High Price Mortgage Loan Appraisal Rules and Valuation Tools
By Sherrie Clevenger

Regulatory changes for manufactured housing appraisals are looming. On July 18, 2015 appraisal requirements for financed manufactured home transactions will change. Lenders will have several options to meet these requirements; and, this article shares what retailers and community owners need to know.

Many people consider the Dodd-Frank Act of 2010 to be one of the most complex pieces of legislation ever written. The Dodd-Frank Act created the Consumer Financial Protection Bureau, or CFPB for short; and the CFPB has a single mission: "watching out for American consumers in the market for consumer financial products and services"[1]. In an effort to protect the consumer, the CFPB has been reviewing, and when necessary, modifying or rewriting many rules and regulations relating to consumer financial services. Consumer financial services cover everything from consumer banking and credit cards, to personal property loans and mortgages.

One of the first changes made to consumer lending by the CFPB was the basic definition of a mortgage loan. Roughly stated, previous to the CFPB, a mortgage loan was a loan secured by a dwelling and fee land. After the CFPB redefined the term, a mortgage loan became a loan secured by a dwelling, or secured by a dwelling and fee land. By adding just a few words, the CFPB instantly pulled manufactured housing loans under the purview of mortgage lending laws, imposing a number of new regulatory requirements on the manufactured housing industry.

The CFPBs process is to analyze a regulation, conduct outreach to interested parties, propose changes to the regulations through the rule-making process, accept comments during a set comment period, and lastly, issue what is known as a final rule. Since the passage of the Dodd-Frank Act in 2010, industry leaders have worked extremely hard to stay ahead of all of the regulatory changes affecting the manufactured housing industry. During the analysis and outreach stages of the process, MHI, the state associations, and a number of industry leaders communicated directly with the CFPB to help educate the powers-that-be on how the industry conducts business to ensure a thorough understanding by the Bureau. This communication continues to this day.

MHI put together a task force, including several sub-groups, with the sole purpose of reviewing the CFPBs regulatory changes and to determine areas of particular concern to the industry. One of the areas concerning the task force was aimed at appraisal requirements for manufactured homes. There were concerns about needing a full physical appraisal on manufactured home transactions by a state licensed/certified USPAP[2] appraiser, not unlike a site built home. Imagine… a $400+ appraisal on a $17,000 home sale – an additional 2.35% of the purchase price would need to be paid for a physical appraisal. Additionally, the challenges associated with locating a USPAP appraiser willing to complete an appraisal on a manufactured home that is considered personal property, poses its own challenge. The CFPB recognized the threat to affordability and exempted 'manufactured home only' loans from this rule as long as they fall under what is defined as a Qualified Mortgage (QM) or the loan amount is less than $25,000. However, if the loan falls under what is defined as a High Priced Mortgage Loan, there would be certain valuation requirements the lender would be required to meet.

A High Priced Mortgage Loan (HPML) is a mortgage loan that exceeds the average prime offer rate[3] by 1.5%; and applies to both traditional residential mortgage loans and manufactured home loans. The HPML Appraisal Rule includes appraisal and valuation guidelines that lenders must follow if they are offering a HPML to a consumer. The rule addresses requirements for both new and existing home sales. Moreover, with respect to manufactured homes, it covers both land/home and chattel sales. While much of the Rule went into effect in January 2014, there are several additional requirements for manufactured homes that will go into effect on July 18, 2015, which are detailed below.

Purchase loans for a manufactured home and land will require a physical appraisal by a state licensed USPAP appraiser. If the loan is a new home purchase with land, the appraisal will require an exterior inspection only. If the loan is an existing home purchase with land, the appraisal will require both an interior and exterior inspection.

For a home only loan, sometimes called a personal property or chattel loan, the lender will be required to give the consumer a copy of a valuation for the new or existing home they are purchasing. Compliance with this rule can be met in several ways: the consumer can be given a copy of the dealer's invoice; they can be given a copy of a valuation report from a recognized cost source, such as NADAguides; or, they can opt for a valuation conducted by an independent third party, that has received training in the valuation of manufactured homes. Historically, these three methods have been used internally by lenders to assist in their underwriting processes. This will be the first time that it is required that the consumer be given a copy as well.

The majority of new home loans are underwritten using an advance-on-invoice method. Under the new rule, the lender would be required to provide a copy of the dealer's invoice to the consumer, and explain the advance-on-invoice method to the consumer. This is not viewed as an ideal situation for the industry and they approached NADAguides to explore options. Specifically, they asked how the NADAguides Manufactured Housing CONNECT could help them comply with the regulatory change. The answer: for existing home sales, the NADAguides Manufactured Housing CONNECT will satisfy regulatory compliance and is relatively easy for the consumer to understand.

The NADAguides Manufactured Housing CONNECT offers a depreciated replacement cost for a home that is sited, taking into consideration freight, typical setup, and traditional retailer markup. For over 40-years, NADAguides has collected data from manufacturers on all models offered for sale, analyzed a number of macro- and micro-economic factors that include shipments and sales data. This synthesized data is used in NADAguides depreciated replacement cost methodology. Widely known as the "book value", this approach to valuation considers the manufacturer's series and home size, but it does not differentiate between floor plans.

Book value works well for existing home sales, however, the industry needed something slightly different for new home sales. An MHI work group put together a list of items that it felt NADAguides would have to address in order for the product to be a suitable option to replace the advance-on-invoice model. The work group asked if it would be possible to offer an option for valuation that treats a home as if it was located on a dealer's lot (thereby removing freight, setup and installation), and if it would address the individual floor plans offered while applying a geographically specific markup. The request was taken back to the NADAguides offices and thoroughly reviewed to assess the feasibility and costs to make changes to the existing product. NADAguides determined that to best address the needs of the industry, a wholly new product had to be created.

This new product will offer suggested list prices based on the individual models offered by each manufacturing plant; and will address new manufactured homes only. Together with the industry work group, NADAguides has set out to collect sales transaction data from across the industry using a variety sources; thus launching the largest campaign of data collection in the industry's history. The process to design and develop this new product will be logistically challenging, costly, and must be completed in a relatively short period of time in order to meet the regulatory effective date of July 18, 2015. The industry work groups and NADAguides understand this will be no small feat.

With utmost confidence in the abilities of their development team, NADAguides expects a full launch by spring 2015, which is well in advance of the July 18, 2015 regulatory deadline.

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About Sherrie Clevenger
Sherrie Clevenger is a 20-year veteran of NADAguides and the manufactured housing industry, with an area of expertise in manufactured housing valuation and market analysis. She can be reached at (800) 966-6232, ext. 237, or by email at sclevenger@nadaguides.com.

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[1] Retrieved from http://www.consumerfinance.gov/the-bureau/
[2] "The Uniform Standards of Professional Appraisal Practice (USPAP) are the generally accepted standards for professional appraisal practice in North America. USPAP contains standards for all types of appraisal services. Standards are included for real estate, personal property, business and mass appraisal". Retrieved from https://netforum.avectra.com/eWeb/DynamicPage.aspx?Site=TAF&WebCode=USPAP
[3] "Average prime offer rate" means an annual percentage rate that is derived from average interest rates, points, and other loan pricing terms currently offered to consumers by a representative sample of creditors for mortgage transactions that have low-risk pricing characteristics. Retrieved from http://www.bankersonline.com/regs/12-1026/12-1026-035.html