Rural Development August 9, 2018

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TO: State Directors

Rural Development

ATTENTION: Program Directors

Single Family Housing

FROM: Joel C. Baxley /s/ Joel C. Baxley

Administrator

Rural Housing Service

SUBJECT: Manufactured Housing Pilots under the Section 502 Programs

Single Family Housing Direct and Guaranteed

This memorandum reviews two manufactured housing pilots that were implemented under the Section 502 programs in a limited number of states. The Rural Housing Service is extending these pilots and is open to expanding them on a limited basis to obtain balanced and adequate regional representation that will help the Agency better gauge the pilots' impact. The first pilot involves financing existing manufactured homes; the second pilot involves the ownership requirement for new energy-efficient manufactured and modular homes in land-lease communities operating on a nonprofit basis. Requests to join one or both of these pilots should be made from the Rural Development (RD) State Director to the Deputy Administrator of Single Family Housing. As pilots, the number of states that can participate will be restricted. Consideration for inclusion will be based on the date the request was received and ensuring a balanced and adequate regional representation.

Existing Manufactured Home Pilot

According to 7 CFR 3550 and 3555, new manufactured homes are eligible for financing through the Section 502 Single Family Housing (SFH) Direct and Guaranteed Loan programs. Existing manufactured homes are not eligible unless the home is already financed through RD (7 CFR 3550.52(e)(l); 3550.53(b); 3555.208(b)(3)). Under the existing manufactured housing pilot, which was initially implemented on August 12, 2016, RD has waived the regulatory restrictions cited above and will finance existing manufactured homes in the pilot states even if the home is not currently financed by RD.

EXPIRATION DATE: August 31, 2019

FILING INSTRUCTIONS: Housing Programs

States currently participating in the pilot include: Colorado, Iowa, Louisiana, Nevada, New Hampshire, New York, North Dakota, Ohio, Oregon, Pennsylvania, Texas, Vermont, Virginia, Washington, West Virginia, Wisconsin, and Wyoming. RD continues to consider requests to include additional states in this pilot.

The loan request must be from an eligible applicant and all the pilot conditions must be met. To be eligible for financing under this pilot, existing manufactured homes (including new units which have been on the dealer's lot in excess of 12 months) must meet the following pilot conditions in addition to all other program requirements that have not been waived.

- The unit must have been constructed on or after January 1, 2006, in conformance with the Federal Manufactured Home Construction and Safety Standards (FMHCSS), as evidenced by an affixed Housing and Urban Development (HUD) Certification Label.
- The unit inspection is required using one of two methods:
 - Form HUD-309, "HUD Manufactured Home Installation Certification and Verification Report" completed in accordance with 24 CFR 3286.511 by a qualified party as follows:
 - A manufactured home or residential building inspector employed by the local authority having jurisdiction over the site of the home, provided that the jurisdiction has a residential code enforcement program;
 - A professional engineer;
 - A registered architect;
 - A HUD-accepted Production Inspection Primary Inspection Agency (IPIA) or a Design Approval Primary Inspection Agency (DAPIA); or
 - An International Code Council (ICC) certified inspector.
 - Obtain a certification that the foundation design meets HUD Handbook 4930.3, "Permanent Foundations Guide for Manufactured Housing (PFGMH)." The foundation certification must be from a licensed professional engineer, or registered architect, who is licensed/registered in the state where the manufactured home is located and must attest to current guidelines of the PFGMH. The certification must be site specific and contain the engineer's or registered architect's signature, seal and/or state license/certification number. This certification can take the place of Form HUD 309.
- The unit must not have had any alterations or modifications to it since construction in the factory, except for porches, decks or other structures which were built to engineered designs or were approved and inspected by local code officials.
- Guaranteed loan applications submitted under the pilot must be manually underwritten. Agency staff will need to select "MANUFACTURED (PILOT)" for "Construction Type" in the Property Information section in GLS. This will allow for the proper identification of pilot loans for tracking and monitoring purposes.
- For direct loan applications submitted under the pilot, Agency staff will need to select Program Type Code 1014 (very low income) or 1015 (low income) unless the property is located in a persistent poverty county, in which case Program Type Code 1114 (very low income) or 1115 (low income) will be used. In addition, Agency staff will need to select a Construction Type of "Manuf/Home" and a Dwelling Type of "Purchase Old, Refinance,"

Purchase Old/Repair, or Refinance/Repair" in UniFi. This will allow for the proper identification of pilot loans for tracking and monitoring purposes.

