known about any potential historical releases on the subject property or adjacent properties to ensure that the information can be reviewed as quickly as possible to avoid delays.

As a starting point, it is recommended that borrowers request from their lender a list of MHC property configuration requirements. As examples, the GSEs typically require two paved parking spaces per pad and that all homes present are professionally skirted with hitches removed or concealed. Because the GSEs have certain standard property requirements for MHCs, it is best to have your lender communicate any property level questions or issues with the GSEs, as well as the PCA/ESA consultant, early in the process in order to avoid surprises or expensive requirements arising after the loan application has been accepted. In some cases, the lender may have to submit a waiver request to the GSE for certain property related characteristics. Such waivers are often approved when the consultant can demonstrate than any non-conforming property characteristics are common in the subject property's market area.

After discussions with the lender, borrowers may want to check with the local building/planning department and fire department to ensure that there are no outstanding code violations related to the property in general or to specific property tenants. Historical environmental issues, if present, may also reveal themselves through such inquiry.

The three property components discussed below are arguably the most common culprits resulting in unexpected capital costs identified in a PCA for an MHC property.

Asphalt and concrete

Review of recent PCA reports that Nova has prepared for MHC properties across the country revealed an average of 65%-70% of total capital reserve estimates were attributed to asphalt and concrete drive resealing, repair, and replacement during the evaluation term. Asphalt drives and parking areas exhibiting mild to moderate surface wear will likely only require surface sealcoat application once or twice during a 12-year evaluation term. However, surfaces that show more significant wear, including significant alligator cracking or potholes, may warrant more expensive partial-depth or full-depth surfacing as an immediate need or early in the reserve term. If there are known immediate needs present at the property, having a written estimate in-hand from a licensed contractor identifying the specific type of repairs recommended and square footage to be repaired may provide a less expensive option when compared to the cost estimate the PCA consultant may otherwise conclude to.

Potable water wells and wastewater treatment systems

While many MHC properties are provided with municipal drinking water and sanitary sewer services, it is not uncommon for MHCs in more suburban or rural locations to provide their own services. For properties with private potable wells or wastewater treatment systems (either septic or active wastewater processing), Fannie Mae and Freddie Mac require detailed information about these systems. Information about the equipment present, water quality (including complete submittals of analytical testing in conformance with water regulatory requirements), verification of professionally licensed water system servicing, and verification that there are no current requirements to tie into nearby municipal systems are a few of the items that need to be covered in detail in both the PCA and ESA reports. Ensuring that any delinquent water quality testing is performed and any other regulatory anomalies are rectified is of specific importance to the GSEs. Again, lenders can provide borrowers with the checklists needed for a preliminary review of these requirements.

Minor miscellaneous deferred maintenance

In a refinance situation, it is recommended that property ownership, with their maintenance staff, complete any minor repairs prior to property inspections. If you notice a component damaged to the point that minor routine maintenance by property staff cannot address it, it is recommended that a licensed contractor be retained to

either repair the component or provide a written estimate of the repair needed. If a reasonable contractor bid (one prepared by a licensed contractor that provides a quantity and unit cost) is provided to the PCA consultant, it may reduce the quantity of money retained for escrow as well as avoid loan closing delays. For minor carpentry, painting or other miscellaneous damage, instruct property staff to repair such damage prior to the consultant's

on-site inspection. Completing this work will avoid the identification of repairs requiring escrowed money and revisions to the PCA and underwriting tasks.

The objective of a proactive approach is to have potential problems identified and resolved well before your anticipated loan closing date. Staying ahead of these issues will help you maximize your loan proceeds, ensure that you qualify for the best available financing terms, and eliminate loan closing delays.

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MHCs and flood zones

Do you know if your MHC is located within a high-risk flood zone, either entirely or partially, as defined by the Federal Emergency Management Agency (FEMA)? If it is, additional investigation will be needed before you proceed with a loan application. There was a time when FNMA was one of the few lenders that viewed flood zones negatively, but over the years we have seen many others, including Freddie and conduit lenders, follow suit.

Flood zones are geographic areas that FEMA has defined according to varying levels of flood risk. Any property located in an "A" or "V" zone — often referred to as a 100-year flood zone, or high-risk flood zone — can be viewed negatively by lenders, unless only a small number of sites are affected. It can also be problematic if the property entrance is in the flood zone as this could potentially hamper ingress to and egress from the property. To check your property's flood zone, go to https://msc. fema.gov/ portal/home.

So, how does an MHC owner overcome flood zone concerns? Let us assume that only a portion of the sites within an MHC are located within a high-risk flood zone. In this case, most lenders will provide financing, but may make an underwriting adjustment to account for the sites located within the flood zone by not underwriting any income from those sites. However, the underlying source of the flood zone and the elevation of the homes compared to the flood zone elevation level may enable the lender to include all of the sites and related income in the underwriting.

