

FHA MANUFACTURED HOUSING LOAN MODERNIZATION
ACT OF 2006

JULY 19, 2006.—Committed to the Committee of the Whole House on the State of
the Union and ordered to be printed

Mr. OXLEY, from the Committee on Financial Services,
submitted the following

R E P O R T

together with

[To accompany H.R. 4804]

[Including cost estimate of the Congressional Budget Office]

The Committee on Financial Services, to whom was referred the bill (H.R. 4804) to modernize the manufactured housing loan insurance program under title I of the National Housing Act, having considered the same, report favorably thereon with an amendment and recommend that the bill as amended do pass.

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AMENDMENT

The amendment is as follows:

Strike all after the enacting clause and insert the following:

SECTION 1. SHORT TITLE.

This title may be cited as the “FHA Manufactured Housing Loan Modernization Act of 2006”.

SEC. 2. FINDINGS AND PURPOSES.

(a) FINDINGS.—The Congress finds that—

(1) manufactured housing plays a vital role in providing housing for low- and moderate-income families in the United States;

(2) the FHA title I insurance program for manufactured home loans traditionally has been a major provider of mortgage insurance for home-only transactions;

(3) the manufactured housing market is in the midst of a prolonged downturn which has resulted in a severe contraction of traditional sources of private lending for manufactured home purchases;

(4) during past downturns the FHA title I insurance program for manufactured homes has filled the lending void by providing stability until the private markets could recover;

(5) in 1992, during the manufactured housing industry’s last major recession, over 30,000 manufactured home loans were insured under title I;

(6) in 2004, fewer than 2,000 manufactured housing loans were insured under title I;

(7) the loan limits for title I manufactured housing loans have not been adjusted for inflation since 1992; and

(8) these problems with the title I program have resulted in an atrophied market for manufactured housing loans, leaving American families who have the most difficulty achieving homeownership without adequate financing options for home-only manufactured home purchases.

(b) PURPOSES.—The purposes of this Act are—

(1) to provide adequate funding for FHA-insured manufactured housing loans for low- and moderate-income homebuyers during all economic cycles in the manufactured housing industry;

(2) to modernize the FHA title I insurance program for manufactured housing loans to enhance participation by Ginnie Mae and the private lending markets; and

(3) to adjust the low loan limits for title I manufactured home loan insurance to reflect the increase in costs since such limits were last increased in 1992 and to index the limits to inflation.

SEC. 3. EXCEPTION TO LIMITATION ON FINANCIAL INSTITUTION PORTFOLIO.

The second sentence of section 2(a) of the National Housing Act (12 U.S.C. 1703(a)) is amended—

(1) by striking “In no case” and inserting “Other than in connection with a manufactured home or a lot on which to place such a home (or both), in no case”; and

(2) by striking “: *Provided*, That with” and inserting “. With”.

SEC. 4. INSURANCE BENEFITS.

(a) IN GENERAL.—Subsection (b) of section 2 of the National Housing Act (12 U.S.C. 1703(b)), is amended by adding at the end the following new paragraph:

“(8) INSURANCE BENEFITS FOR MANUFACTURED HOUSING LOANS.—Any contract of insurance with respect to loans, advances of credit, or purchases in connection with a manufactured home or a lot on which to place a manufactured home (or both) for a financial institution that is executed under this title after the date of the enactment of the FHA Manufactured Housing Loan Modernization Act of 2006 by the Secretary shall be conclusive evidence of the eligibility of such financial institution for insurance, and the validity of any contract of insurance so executed shall be incontestable in the hands of the bearer from the date of the execution of such contract, except for fraud or misrepresentation on the part of such institution.”.

(b) APPLICABILITY.—The amendment made by subsection (a) shall only apply to loans that are registered or endorsed for insurance after the date of the enactment of this Act.

SEC. 5. MAXIMUM LOAN LIMITS.