The applicant and property must meet all other criteria set forth in 7 CFR Part 3550 and HB-1-3550 for direct loans or 7 CFR Part 3555 and HB-1-3555 for guaranteed loans, as applicable. These criteria include, but are not limited to, the following: The unit must have a floor area of not less than 400 square feet; the unit must meet the Comfort Heating and Cooling Certificate Uo Zone value for the location; the towing hitch and running gear must have been removed; the manufactured home must be classified and taxed as real estate; the remaining economic life of the property must meet or exceed the 30 year term of the proposed loan; and the unit replacement cost coverage must be equal to the insured value of the improvements or the unpaid principal balance with deductible(s) of up to but not exceeding the greater of \$1,000 or one percent (1 %) of the policy.

Ownership Requirement Pilot for Energy Efficient Manufactured and Modular Home Financing In Land-Lease Communities Operating on a Nonprofit Basis

According to 7 CFR 3550.58(b), a leasehold interest must have an unexpired term that is at least 150 percent of the term of the mortgage for direct loans. According to 7 CFR 3555.203(b)(3), a leasehold interest must have an unexpired term of at least 45 years from the date of loan closing for a guaranteed loan. Under the ownership requirement pilot for energy efficient manufactured and modular home financing in land-lease communities operating on a nonprofit basis, RD will accept a lease with an unexpired term that is at least two years beyond the term of the promissory note in the pilot states. RD is also open to expanding this pilot, and the participating states now include California, Minnesota, New Hampshire, Oregon, Pennsylvania, and Vermont.

The loan request must be from an eligible applicant and all the pilot conditions must be met. To be eligible for financing under this pilot, new manufactured and modular homes must meet the following pilot conditions.

- At a minimum, new manufactured and modular homes must be Energy Star compliant.
- The unexpired term of the lease must be at least two years longer than the mortgage term. While the lease terms in 7 CFR 3550.58(b) and 3555.203(b)(3) could be seen as providing borrowers additional protection, many states have statutes that promulgate fair lease terms and afford protections to residents of land-lease communities.
- For the SFH Guaranteed Program, pilot states should consider following the recommendations in HUD's interim guidance related to 24 CFR 3285.312 on the use of frost-free foundations or frost protected shallow foundations. For the SFH Direct Program, pilot states may use the recommendations from HUD's interim guidance on frost-free or frost-protected shallow foundations in lieu of RD Instruction 1924-A, Exhibit J. Under the HUD interim guidance recommendations, the installer should:
 - o Install all footings and piers below the frost line depth; OR
 - o For Frost Free Foundations, have a site investigation performed by a soils engineer or geotechnical engineer to verify if the soil condition at each home site is of a non-frost susceptible classification and is well drained. In lieu of a site soil investigation, a layer of washed gravel, or crushed stone, or course or dense sand

- may be provided to the frost line depth. For either of these alternatives, subsurface drains need to be provided; OR
- O Use a Frost Protected Shallow Foundation system that utilizes below ground insulation to protect the soil from freezing with subsurface drains provided at each site.

The applicant and property must meet all other criteria set forth in 7 CFR Part 3550 and HB-1-3550 for direct loans or 7 CFR Part 3555 and HB-1-3555 for guaranteed loans, as applicable.

To be included in either of these pilots or for questions specific to the direct program, please contact Jeremy Anderson at Jeremy. Anderson@wdc.usda.gov or at (202) 690-3971. For questions specific to the guaranteed program, contact Kevin Smith at Kevin. Smith@wdc.usda.gov or at (517) 883-6147.