The cause for biggest concern is when the source of flooding is a moving body of water, such as a river or creek. In this instance, there is potential for a heavy storm to strengthen a normally docile creek to the point of being capable of displacing homes located within the flood zone. For this reason, many lenders require that any sites in the flood zone be removed from the underwritten rental income when the source of flooding is a moving body of water. If a moving body of water is not the source of flooding, however, the threat of damage to the homes is not as high and it may be possible to underwrite rental income from the sites located within the flood zone.

When a property is in a flood zone because of its location in a low-elevation area or being adjacent to a water-retention area, such as a pond, heavy rains may cause the water level to rise and result in flooding, but the water then recedes over time. This is a scenario in which you should consider the elevation of the homes, and you may need to hire a surveyor to provide a more detailed analysis. In addition to verifying exactly how many sites are located within the flood zone, a surveyor can determine the elevation levels of the floors of the homes located on those sites relative to the base flood elevation (BFE) level. If the surveyor's findings show that the elevation levels of the floors of the homes are above the BFE of the flood zone, a lender may agree to underwrite the rental income from those sites as there would be adequate data showing that any flooding should not displace the homes within the community.

Another alternative is to ask an experienced surveyor to determine if your property is a good candidate for a Letter of Map Amendment (LOMA) or Letter of Map Revision (LOMR.) If it is, upon completion of field work, the surveyor can submit a LOMA or LOMR application to FEMA. FEMA will review the application and, assuming it has been completed appropriately, issue an amendment or revision to the current FEMA map in which it removes all or a portion of your property from the high-risk flood zone designation.

Property owners often wonder why simply obtaining the required flood insurance through the National Flood Insurance Program (NFIP) does not alleviate a lender's concern about an MHC being located in a high-risk flood zone. This is because NFIP coverage can only be purchased for structures and improvements permanently affixed to the ground. Residents can obtain flood insurance for their homes, but the community owner is not a party to this coverage. MHCs have limited physical improvements, and the primary improvements to insure are structures such as a clubhouse or laundry facilities, which do not generate income. In fact, as part of the appraisal required when processing a loan, the appraiser provides an insurable replacement cost value that pertains only to the physical improvements at the property, and this is used to determine the appropriate property insurance coverage required for the improvements. There is usually a significant gap between the final appraised value of an MHC and the replacement cost value of the physical improvements.

So, even if an MHC owner obtains flood insurance on the permanent structures, it is likely going to fall far short of covering the loan amount.

One solution that Freddie offers to MHCs located within flood zones is for the property owner to purchase additional business interruption coverage to specifically cover rent losses due to flooding for those sites located within the flood zone.

You should be aware of the additional insurance premium cost to obtain such coverage as it may affect what loan amount can be achieved because the lender will need to underwrite the insurance expense at the higher premium level, therefore reducing the NOI used in the minimum debt service ratio calculation. In fact, in order to underwrite rental income from sites located in a flood zone, FNMA requires business interruption coverage for flood in addition to evidence that the floors of the manufactured homes are above the BFE.

Another option lenders will consider to address flood zone concerns is to have the MHC owner fund an escrow reserve, held by the lender, in an amount that covers the rental revenue generated by the sites located in the flood zone.

Solar hot buttons

Solar panels can provide both financial and environmental benefits to residential and commercial properties, particularly in Western States that receive high amounts of sunshine. They offer a source of renewable energy while reducing electric bills, and in some states, they also allow property owners to increase their utility revenues. As technology advances, solar panels are becoming an increasingly popular option for property owners as a way to maximize the value of their properties. Within MHCs, solar panels are typically affixed to otherwise unused carport roofs or other common area locations. However, despite the benefits afforded by solar panels, there are some key points MHC owners should consider when installing solar panels that may present challenges when it comes time to finance or sell their properties.

As is the case with residential properties, solar panels can be either owned or leased by the MHC property owner. Leased solar panels, as opposed to owned solar panels, are more likely to create issues when financing MHCs. Property owners often find the idea of leasing solar panels to be attractive for several reasons. Utilizing a third-party solar company to own and operate the solar panels enables the property owner to outsource installation, metering, and equipment maintenance. In other words, a lease arrangement allows the property owner to collect a check every month without the hassle of operating a solar array system. Property owners should be aware, however, that leased solar equipment comes with some strings attached.

Under a lease scenario, the property owner who is leasing the solar panels typically enters into a Power Purchase Agreement ("PPA") with the solar panel owner/operator. PPAs can vary greatly and often come with fine print, including easements and equipment recovery clauses.

Furthermore, PPAs can be tied to underlying contracts with municipal utility companies that may have obligations beyond the scope outlined in the PPA. One key issue for lenders is the PPA's survivability in the event of foreclosure. After foreclosing on a property, a lender would have to assume the PPA and, therefore, lenders are often wary of becoming a party to additional obligations that are associated with a PPA. When a solar panel array is leased and subject to a complicated PPA, a lender may deem the potential liability too great and elect not to move forward with financing.

Because PPAs are typically structured with terms of 10 years or longer, they will more than likely come under scrutiny at some point in the property's refinancing cycle. Many lenders view third-party solar companies and their industry as being unregulated with little consistency on which to base standard underwriting practices. A further challenge is that utility companies and their applicable laws vary from state to state. Additionally, if the solar panels are located on nearby land that is not owned by the same entity that owns the property benefitting from the solar panels, the structure becomes more complicated.