(a) DOLLAR AMOUNTS.—Paragraph (1) of section 2(b) of the National Housing Act (12 U.S.C. 1703(b)(1)) is amended—

(1) in clause (ii) of subparagraph (A), by striking “\$17,500” and inserting “\$24,500”;

(2) in subparagraph (C) by striking “\$48,600” and inserting “\$68,040”;

(3) in subparagraph (D) by striking “\$64,800” and inserting “\$90,720”;

(4) in subparagraph (E) by striking “\$16,200” and inserting “\$22,680”; and

(5) by realigning subparagraphs (C), (D), and (E) 2 ems to the left so that the left margins of such subparagraphs are aligned with the margins of subparagraphs (A) and (B).

(b) ANNUAL INDEXING.—Subsection (b) of section 2 of the National Housing Act (12 U.S.C. 1703(b)), as amended by the preceding provisions of this Act, is further amended by adding at the end the following new paragraph:

“(9) ANNUAL INDEXING OF MANUFACTURED HOUSING LOANS.—The Secretary shall develop a method of indexing in order to annually adjust the loan limits established in subparagraphs (A)(ii), (C), (D), and (E) of this subsection. Such index shall be based on the manufactured housing price data collected by the United States Census Bureau. The Secretary shall establish such index no later than one year after the date of the enactment of the FHA Manufactured Housing Loan Modernization Act of 2006.”

(c) TECHNICAL AND CONFORMING CHANGES.—Paragraph (1) of section 2(b) of the National Housing Act (12 U.S.C. 1703(b)(1)) is amended—

(1) by striking “No” and inserting “Except as provided in the last sentence of this paragraph, no”; and

(2) by adding after and below subparagraph (G) the following:

“The Secretary shall, by regulation, annually increase the dollar amount limitations in subparagraphs (A)(ii), (C), (D), and (E) (as such limitations may have been previously adjusted under this sentence) in accordance with the index established pursuant to paragraph (9).”

SEC. 6. INSURANCE PREMIUMS.

Subsection (f) of section 2 of the National Housing Act (12 U.S.C. 1703(f)) is amended—

(1) by inserting “(1) PREMIUM CHARGES.—” after “(f)”; and

(2) by adding at the end the following new paragraph:

“(2) MANUFACTURED HOME LOANS.—Notwithstanding paragraph (1), in the case of a loan, advance of credit, or purchase in connection with a manufactured home or a lot on which to place such a home (or both), the premium charge for the insurance granted under this section shall be paid by the borrower under the loan or advance of credit, as follows:

“(A) At the time of the making of the loan, advance of credit, or purchase, a single premium payment in an amount not to exceed 2.25 percent of the amount of the original insured principal obligation.

“(B) In addition to the premium under subparagraph (A), annual premium payments during the term of the loan, advance, or obligation purchased in an amount not exceeding 1.0 percent of the remaining insured principal balance (excluding the portion of the remaining balance attributable to the premium collected under subparagraph (A) and without taking into account delinquent payments or prepayments).

“(C) Premium charges under this paragraph shall be established in amounts that are sufficient, but do not exceed the minimum amounts necessary, to maintain a negative credit subsidy for the program under this section for insurance of loans, advances of credit, or purchases in connection with a manufactured home or a lot on which to place such a home (or both), as determined based upon risk to the Federal Government under existing underwriting requirements.

“(D) The Secretary may increase the limitations on premium payments to percentages above those set forth in subparagraphs (A) and (B), but only if necessary, and not in excess of the minimum increase necessary, to maintain a negative credit subsidy as described in subparagraph (C).”

SEC. 7. TECHNICAL CORRECTIONS.

(a) DATES.—Subsection (a) of section 2 of the National Housing Act (12 U.S.C. 1703(a)) is amended—

(1) by striking “on and after July 1, 1939,” each place such term appears; and

(2) by striking “made after the effective date of the Housing Act of 1954”.

