



# CRA AT FORTY

## Leveraging Factory-Built Processes to Make Homes Affordable

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We are approaching the zenith of a housing affordability crisis. As home prices continue to rise, housing stock shrinks and wages remain stagnant, Americans increasingly find themselves unable to secure sustainable housing. Factory-built housing presents a viable solution for affordable and sustainable homeownership, and the tools and regulations provided by the Community Reinvestment Act are an invaluable asset for increasing access to factory-built homes.

For much of modern American history, homeownership has been judged as an indicator of success. Ask an individual if they have aspirations to own a home someday, and most would say yes. Attitudes and ideologies shift and change over time, but homeownership has remained an intractable part of achieving the oft-sought “American Dream.”

But what happens when this benchmark is placed further and further out of reach? What is the impact on not only individuals and families, but on whole communities? How do we reconcile this vision – each person with the opportunity to own his or her own home – with a reality that is evaporating before our eyes?

These aren’t just hypothetical questions, but rather ones to which communities across the country are scrambling to find answers. The U.S. homeownership rate is at its lowest point in decades, falling to just 63.7 percent.<sup>1</sup> This drop has been attributed to a number of factors, but one prevailing issue is a pervasive lack of affordable housing options for low- and moderate-income individuals and families. As of June 2017, the median price for a new single-family home in the U.S. was \$310,800<sup>2</sup> – and wages are not rising commensurately with increased market prices.

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<sup>1</sup> U.S. Census Bureau, “Quarterly Residential Vacancies and Homeownership, Second Quarter 2017,” Release Number BC17-110, July 27, 2017, available at <https://www.census.gov/housing/hvs/files/currenthvspress.pdf>

<sup>2</sup> U.S. Census Bureau, “Median and Average Sales Prices of New Homes Sold in United States,” June 2017, available at <https://www.census.gov/construction/hvs/pdf/uspricemon.pdf>

But the national numbers fail to paint a picture of the depth of this housing crisis in many communities. Real estate marketplace giant Trulia shows that nationwide, the number of “starter homes” available – smaller, more affordable homes – has dropped 40 percent since 2012. In cities like Austin and San Antonio, Texas, more than 80 percent of this housing stock has disappeared.<sup>3</sup>

People aren’t just being priced out of the single-family home market. According to the Joint Center for Housing Studies at Harvard University, modestly priced rental housing is also disappearing: “Between 2005 and 2015, the number of rental units costing less than \$800 per month declined while the number costing over \$2,000 per month jumped by 1.5 million.”<sup>4</sup> Of U.S. renters, 11 million are classified as severely cost-burdened, spending more than 50 percent of their income on housing costs.<sup>5</sup> The impact of increased housing costs crosses the urban and rural divide, affecting communities from coast to coast. The National Low Income Housing Center estimates that in order to afford a modest, two-bedroom rental home in the U.S., renters need to make \$21.21 per hour – \$13.96 higher than the federal minimum wage.<sup>6</sup>

Those looking to the federal government for solutions are unlikely to find remedy. The Trump administration’s proposed budget for fiscal year 2018 takes a particularly harsh swipe at funding for programs that encourage affordable housing and community development. Programs within USDA’s Rural Development office face crippling budget cuts or outright elimination – like the Mutual Self-Help Housing program and the Section 502 direct loan program that have helped so many rural Americans purchase their own homes. The budget completely eliminates Community Development Block Grant funds (CDBG) and the HOME Investment Partnerships Program administered by the Department of Housing and Community Development.<sup>7</sup>

In lieu of focused, national policies geared toward expanding affordable homeownership, local leaders and advocates will need to be creative and open-minded in crafting affordable housing solutions that increase homeownership opportunities for individuals and families.