When solar panels are owned outright by the property owner and located on the property being financed, many of the aforementioned concerns are alleviated. Without a PPA or third-party solar company in place, lenders are generally more comfortable with the ownership structure, and therefore are more willing to underwrite the utility cost savings the property receives. Most lenders will conduct additional due diligence when solar panels are on site, which may result in additional legal costs, but the property should be eligible for financing subject to any unforeseen issues.

Some lending programs at times offer lower pricing when installing solar panels in conjunction with the financing to incentivize renewable energy adoption. However, these programs often require at least 30% of the property's future energy usage to be derived from the panels, which will likely require a large installation of panels.

Solar panels can be a great way to maximize your property's value. However, we would advise MHC owners seeking financing to alert their lender of the presence of solar panels; where the solar panels are located; and whether they are leased or owned prior to moving forward with a formal loan application. It is always best to address any issues in advance before incurring time and expense attempting to make a determination late in the financing process.

Chattel finance programs

For many years, some MHC owners have been offering financing options for resident-owned homes within their communities, typically to facilitate the sale of inventory homes. While not all owners actively engage in chattel finance programs, many owners find it advantageous to incorporate home financing activities into their core operations. This is especially true in a community with vacancy.

Notwithstanding increased legislative and regulatory complexity and the capital requirement, chattel finance programs are likely to remain for the foreseeable future because:

- There are an insufficient number of potential residents in many markets who can pay cash for a home or qualify for affordable third-party financing to fill vacancies that occur naturally, particularly if there are a material number of vacancies to fill.
- Even age-restricted communities that are historically less affected by limited availability of chattel financing are finding that there can be fewer potential residents who can pay all cash for higher priced homes or qualify for traditional financing.
- The MHC industry is consolidating and the acquisition of new communities has become increasingly competitive. Entities seeking to acquire existing properties may have to purchase properties with above average vacancy. A chattel finance platform can be key to the successful lease up of an asset.
- Chattel finance programs can also support home price stability.

Done properly, chattel home finance programs can produce positive results, such as:

1. Maintain or increase occupancy by extending credit to a wider spectrum of qualified borrowers.
2. Produce consistent site rent with the ability to implement periodic rent increases.
3. Facilitate the repositioning of a property for future sale.
4. Upgrade housing stock by replacing older homes with newer, energy-efficient homes.

Most of our clients report favorable returns from their finance portfolios, but it is capital intensive, and an additional capital raise is therefore included by some as part of the business plan when purchasing a property. The secondary market for home loan portfolios is improving particularly for seasoned portfolios or structures where the community operator maintains a capital position in the loan portfolio.

Manufactured homes: Quick facts and stats by Datacomp

There are many reasons people consider purchasing a mobile home, and savings is typically one of them. However, calculating the cost of owning a mobile home isn't as simple as looking up a price tag from a manufacturer. Sophisticated styles, customizations, location popularity, community amenities—among other things—are all factors that affect the overall investment of purchasing a mobile home.

This section is designed to help community owners learn about the many different factors that go into the cost of home is purchased. From square footage to home features to important extras like taxes and utilities, these are the costs that a home buyer takes into consideration when they commence their hunt for the perfect mobile home.

Factors that affect mobile home cost

If you've ever wondered how much mobile homes cost, keep in mind there are many different factors that affect the price tag. When researching homes, pay attention to how the following can lead to differences in cost.

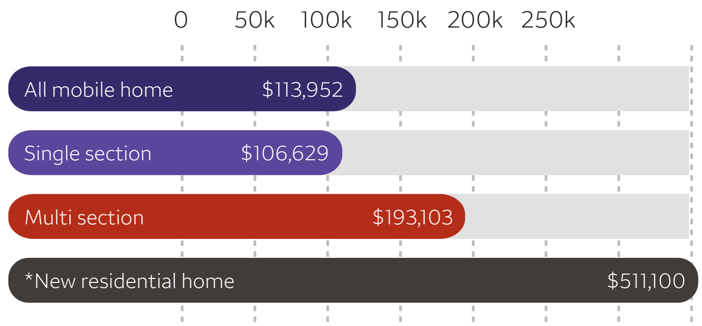
- Average prices
- Transportation and installation
- Location and timing
- Land and community
- Home expenses

Average prices

Square footage is one of the biggest factors in determining the cost of a manufactured or mobile home. More square footage means more room for a family, possessions, and lifestyle.

Mobile homes fall into one of three size categories. Single wide mobile homes are built and delivered as a single unit, while double wide mobile homes are built and delivered in sections that are joined together at the home site. Multi-section manufactured homes are triple wide or quadruple wide models that add more sections and more square footage. Exact dimensions and floor plans of each of these types can vary considerably, depending on the manufacturer, but most options fall within typical ranges. Although mobile home prices fluctuate just like site-built homes do, below are the average prices of each home type (plus its square footage and per-square-foot cost) from our latest data.