(b) AUTHORITY OF SECRETARY.—Subsection (c) of section 2 of the National Housing Act (12 U.S.C. 1703(c)) is amended to read as follows:

“(c) HANDLING AND DISPOSAL OF PROPERTY.—

“(1) **AUTHORITY OF SECRETARY.**—Notwithstanding any other provision of law, the Secretary may—

“(A) deal with, complete, rent, renovate, modernize, insure, or assign or sell at public or private sale, or otherwise dispose of, for cash or credit in the Secretary’s discretion, and upon such terms and conditions and for such consideration as the Secretary shall determine to be reasonable, any real or personal property conveyed to or otherwise acquired by the Secretary, in connection with the payment of insurance heretofore or hereafter granted under this title, including any evidence of debt, contract, claim, personal property, or security assigned to or held by him in connection with the payment of insurance heretofore or hereafter granted under this section; and

“(B) pursue to final collection, by way of compromise or otherwise, all claims assigned to or held by the Secretary and all legal or equitable rights accruing to the Secretary in connection with the payment of such insurance, including unpaid insurance premiums owed in connection with insurance made available by this title.

“(2) **ADVERTISEMENTS FOR PROPOSALS.**—Section 3709 of the Revised Statutes shall not be construed to apply to any contract of hazard insurance or to any purchase or contract for services or supplies on account of such property if the amount thereof does not exceed \$25,000.

“(3) **DELEGATION OF AUTHORITY.**—The power to convey and to execute in the name of the Secretary, deeds of conveyance, deeds of release, assignments and satisfactions of mortgages, and any other written instrument relating to real or personal property or any interest therein heretofore or hereafter acquired by the Secretary pursuant to the provisions of this title may be exercised by an officer appointed by the Secretary without the execution of any express delegation of power or power of attorney. Nothing in this subsection shall be construed to prevent the Secretary from delegating such power by order or by power of attorney, in the Secretary’s discretion, to any officer or agent the Secretary may appoint.”.

SEC. 8. REVISION OF UNDERWRITING CRITERIA.

(a) **IN GENERAL.**—Subsection (b) of section 2 of the National Housing Act (12 U.S.C. 1703(b)), as amended by the preceding provisions of this Act, is further amended by adding at the end the following new paragraph:

“(10) **FINANCIAL SOUNDNESS OF MANUFACTURED HOUSING PROGRAM.**—The Secretary shall establish such underwriting criteria for loans and advances of credit in connection with a manufactured home or a lot on which to place a manufactured home (or both), including such loans and advances represented by obligations purchased by financial institutions, as may be necessary to ensure that the program under this title for insurance for financial institutions against losses from such loans, advances of credit, and purchases is financially sound.”.

(b) **TIMING.**—Not later than the expiration of the 6-month period beginning on the date of the enactment of this Act, the Secretary of Housing and Urban Development shall revise the existing underwriting criteria for the program referred to in paragraph (10) of section 2(b) of the National Housing Act (as added by subsection (a) of this section) in accordance with the requirements of such paragraph.

PURPOSE AND SUMMARY

H.R. 4804, the “FHA Manufactured Housing Loan Modernization Act of 2006,” would amend Title I of the Federal Housing Administration (FHA) manufactured housing personal property mortgage insurance program by encouraging more private-sector participation in the Title I program, increasing the availability of Title I loans for manufactured housing, and improving access for such loans to the secondary mortgage market. To accomplish these goals, the FHA Manufactured Housing Modernization Act of 2006 includes several important reforms to make the Title I manufactured housing program more relevant and meaningful.

This legislation removes the current cap limiting FHA’s ability to insure manufactured home loans at 10 percent of each participating lender’s portfolio of loans. However, the FHA fund would continue to be protected, by maintaining the FHA liability limit on

any single loan to 90 percent of the claim, while lenders continue to be responsible for 10 percent of any claim.

This bill requires FHA to insure Title I manufactured housing loans on a loan-by-loan basis, similar to what is done in the single-family FHA program, instead of using the current insurance system, which insures “bundles” of loans. The bill also improves the insurance claim in the case of loss, to make it comparable to a claim under the Title II single family loan program. These two changes are designed to significantly improve the secondary market for Title I manufactured housing loans, especially by bringing the Government National Mortgage Association (GNMA) back into the business of securitizing such loans.