As it stands today, manufactured housing is the largest source of unsubsidized, affordable housing stock, with about 6.8 million occupied homes in the country. Manufactured homes make up about 6 percent of the national housing stock, and are an indispensable source of housing in many communities. In 2015, the average sales price of a new manufactured home was \$68,000 – compared to \$360,600 for a new, single-family site-built home.<sup>8</sup> This dramatic difference in cost opens up the chance to own a home to a greatly expanded pool of individuals and families.

It’s an affordable solution sitting right in front of many local and community leaders, and yet one that is often overlooked. In fact, factory-built housing typically faces opposition from communities. A lack of clear and consistent zoning regulations adversely impacts the expanded use of these homes. They are often the target of NIMBY-ism

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<sup>3</sup> Patrick Sisson, “Starter Home Inventory Drop Burdens First-Time Buyers, Report Reveals,” Curbed, March 21, 2016, available at <https://www.curbed.com/2016/3/21/11273004/buying-homes-major-cities-unaffordable-inventory-starter-homes>

<sup>4</sup> Joint Center for Housing Studies of Harvard University, “The State of the Nation’s Housing 2017,” June 16, 2017, available at <http://www.jchs.harvard.edu/research/publications/state-nations-housing-2017>.

<sup>5</sup> Ibid.

<sup>6</sup> National Low Income Housing Coalition, “Out of Reach 2017 The High Cost of Housing,” June 2017, available at [http://nlihc.org/sites/default/files/oor/OOR\\_2017.pdf](http://nlihc.org/sites/default/files/oor/OOR_2017.pdf)

<sup>7</sup> Stacey Epperson, “What Does the Trump Agenda Mean for Manufactured Housing?,” June 21, 2017, available at <http://www.nextstepus.org/news/?p=2329>

<sup>8</sup> Lance George, “Manufactured Housing,” 2016 Advocates’ Guide: An Educational Primer on Federal Programs and Resources Related to Affordable Housing and Community Development, available at [http://nlihc.org/sites/default/files/2016\\_Advocates-Guide.pdf](http://nlihc.org/sites/default/files/2016_Advocates-Guide.pdf)

“Not in My Backyard”) – the misconception from residents being that expanded use of factory-built homes would have a detrimental impact in their community. Local lenders and home appraisers lack knowledge about factory-built homes, making it more difficult for prospective homebuyers to secure sound financing.

Many of these challenges facing factory-built housing are steeped in outdated stereotypes, misinformation and decades of negative portrayal in popular culture. It starts with outmoded terminology. When referencing this housing stock, many use terms like “mobile home” or “trailer.” While “trailer” is more a derogatory term – one that is also offensive to the millions of families all over the country who live in these homes – mobile home is actually a categorically incorrect definition (unless one is referring to a home constructed prior to 1976). That year, the Department of Housing and Urban Development enacted the Manufactured Home Construction and Safety Standards, also known as the HUD Code, creating a national blueprint for the design, performance and installation of all manufactured homes in the country.

Today’s manufactured housing stock is a far cry from the popular perception that is still a part of our cultural zeitgeist. The HUD Code has been updated and amended to include much-improved energy efficiency standards. In 2005, HUD issued the Model Manufactured Home Installation Standards, outlining methods for on-site installation that comply with the HUD Code. Improved building technology, manufacturing processes and regulatory mechanisms have combined to create a vastly different landscape for factory-built housing.

Modern manufactured and modular homes also present many advantages for the buyer. The construction of a factory-built home is process-based, so building times are more predictable and the controlled environment prevents damage or loss due to weather and theft. Customization can also be more controlled, with specific costs tied to features and amenities up front.

Home manufacturing facilities are also making great strides in reducing waste in building practices. Recently, all 36 of the manufacturing facilities owned and operated by Clayton Homes – one of the nation’s largest manufactured and modular homebuilders – were awarded an ISO 14001 registration, a set of internationally agreed-upon measures that are designed to reduce the cost of waste management and reduce energy consumption.<sup>9</sup> Manufacturers are also building more energy-efficient homes, generating less impact on the environment and saving families hundreds of dollars in monthly utility bills.