Average price of a new home in the U.S.A.
According to MHVillage's latest 2023 data



***New residential home data comes from the U.S. Census Bureau**

Compared to the cost of standard home, even the most expensive mobile homes are considered a bargain for most owners.

Data courtesy of MHVillage

A single wide mobile home (or single-section) is generally what people first picture when they think of what typically sits in a mobile home park.

- Average sales price (new home): $106,629
- Average price per square foot: $110.17
- Floor plans typically include one to two bedrooms and one to two bathrooms that average 968 sqft

Double wide/Multi-section prices

A double wide mobile home (or multi-section) combines the dimensions of two or more single section units to create a much larger living space. You might commonly refer to these varieties of mobile homes as double-wide or triple-wide trailers.

- Average sales price (new home): $193,103
- Average price per square foot: $140.07
- Floor plans typically include two to three bedrooms and two bathrooms that average 1,379 sqft

When searching through options for buying mobile homes, home sizing varieties can also include tiny homes, which are typically less than 400 square feet, and large multi-section homes, which are more than 1,800 square feet and contain three or more bedrooms with two or more bathrooms.

A new tiny home will typically be more affordable than a single-unit home, and a large multi-section home will most likely be at the high end of the price range. As with most investments, a new construction purchased directly from the manufacturer will typically be more expensive up-front than a unit of the same size sold by a previous owner.

Below is a summary of statistics provided by MHVillage:

2023 National average new home selling price	2023 National average pre-owned home selling price
$113,952 ▲ **7.70%**	**$69,781** ▲ **1.50%**

Top 5 markets with average new home listing price growth above national average

	Growth	Above Average
St. Louis, Missouri-Illinois MSA	39.2%	31.5%
Orlando, Florida MSA	26.6%	18.9%
Tampa-St. Petersburg-Clearwater, Florida MSA	23.2%	15.5%
Lakeland-Winter Haven, Florida MSA	19.1%	11.4%
Las Vegas, Nevada-Arizona MSA	17.5%	9.8%

Top 5 markets with average pre-owned home listing price growth above national average

	Growth	Above average
Fort Pierce-Port St. Lucie, Florida MSA	32.8%	31.3%
Pittsburgh, Pennsylvania MSA	32.6%	31.1%
Fort Myers-Cape Coral, Florida MSA	27.1%	25.6%
Tucson, Arizona MSA	22.2%	20.7%
Daytona Beach, Florida MSA	18.0%	16.2%

Source: *MHVillage* Full Year 2023

Transportation and installation costs

While the average prices of different mobile home types typically include the cost of delivery and installation, not all dealers will include these expenses in the base price.

The cost of transporting a mobile home from the manufacturer and installing it will likely vary based on:

- How far it needs to travel
- The cost of following installation standards
- Any potential set-up fees or services
- Moving insurance if applicable
- Skirting the home, either DIY or using a professional

A new manufactured home will need to be delivered to the home site from the factory. Typically, manufacturers include delivery costs in the price of the home, up to a distance of around 100 miles, with additional fees averaging $6 to $15 per mile after that. However, the homebuyer may be liable for additional costs, such as the cost of obtaining a permit to move the home.

Make sure to check with the home builder about what to expect to pay for, potentially including labor costs to set and install the home. States normally have specific laws surrounding the installation process to ensure safety and consistency, and owners might opt to hire a professional with experience in navigating the regulations.

Location and timing

The mobile home market is similar to the overall housing market, in that certain areas are generally pricier than others. According to MHVillage data, in 2021 the average price of a new manufactured home varied greatly by region, with homes sold in the west being the most expensive, followed by those sold in the northeast, then the south, and, finally, the Midwest. In 2021, the average mobile home price in the west was about $117,000—nearly $36,000 more than the average price of a mobile home in the Midwest. (This data includes mobile homes with more than two sections.)

Just as it's less expensive to buy a home or rent an apartment in the winter, the average cost of a mobile home tends to be cheaper during the colder months. Sales tend to spike in the spring and summer months: People are generally more likely to be out and about searching for a home when the weather is nice, which makes competition (and prices) higher.

Land and community costs

When purchasing a mobile home, a resident has paid for the physical structure and, sometimes, covered the cost of moving and installation, but what isn't included in this price is the cost of renting or owning the land on which it will be placed.

Similar to purchasing land, rental prices will vary based on region, size, and features. While some no-frills parks rent just the land, other mobile home communities sometimes include a variety of additional amenities that are designed to enhance the homeowners' experience and create a sense of belonging.

Some features that could affect lot rental price include:

- Community pool and/or clubhouse
- Gardens or community park
- Age-restricted communities (for example, a retirement community)
- Having a pet
- Grounds maintenance
- Accessibility to a city center with entertainment or shopping
- More exclusive mobile home communities with luxury amenities and offerings will generally command a higher rental price than those with more baseline offerings.