Since 1992, manufactured home prices have increased over 50 percent, while loan limits have not been adjusted for inflation, H.R. 4804 raises the maximum loan limits for manufactured homes and lots to adjust for intervening inflation, with annual indexing in the future, using U.S. Census data.

To give FHA the flexibility to charge risk-based premiums for Title I manufactured housing loans, the FHA Manufactured Housing Modernization Act of 2006 allows an upfront premium of up to 2.25 percent to be charged, similar to the current FHA single-family program, as well as an annual premium of up to 1 percent to properly account for the risks of a given loan. This legislation tightens underwriting standards for Title I loans, which will make the securitization of these loans more attractive to the secondary insurer.

BACKGROUND AND NEED FOR LEGISLATION

Manufactured homes continue to play an important role in fulfilling the housing needs of many Americans. Since the early 1990s, the number of Title I personal property loans for manufactured homes has dropped from 30,000 to 2,000, largely because of inefficiencies in the program related to vague underwriting standards; reduced private-sector participation; low loan limits; a portfolio cap on Title I loans; and an insurance process that insures loans as a “bundle” for each lender, instead of insuring each loan separately, as is the policy under Title II.

Title I of the National Housing Act was originally created to provide government-sponsored insurance for home improvement loans. Title II, created in tandem with Title I, authorized FHA to insure traditional home mortgages. Decades later, personal property manufactured home loans were added to the Title I program, because a manufactured home on leased land was thought to more closely resemble a home improvement than a traditional home. This created a separate scheme for FHA mortgage insurance securing a manufactured home on leased land and insurance securing a manufactured home involving real property. Unlike Title II, which mandates that FHA underwrite every loan before issuing insurance, Title I allows lenders great discretion in underwriting loans. Thus, FHA insures loans it has no hand in underwriting.

In 1954, as a reaction to poor underwriting, Congress amended Title I stipulating that FHA’s exposure would be limited to 10 percent of the principal balance of all loans made by that particular lender. This, in turn, increased the financial liability of the secondary insurer. An increase in borrower defaults in the last several

years has led to a moratorium on certifying new lenders and a reduction in Title I loans securitized by the secondary insurer. Secondary insurers have said that if Title I's "structural problems"—including the consolidation of lender loans and vague underwriting standards—are addressed, it would end the moratorium and securitize more Title I loans. This would enable FHA to insure more manufactured home loans, improving the ability of individuals to obtain this type of housing.

HEARINGS

No hearings were held on H.R. 4804 in the 109th Congress.

COMMITTEE CONSIDERATION

The Committee on Financial Services met in open session on June 14, 2006, and ordered reported H.R. 4804, FHA Manufactured Housing Loan Modernization Act of 2006, as amended, to the House by a voice vote.

COMMITTEE VOTES

Clause 3(b) of rule XIII of the Rules of the House of Representatives requires the Committee to list the record votes on the motion to report legislation and amendments thereto. No record votes were taken with in conjunction with the consideration of this legislation. A motion by Mr. Oxley to report the bill, as amended, to the House with a favorable recommendation was agreed to by a voice vote. During the consideration of the bill, the following amendment was considered:

An amendment in the nature of a substitute recommended by the Subcommittee on Housing and Community Opportunity, making various technical and substantive changes, was AGREED TO by a voice vote.

COMMITTEE OVERSIGHT FINDINGS

Pursuant to clause 3(c)(1) of rule XIII of the Rules of the House of Representatives, the Committee has held hearings and made findings that are reflected in this report.