Even when considering these positive traits of factory-built housing, there is much work to be done so that communities can fully leverage these homes for increased affordable homeownership opportunities.

One key area of this space that needs the thought leadership of myriad stakeholders dedicated to expanding the use of factory-built housing is lending and finance. Currently, chattel – or personal property loans – dominate the manufactured housing market. These higher-touch, lower-volume loans are characterized by high interest rates and shorter loan terms. Next Step – as a part of our SmartMH program – is working with Freddie Mac to expand the number of lenders that originate real property loans on ENERGY STAR® manufactured homes, allowing greater access to more lenders and fair lending products. We are also using homebuyer education specific to factory-built

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<sup>9</sup> Jennifer Goodman, “Clayton Ups Its Green Game,” Builder Magazine, November 2, 2016, available at [http://www.builderonline.com/building/building-science/clayton-ups-its-green-game\\_o](http://www.builderonline.com/building/building-science/clayton-ups-its-green-game_o).

housing and housing counseling to educate prospective homebuyers about making smart, sustainable financing decisions.

SmartMH is a direct market intervention, dedicated to expanding mortgage capital for manufactured homes, while creating better educated and prepared homebuyers. We're taking individuals who may be currently unable to purchase a home - due to credit history, lack of down payment or other factors - and making them "mortgage ready" buyers.

The Community Reinvestment Act offers a valuable tool for increased mortgage lending on manufactured homes. Banks and lending institutions have the opportunity to earn CRA credit for manufactured home lending. Manufactured homes represent the largest source of unsubsidized affordable housing, and many of the manufactured homebuyers are low- to moderate-income individuals and families in rural communities. More development projects are also leveraging factory-built homes for infill opportunities in cities, contributing to neighborhood and community revitalization efforts.

Nonprofit housing organizations have been leading the way in incorporating factory-built housing solutions into communities. Next Step serves to work collaboratively with these organizations, providing technical expertise in the manufactured housing space and acting as an intermediary between manufacturers, retail home centers and lenders. To date, Next Step network members have placed 463 new ENERGY STAR® factory-built homes, contributing to more than \$4 million in 30-year energy cost savings for homeowners and families.

In order to foster factory-built housing as an affordable option for communities, there needs to be continued collaboration among key stakeholders, further advancements in manufacturing and building technology and innovative lending products and practices that bolster lending to create an enhanced space for manufactured housing. Through these collaborations, we can increase the access to opportunity for families to achieve the dream of homeownership, wealth building and prosperity.

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## ABOUT THE AUTHOR

**STACEY EPPERSON** is a native of rural Kentucky and has worked in affordable housing throughout her entire career. In 2010, after nine years as President & CEO of Frontier Housing in northeastern Kentucky, Stacey assumed leadership of Next Step. In 2012, Stacey was elected an Ashoka Fellow for her innovative approach to creating the only independent distribution channel for affordable manufactured housing. She was recognized as one of CFED's Innovators-in-Residence and has completed the Achieving Excellence in Community Development Program at Harvard's JFK School of Government. Stacey holds a Masters of Public Administration from Western Kentucky University, and attended the University of Kentucky Patterson School of Diplomacy and International Commerce. Stacey serves on the Freddie Mac Affordable Housing Advisory Council.

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## ABOUT THE BOOK

This article first appeared in **CRA at 40: Views on the Present and Future of Community Reinvestment**, published by findCRA in November 2017. The book was created in celebration of the 40<sup>th</sup> anniversary of the Community Reinvestment Act. It tells the stories of community development, from the perspective of those working in our communities who bring their knowledge and passion to bear every day in confronting the most critical problems facing communities in need. The book is about real-world experiences told in plain language by those who live them to provide a lens for readers to see CRA at work, ideas for its future and most importantly, what it means in people's lives. To access the full text or order copies of the book, please visit [www.findCRA.com/CRAat40](http://www.findCRA.com/CRAat40).