Below is a summary of statistics provided by Datacomp/JLT (March 2023 – February 2024):

Manufactured home community rent and occupancy

JLT Market Report national averages (March 2023 - February 2024)

Site rent

$683
Monthly average

All ages: $651
Ages 55+: $743

Annual site rent increase
7.1%

All ages: 6.2%
Ages 55+: 7.7%

Occupancy rate

95%
Monthly average

All ages: 94%
Ages 55+: 97%

Annual occupancy increase
0.5%

All ages: 0.6%
Ages 55+: 0.4%

Markets with highest rent	
All ages	
Orange County, California	$1,895
Ventura County, California	$1,549
San Luis Obispo, California	$1,500
55+	
Santa Cruz County, California	$3,331
Sonoma County, California	$1,805
Ventura County, California	$1,504

Markets with highest occupancy	
All ages	
Los Angeles County, California	100% (+0.1%)
Denver/Aurora/Boulder, Colorado	100% (-0.1%)
Santa Clara County, California	100% (0.0%)
55+	
San Diego County, California	100% (+0.2%)
Orange County, California	100% (0.0%)
Santa Barbara, California	100% (0.0%)

Markets with lowest rent	
All ages	
Highlands County, Florida MSA	$163
Lynchburg, Virginia MSA	$224
Hendry/Okeechobee Counties, Florida	$292
55+	
Lynchburg, Virginia MSA	$212
Cincinnati, Ohio MSA	$287
Brownsville, Texas MSA	$322

Markets with lowest occupancy	
All ages	
Leon County, Florida	70% (+1.5%)
Genesee County, Michigan	74% (+1.3%)
Gillette, Wyoming MSA	79% (-1.4%)
55+	
Atlanta, Georgia MSA	34% (0.0%)
Des Moines, Iowa	66% (+8.7%)
Monroe County, Michigan	76% (0.0%)

Markets with greatest increase in occupancy	
All ages	
Indian River County, Florida	+6.4%
Lee County, Florida	+6.3%
Lake County, Florida	+5.7%
55+	
Macomb County, Michigan	+22.4%
Allegan/Ottawa, Michigan	+11.5%
Northern Michigan	+11.2%

Data courtesy of DataComp®.

Home expenses

Utilities

If renting within a mobile home community, not all rent prices include the cost of utilities. Additional expenses to consider include not just the cost of installation and setup of the following, but also the ongoing costs of their upkeep:

- Water, heat, and gas
- Sewage, garbage pickup, and general maintenance
- Television, electricity, cable, and phone service
- Taxes

Manufactured homes are taxed at the state and local level, so tax obligations vary widely. The type of taxes paid on a manufactured home will be determined by whether the home is titled as real estate or as personal property.

Manufactured homes attached to a permanent foundation and titled as real estate are usually taxed at the same rate as site- built homes in the same tax jurisdiction.

The national average property tax rate is 1.15 percent of appraised home value, but some states have significantly higher or lower rates.

If the manufactured home is titled as personal property, a home owner will usually pay annual taxes on it to the state's DMV, much as one would with a vehicle. Some states, such as Michigan, don't require any annual tax for manufactured homes titled as personal property. Instead, many of these states will levy a sales tax at the time the manufactured home is purchased. If buying a manufactured home in one of these states, the builder will be able to inform the buyer of the tax obligations.

Repairs, additions, and upgrades

When a manufactured home buyer takes into account all of the aforementioned costs associated with buying and owning a mobile home, they will also need to keep in mind any additional expenses that may arise from potential repairs, renovations, and upgrades to the home, such as: Skirting, Replacing Windows, Flooring, Plumbing, etc.

Why people choose mobile homes

So, why would someone choose to buy a mobile home over a traditional home? Here are some of the most common reasons why people opt for mobile homes:

- They're less expensive: Although pricing of mobile homes varies based on many different factors, they are still generally less expensive than traditional homes. For those who cannot or do not want to take on the significantly higher mortgage of a traditional home, a mobile home might be a better option.
- They make home ownership more accessible: Some people view renting as "throwing away" money month after month. Investing in a mobile home allows a buyer to put money toward a valuable asset.
- They generally need less maintenance: Since mobile homes are built under controlled conditions in adherence to federal standards, the quality is highly consistent, which means the homes are less likely to develop surprise maintenance issues down the road.
- They're customizable: Mobile homes have gotten quite sophisticated in recent years, and they can be customized by floor plan, style, material, finish, and more.
- They're quicker to build: While a traditional home can take six months or more to build, turnaround time on a new mobile home construction can be as little as a couple of weeks. For those looking for a new home, fast, this is a great option.
- They're "mobile": Mobile homes can be permanent or semi-permanent residences. While it's generally recommended that mobile homes stay where they are once they've been installed, if a person really wanted to move somewhere, but not go through the process of selling the home they love, they could technically bring it along with them.

This article was contributed by Darren Krolewski and Patrick Revere from Datacomp/MHVillage. For more information, please contact: darren@datacompusa.com, 877-853- 0298 or patrick@datacompusa.com, 616-888-6994

Glossary of lending terms

All-in rate. The interest rate charged to a borrower on a loan. The all-in rate includes the benchmark rate used to set the loan, such as the 10-year treasury rate, plus the spread charged by the lender.

Amortization. An accounting term that refers to the process of allocating of an intangible asset over a specified time period. Also refers to the repayment of loan principal over time.