PERFORMANCE GOALS AND OBJECTIVES

Pursuant to clause 3(c)(4) of rule XIII of the Rules of the House of Representatives, the Committee establishes the following performance related goals and objectives for this legislation:

H.R. 4804, the "FHA Manufactured Housing Loan Modernization Act of 2006," would amend Title I of the Federal Housing Administration (FHA) mortgage insurance program by encouraging more private-sector participation in the Title I program, increasing the availability of Title I loans for manufactured housing, and improving Title I access to the secondary mortgage market. To accomplish these goals, the FHA Manufactured Housing Modernization Act of 2006 includes several important reforms to make the Title I manufactured housing program more relevant and meaningful.

NEW BUDGET AUTHORITY, ENTITLEMENT AUTHORITY, AND TAX
EXPENDITURES

In compliance with clause 3(c)(2) of rule XIII of the Rules of the House of Representatives, the Committee adopts as its own the estimate of new budget authority, entitlement authority, or tax expenditures or revenues contained in the cost estimate prepared by the Director of the Congressional Budget Office pursuant to the Congressional Budget Act.

COMMITTEE COST ESTIMATE

The Committee adopts as its own the cost estimate prepared by the Director of the Congressional Budget Office pursuant to section 402 of the Congressional Budget Act of 1974.

CONGRESSIONAL BUDGET OFFICE ESTIMATE

Pursuant to clause 3(c)(3) of rule XIII of the Rules of the House of Representatives, the following is the cost estimate provided by the Congressional Budget Office pursuant to section 402 of the Congressional Budget Act of 1974:

U.S. CONGRESS,
CONGRESSIONAL BUDGET OFFICE,
Washington, DC, July 11, 2006.

Hon. MICHAEL G. OXLEY,
*Chairman, Committee on Financial Services,
House of Representatives, Washington, DC.*

DEAR MR. CHAIRMAN: The Congressional Budget Office has prepared the enclosed cost estimate for H.R. 4804, the FHA Manufactured Housing Loan Modernization Act of 2006.

If you wish further details on this estimate, we will be pleased to provide them. The CBO staff contact is Susanne S. Mehlman.

Sincerely,

DONALD B. MARRON,
Acting Director.

Enclosure.

*H.R. 4804—FHA Manufactured Housing Loan Modernization Act of
2006*

Summary: H.R. 4804 would amend the Federal Housing Administration's (FHA's) loan guarantee program for manufactured housing. Under title I of the National Housing Act, FHA insures loans for individuals for the purchase and improvement of manufactured housing—single-family homes constructed entirely in a controlled factory environment and built to a federal code administered by the Department of Housing and Urban Development (HUD). This bill would require FHA to insure such loans on an individual basis, raise the maximum loan limits, require FHA to charge premiums necessary to maintain a negative credit subsidy (as estimated under the Federal Credit Reform Act) for the loan guarantees, and make other administrative charges to the program. Implementing the manufactured housing loan program, like all of FHA's insurance programs, is contingent on the enactment of appropriation laws that provide annual commitment authority.

CBO estimates that implementing H.R. 4804 would result in a negligible cost or savings of less than \$500,000 a year over the 2008–2011 period, assuming enactment of appropriation laws necessary to implement the program. Until the reforms in the bill can be fully implemented, CBO expects that continuing the program in 2007 would cost \$1 million. Increasing the number of homeowners who obtain loan insurance for manufactured housing could generate a minimal amount of offsetting collections (recorded as a reduction in discretionary spending) because the fees paid by borrowers under this program would be required to slightly exceed the cost of expected defaults. Enacting the bill would not affect direct spending or revenues.

H.R. 4804 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would impose no costs on state, local, or tribal governments.

Estimated cost to the Federal Government: For this estimate, CBO assumes that the bill will be enacted near the beginning of fiscal year 2007. The estimated budgetary impact of H.R. 4804 is shown in the following table. The costs of this legislation fall within budget function 370 (commerce and housing credit).

	By fiscal year, in millions of dollars—					
	2006	2007	2008	2009	2010	2011
SPENDING SUBJECT TO APPROPRIATIONS						
Spending for manufactured housing loan guarantees under current law ¹ :						
Budget authority ¹	1	0	0	0	0	0
Estimated outlays	1	0	0	0	0	0
Proposed changes:						
Estimated authorization level	0	1	*	*	*	*
Estimated outlays	0	1	*	*	*	*
Total spending for manufactured housing loan guarantees under H.R. 4804:						
Estimated authorization level ¹	1	1	*	*	*	*
Estimated outlays	1	1	*	*	*	*

¹ The figure for 2006 is the estimated portion of the total credit subsidy appropriated for that year that will be used by FHA for the manufactured housing loan program.

Note: * = costs or savings of less than \$500,000.

Basis of estimate

CBO estimates that over the 2008–2011 period, implementing the manufactured housing loan program would result in costs or savings of less than \$500,000 a year. Until the reforms in the bill can be fully implemented, continuing the loan guarantee program would cost \$1 million in 2007.

Background

The volume of manufactured housing loans guaranteed by FHA has fallen from 30,000 per year in the 1990s to less than 2,000 loans per year in recent years. Furthermore, in the late 1980s the Government National Mortgage Association (GNMA) experienced significant losses from its securitization of the manufactured housing loans. (GNMA is responsible for guaranteeing securities backed by pools of mortgages insured by the Federal Government. In exchange for a fee charged to lenders or issuers of the securities, GNMA guarantees the timely payments of scheduled principal and interest due on the pooled mortgages that back these securities.) As a result of these losses, GNMA imposed a moratorium on new

issuers of manufactured housing loan guarantees into its Mortgage-Backed Securities (MBS) program.

Moreover, financing options for manufactured housing are very limited. Currently, only two private lenders participate in the FHA program, and because no private secondary market exists, most private lenders and insurers have no incentive to make loans or loan guarantees for manufactured housing. Despite the fact that there are relatively few financing options available for manufactured housing, there are about 11 million manufactured homes in the United States (mostly in rural areas), according to the Manufactured Housing Institute (MHI). Most of these manufactured houses are financed through personal loans. Enacting this legislation would make several programmatic changes designed to increase demand for FHA's manufactured housing loan program.

Proposed changes

Under current law, FHA limits its loss exposure on manufactured housing loan guarantees by capping the lender's insurance coverage at 10 percent of the value of the lender's portfolio for the title I program. That is, FHA only pays lender claims amounts that are less than or equal to 10 percent of the value of the lender's loan portfolio for the title I loans. As a result, the amount of insurance that FHA provides for each loan varies. Enacting H.R. 4804 would eliminate this insurance structure for loans associated with manufactured homes and direct FHA to insure 90 percent of each individual loan. This change would significantly expand government liability under the program.

Enacting this legislation also would raise the loan limits for insuring a manufactured home by about 40 percent and would require that the limits be indexed for inflation on an annual basis. According to FHA, the cost of a manufactured home is about \$60,000. Current loan limits restrict the purchase of a manufactured home to \$48,000; under H.R. 4804, this limit would increase to \$68,040 after the program changes are implemented in 2008.

Currently, borrowers are charged a 1 percent up-front fee for a manufactured home loan guarantee. Because the fees collected are not expected to exceed the cost of defaults, the administration estimates that the manufactured housing loan guarantee program has a subsidy rate of about 1 percent. Enacting this legislation would require FHA to assess higher premiums that would offset the costs of expected defaults to yield an estimated negative credit subsidy rate for the program. Based on information from FHA, CBO expects that FHA would set the up-front premiums for borrowers at about 2.25 percent and the annual premiums at 1 percent. CBO estimates that those fees may be sufficient to make the program's estimated subsidy near zero, assuming that the pattern of future default rates in this program is similar to recent history—about 9.5 percent. Because there is essentially no private market for manufactured housing loan guarantees to compare to the federal program, it is uncertain whether these higher fees would result in a program with no net cost. On balance, CBO estimates that implementing the bill would result in net costs or savings of less than \$500,000 a year beginning in fiscal year 2008.