Assumability. A loan that is capable of being transferred to a new borrower, with no change in rate or terms of the loan. It also allows a borrower to sell a property and avoid paying a prepayment penalty because the loan is being transferred, not paid off. An assumption fee typically applies.

Basis point (BP). A basis point is 1/100 of 1%. Example: 25 basis points are equal to 0.25%.

Capitalization rate. A capitalization or “cap rate” is the yield on an investment if paid for in cash. The capitalization rate is calculated by dividing the net operating income by the purchase price of the property.

Cash-in refinance. A refinance transaction in which the dollar amount of the new loan being obtained is less than the amount of the loan being paid off, creating a shortfall in which the borrower must provide additional capital to close the refinance transaction.

Cash-out refinance. A refinance transaction in which the dollar amount of the new loan being obtained is higher than the amount of the loan being paid off, resulting in the borrower receiving additional capital at the time the refinance transaction closes.

Chattel Finance Company. A chattel (personal property) finance company lending on homes in land lease communities on behalf of its affiliate, the property owner/operator.

Cash management. The controls put on a deposit account used to direct funds in a hard lock box arrangement.

Carveouts. These are exceptions to nonrecourse provisions, where the loan is nonrecourse except for lender losses caused by certain acts of the borrower. Examples of triggering events would be unlawful use of insurance proceeds (the property burns down and the borrower does not rebuild) and misappropriation of funds (rents collected by the borrower after they have already lost title to the property). These are sometimes referred to as the “bad boy” carveouts as the borrower usually has to actively do something to impair the collateral and trigger recourse. See also “key principal.”

Chattel. Personal as opposed to real property—any tangible, movable property. A manufactured or mobile home would be considered chattel, and the financing of homes within a land- lease community is referred to as chattel financing.

Collateralized Loan Obligation (CLO). Investment vehicles composed of short-term commercial real estate loans. The loans are pooled together to mitigate risk, and the pool is usually actively managed by an asset manager.

Commercial mortgage-backed security (CMBS). A security backed by a pool of commercial mortgages as collateral. They are usually structured with individual loans to multiple borrowers (often referred to as conduit loans) with a mix of different property types, loan sizes, and locations. These loans are pooled, and bonds with varying degrees of risk and credit ratings are created and sold to investors.

Consumer Financial Protection Bureau. Federal finance regulatory agency established by Dodd-Frank bill.

Debt service coverage ratio (DSCR). An underwriting formula that is a parameter used to determine loan size and spread based on cash flow. The calculation is net operating income divided by loan payment. For lenders, the higher the DSCR, the less risky it is to take on the loan.

Debt yield. Net operating income divided by loan amount. This is a common underwriting constraint used for the sizing of conduit loans (i.e., the loan amount equals the net operating income divided by the lender’s required debt yield).

Duty to Serve. The “Duty to Serve” statute requires Fannie Mae and Freddie Mac (“the agencies”) to provide leadership to facilitate a secondary market for mortgages, including for chattel, on housing for very low-, low-, and moderate-income families in three underserved markets specified in the statute: manufactured housing, affordable housing preservation, and rural housing. The statute requires the Federal Housing Finance Agency (FHFA) to annually evaluate and rate each agency’s compliance with their Duty to Serve requirements and to report annually to Congress on FHFA’s evaluations. The rule sets forth specific activities that the agencies may consider undertaking, at their discretion, to be eligible to receive Duty to Serve credit, and provides that the agencies may propose additional activities.

Federal Housing Finance Agency (FHFA). FHFA is an independent federal agency responsible for regulating Fannie Mae, Freddie Mac, and 11 Federal Home Loan Banks. FHFA was established through The Federal Housing Finance Regulatory Reform Act of 2008.

Government-sponsored enterprises (GSEs). GSEs are financial institutions that were created by the U.S. Congress to provide liquidity in a given market segment. Fannie Mae, Freddie Mac, and U.S. Department of Housing and Urban Development (HUD) are examples of GSEs.

Hard costs. Real estate hard costs refer to the tangible expenses incurred during the construction or development phase of a real estate project. These costs typically include materials, labor, land, and any other direct expenses associated with the physical construction of the property.

Holdback. A portion of the loan that is not released to the borrower until an additional requirement is met. A common example would be a holdback for a physical improvement related to deferred maintenance.

Homesite or site. The piece of realty, whether owned fee simple or leased, scattered or in a landlease or subdivision community, on which a factory-built home is or may be sited. Homesites or sites may also be referred to as lots, pads, spaces, or stalls. (GA)

HUD-Code manufactured housing. A general term associated with the type of factory-built housing whose federally preempted construction standards (e.g., using longitudinal steel chassis in the foundation or floor system) are enforced by the U.S. Department of Housing and Urban Development (HUD). (GA)

Key principal. The individual or entity that controls and manages the borrowing entity and who the lender determines is critical to the successful operation of the borrowing entity and the property. The key principal is typically responsible for recourse carveouts.

Landlord. A landlord is the owner of real estate which is rented or leased to an individual or business, which is called a tenant, lessee, or renter.

Lease. A contractual arrangement calling for the lessee (user) to pay the lessor (owner) for use of an asset.

Lease option. A lease that includes an option to purchase the home for a specified dollar amount, during or at the end of the lease term.

Lease-to-purchase. A type of self-finance, offered and provided by the property owner/operator, whereby lessee commits to make rent payments on a home, and in time, receives title to that home. (GA)

Lessee. A lessee is the person or business that rents land or property from a lessor (owner).

Lessor. The owner or title holder of an asset who gives another the right to temporary possession and use of the asset in exchange for rental payments.

Loan to cost (LTC). An underwriting calculation that measures the amount of a loan as a percentage of the borrower's actual cost of the real property. This calculation may remove goodwill and any personal property (such as manufactured homes) included in the purchase contract; however, it may include all or some of the borrower's hard costs and permitted soft costs related to the purchase transaction.

Loan to value (LTV). An underwriting calculation that measures the amount of a loan as a percentage of the property's appraised value.

Lock box. A special deposit account set up by a lender and borrower to receive deposits from tenants for the purpose of prioritizing the use of the cash flow of a property.

Manufactured Housing Institute (MHI): The Manufactured Housing Institute is the national trade organization representing the factory-built housing industry. Its members come from all sectors of the manufactured and modular housing industries and 50 affiliated state organizations. Their web site contains links under Industry Resources to web sites for State Associations.

Mezzanine Debt: Bridges the gap between secured debt and equity and receives higher returns compared to other debt, but is typically unsecured.

Mortgage-backed security (MBS). A financing instrument sold by Fannie Mae (FNMA), or other regulated and authorized financial institutions, that is secured by an underlying mortgage. This security is used to lock the interest rate on a FNMA loan before closing when it is sold to an MBS investor.

Net operating income (NOI). NOI is typically calculated using in-place income being collected less stabilized operating expenses, but not including debt service, amortization, or depreciation. Expense deductions also include a management fee (even if not charged) and replacement reserve allowance. The NOI of a property is used to determine the calculation of the DSCR.

Nonrecourse debt. A type of debt in which the principals do not have personal liability for the loan. If the borrower defaults, the lender can seize the collateral (the property), but cannot seek further compensation, regardless of whether that collateral covers the full value of the defaulted amount. An exception is in the event of violation of a carveout.

Occupancy. There are two types of occupancy: Physical and Economic. Physical Occupancy within an MHC is the percentage of rentable homesites being occupied by tenants, calculated by dividing the number of occupied homesites by the total number of rentable homesites at the property. Economic Occupancy is the percentage of rent being collected, calculated by dividing homesite rent that has actually been collected by the potential homesite rent that could be collected if scheduled rent was collected for 100% of the total rentable homesites at the property.

Owner/operator. An inclusive term, commonly used to refer to the individual or business entity overseeing a community or communities on an ongoing basis. (GA)

Portfolio loan. A loan retained on the lender's balance sheet (as opposed to a loan that is originated and then securitized or sold). It is also referred to as a balance sheet loan.

Real estate investment trust (REIT). A REIT is a company that owns or finances income-producing real estate for the purpose of providing investors with a sustainable income stream, diversification from standard stocks and bonds, and the potential for long-term appreciation. REITs typically pay out all of their taxable income as dividends to shareholders. REITs allow both large and small investors to invest in large-scale commercial real estate properties and portfolios.

Real estate mortgage investment conduit (REMIC). The legal term for the pool that is used for collateral for the bonds that are issued in securitized lending.

Recourse debt. Repayment of the loan is guaranteed by personal assets of any principal guaranteeing a recourse loan. This provides additional collateral and a source of repayment beyond the property.

Rent Control: Rent control is a government program that places a limit on the amount that a landlord can demand for leasing a home or for renewing a lease. Rent control laws are usually enacted by municipalities and the details vary widely.

Replacement reserve. An allowance for long-term improvements at a property that is a deduction (expense) included by the lender in underwriting (NOI calculation). Funds may be collected into an account to be disbursed for these defined improvements, or it may only be a deduction made for underwriting. MHCs typically have annual replacement reserves of between $35 per site per year and $75 per site per year.

Secure and Fair Enforcement for Mortgage Licensing Act (SAFE Act). Passed in 2008, the SAFE Act mandates states to license residential mortgage loan originators.

Secured Overnight Financing Rate (SOFR): The secured overnight financing rate is an interest rate that banks use to price U.S. dollar-denominated derivatives and loans. The daily SOFR is based on transactions in the Treasury repurchase market.

Single-purpose entity (SPE). Lenders often require each property to be owned by a separate single-purpose entity (SPE). This entity will not own other (material) assets or conduct other business. That way, if any of the borrower's other assets are forced into bankruptcy, the subject property could not be consolidated with the distressed property and used as collateral to pay off that debt. Such entities are known as "bankruptcy remote."