Cost of Program. Based on information from FHA and MHI, CBO estimates that it would take about one year to implement the

changes proposed under the bill. Furthermore, CBO anticipates that significant outreach by FHA would be needed to identify and educate prospective borrowers and lenders about the manufactured housing program reforms. Thus, CBO estimates that the number of loans insured under the program would begin to grow by about 5 percent annually beginning in 2008. Assuming this gradual increase in demand and an estimated subsidy rate for 2008 and subsequent years that is near zero, CBO estimates that enacting this legislation would result in a net cost or savings of less than \$500,000 a year.

CBO estimates that in 2007, while the programmatic changes are underway, FHA would require an appropriation of about \$1 million to maintain the program at its current level.

GNMA Savings. According to GNMA, the agency would consider securitizing additional manufactured housing loans following an evaluation of the program after the proposed changes are implemented and to the extent FHA has begun to guarantee a significant number of loans, most likely with a face value close to at least \$1 billion. Because CBO estimates that it will take FHA many years to increase its business volume to that level, we do not estimate that any additional offsetting collections associated with GNMA's MBS program would be generated over the next five years.

Intergovernmental and private-sector impact: H.R. 4804 contains no intergovernmental or private-sector mandates as defined in UMRA and would impose no costs on state, local, or tribal governments.

Estimate prepared by: Federal costs: Susanne S. Mehlman; impact on state, local, and tribal governments: Sarah Puro; impact on the private sector: Tyler Kruzich.

Estimate approved by: Peter H. Fontaine, Deputy Assistant Director for Budget Analysis.

FEDERAL MANDATES STATEMENT

The Committee adopts as its own the estimate of Federal mandates prepared by the Director of the Congressional Budget Office pursuant to section 423 of the Unfunded Mandates Reform Act.

ADVISORY COMMITTEE STATEMENT

No advisory committees within the meaning of section 5(b) of the Federal Advisory Committee Act were created by this legislation.

CONSTITUTIONAL AUTHORITY STATEMENT

Pursuant to clause 3(d)(1) of rule XIII of the Rules of the House of Representatives, the Committee finds that the Constitutional Authority of Congress to enact this legislation is provided by Article 1, section 8, clause 1 (relating to the general welfare of the United States) and clause 3 (relating to the power to regulate interstate commerce).

APPLICABILITY TO LEGISLATIVE BRANCH

The Committee finds that the legislation does not relate to the terms and conditions of employment or access to public services or

accommodations within the meaning of section 102(b)(3) of the Congressional Accountability Act.

SECTION-BY-SECTION ANALYSIS OF THE LEGISLATION

Section 1. Short title

This section provides the short title of this act, the “FHA Manufactured Housing Loan Modernization Act of 2006.”

Section 2. Findings and purposes

This section outlines the findings and purposes of the legislation. The Title I program for manufactured housing has been underused since many of its provisions are antiquated. For example, the loan limits for the program have not been raised since 1992 and are woefully out of date. The legislation aims to correct these problems.

Section 3. Exception to limitation on financial institution portfolio

This section removes a portfolio cap for manufactured housing loans. Under current law, the Federal Housing Administration’s (FHA) insurance risk is limited to 10 percent of the dollar value of the lender’s insured portfolio. This is computed as 10 percent of the original amount of each loan registered for insurance, less amounts of claim payments. The portfolio cap is one of the main impediments to Ginnie Mae’s participation in the Title I program. This section does not affect FHA’s insurance risk, which would still be limited to 90 percent of the claim for an individual loan, with the lender responsible for 10 percent of the claim.

Section 4. Insurance benefits

This section would require FHA to use a loan-by-loan insurance process, similar to what is used under Title II of the National Housing Act.

Section 5. Maximum loan limits

This section raises the maximum loan limits for manufactured homes and lots. It also requires the Secretary to develop an index, using U.S. Census Bureau data, to annually adjust the loan limits as necessary. Current indexes in the National Housing Act are ill-suited for this purpose due to the unique nature of manufactured homes.