Skirting. The metal or vinyl sheathing, or other generally flameproof materials (e.g., nonbearing block wall) around all four sides of the home, extending from the bottom of the sited home to the ground, keeping out weather, animals, rain, and snow. Also referred to in some locales as foundation fascia. (GA)

Soft costs. Soft costs encompass indirect expenses associated with the planning, design, oversight, and regulatory aspects of a project. These costs include professional fees, financing and broker fees, and administrative expenses.

Spread. The amount charged by a lender over a defined benchmark such as a treasury yield or swap rate. The spread is one component of the all-in interest rate.

Subordinate debt. A form of debt that ranks below other loans in terms of repayment priority. If a borrower defaults, subordinate debt providers will typically receive payment only after the senior debt is paid off in full.

Swap rate. A commonly used index for conduit loans, the swap rate is equal to the swap spread, plus the corresponding treasury yield.

Swap spread. The premium paid by the fixed-rate payer of an interest-rate swap over the yield of the treasury note with the same maturity as the swap.

Third-party reports. Usually ordered by the lender during the closing process, third-party reports commonly include appraisal, environmental, and property condition (engineering assessment) reports.

Trigger event. A post-closing operating covenant providing the lender the right to take a defined action to protect its collateral.

Underwriting interest rate floor. An assumed interest rate (not the actual interest rate paid) used for sizing a loan as it relates to the minimum DSCR required by the lender. It is often used when interest rates are low and for sizing loans with shorter terms (less than 10 years) and higher LTVs. In these instances, the interest rate actually paid by the borrower may be lower than the underwriting interest rate floor.

Vacancy decontrol: A provision in some rent control laws reserving rent controls and tenant protections for occupied sites or homes, but removing them once the tenant moves out.

Yield maintenance. A prepayment penalty calculated on the basis that the lender will receive early payoff of the funds and reinvest those funds for the balance of the loan term in U.S. Treasuries. Effectively, the borrower is required to pay the difference between the interest rate and the treasury yield at the time of prepayment (the “yield maintenance”) for the balance of the loan term. This is a common prepayment penalty used with fixed-rate term loans.

Note: (GA) at end of definition denotes borrowing with permission from George Allen’s Official Manufactured Housing & Land Lease Lifestyle Community Lexicon & Glossary

Manufactured home community questionnaire

Property name: ______________________________

Property address: ______________________________

Prepared by: ______________________________ Date: _________

Year built: _________ Number of sites: _________ Number of RV sites: _________

Resident profile: _________ % Family _________ % Adult (Age restricted? Yes / No)

Number of park-owned rental homes: _________ Acreage: _________

Physical occupancy: _________ % Current _________ % Previous Year ______________________________

Is any of the property on a ground lease or subject to rent control? Yes / No

Approximate number or percentage of multi section homes in place: _________

Approximate number or percentage of sites that can accommodate multi section homes: _________

Is there a scheduled rent increase? Yes / No If yes, how much: ______________________________

When does the rent increase go into effect: Lease anniversary / specific date? ______

Please list the property amenities: ______________________________

____

Please summarize any recent capital improvements to the property (within 3 years): ______________________________

____

Public utilities? Yes / No If no, please explain: ______________________________

Management company: ______________________________ Self-managed: ______________________________

How many cars can park off the street at each home? ______________________________

Is any portion of the property in a 100-year flood zone? Yes / No Number of sites: ______________________________

Borrower:

Is the property transaction an acquisition or refinance: Acquisition / Refinance

If acquisition, who is the seller: ______________________________

What is the purchase price: ______________ What is the estimated closing date: ________

If refinance, what is the estimated unpaid balance: ______________

When is the maturity date: ______________ Who holds the current debt: ________

If there is a prepayment penalty, when does it expire: ______________

How long has the property been under current ownership: ______________________________

Name of borrowing entity: ______________ /TBD

Type of entity: LLC / Individual / Other Is this a single-asset entity: Yes / No

Who will sign the nonrecourse carveouts: ______________

Do they have any negative credit information (i.e., nonpayment, foreclosure, etc.): Yes / No

Does the borrower hold any other loans with Fannie Mae or Freddie Mac: Yes / No

Document checklist

Please provide the following items in order for us to provide you with a loan quote:

1. A current rent roll, in Excel format if possible.
2. The past three years of historical income and expense statements, including a recent trailing 12-month statement showing individual months of operation, in Excel format if possible.
3. Brief description of multifamily real estate experience, personal financial statement of the main principals, and schedule of real estate owned.
4. Property photos

Please contact Tony Petosa, Nick Bertino, or Matt Herskowitz with any questions:

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Tony Petosa, Nick Bertino, and Matt Herskowitz specialize in financing multifamily properties—manufactured home communities (MHC) and apartments. Wells Fargo offers Fannie Mae (FNMA), Freddie Mac (Freddie), CMBS (conduit), balance sheet, FHA/HUD and correspondent lending programs, and since 2000 has originated more than $15 billion in financing within the MHC sector. Wells Fargo was named Community Lender of the Year, for 12 years in a row, by the Manufactured Housing Institute and has been the #1 commercial real estate lender in the U.S. since 2009 according to the Mortgage Bankers Association (MBA).

wellsfargo.com/mhc

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