Section 6. Insurance premiums

This section allows the Secretary to establish a flexible premium structure, and permit risk-based pricing. This section will allow FHA to charge an up-front premium of up to 2.25 percent, as well as an annual premium of up to 1 percent to properly account for the risks of a given loan.

Section 7. Technical corrections

This section makes technical corrections to section 2 of the National Housing Act.

Section 8. Revision of underwriting criteria

This section requires HUD to establish underwriting criteria to ensure that the FHA Title I program is on sound financial footing.

CHANGES IN EXISTING LAW MADE BY THE BILL, AS REPORTED

In compliance with clause 3(e) of rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italic, existing law in which no change is proposed is shown in roman):

SECTION 2 OF THE NATIONAL HOUSING ACT

SEC. 2. (a) The Secretary is authorized and empowered upon such terms and conditions as he may prescribe, to insure banks, trust companies, personal finance companies, mortgage companies, building and loan associations, installment lending companies, and other such financial institutions, which the Secretary finds to be qualified by experience or facilities and approves as eligible for credit insurance, against losses which they may sustain as a result of loans and advances of credit, and purchases of obligations representing loans and advances of credit, made by them [on and after July 1, 1939,] for the purpose of (i) financing alterations, repairs, and improvements upon or in connection with existing structures or manufactured homes, and the building of new structures, upon urban, suburban, or rural real property (including the restoration, rehabilitation, rebuilding, and replacement of such improvements which have been damaged or destroyed by earthquake, conflagration, tornado, hurricane, cyclone, flood, or other catastrophe), by the owners thereof or by lessees of such real property under a lease expiring not less than six months after the maturity of the loan or advance of credit; and for the purpose of (ii) financing the purchase of a manufactured home to be used by the owner as his principal residence or financing the purchase of a lot on which to place such home and paying expenses reasonably necessary for the appropriate preparation of such lot, including the installation of utility connections, sanitary facilities, and paving, and the construction of a suitable pad, or financing only the acquisition of such a lot either with or without such preparation by an owner of a manufactured home; and for the purpose of financing the preservation of historic structures, and, as used in this section, the term "historic structures" means residential structures which are registered in the National Register of Historic Places or which are certified by the Secretary of the Interior to conform to National Register criteria; and the term "preservation" means restoration or rehabilitation undertaken for such purposes as are approved by the Secretary in regulations issued by him, after consulting with the Secretary of the Interior. [In no case] *Other than in connection with a manufactured home or a lot on which to place such a home (or both), in no case* shall the insurance granted by the Secretary under this section to any such financial institution on loans, advances of credit, and purchases made by such financial institution for such purposes [on and after July 1, 1939,] exceed 10 per centum of the total amount of such loans, advances of credit, and purchases[: *Provided, That with*]. *With* respect to any loan, advance of credit, or purchase [made after the effective date of the Housing Act of 1954], the amount of any claim for loss on any such individual loan, advance of credit, or purchase paid by the Sec-

retary under the provisions of this section to a lending institution shall not exceed 90 per centum of such loss.

After the effective date of the Housing Act of 1954, (i) the Secretary shall not enter into contracts for insurance pursuant to this section except with lending institutions which are subject to the inspection and supervision of a governmental agency required by law to make periodic examinations of their books and accounts, and which the Secretary finds to be qualified by experience or facilities to make and service such loans, advances or purchases, and with such other lending institutions which the Secretary approves as eligible for insurance pursuant to this section on the basis of their credit and their experience or facilities to make and service such loans, advances or purchases; (ii) only such items as substantially protect or improve the basic livability or utility of properties shall be eligible for financing under this section, and therefore the Secretary shall from time to time declare ineligible for financing under this section any item, product, alteration, repair, improvement, or class thereof which he determines would not substantially protect or improve the basic livability or utility of such properties, and he may also declare ineligible for financing under this section any item which he determines is especially subject to selling abuses; and (iii) the Secretary is hereby authorized and directed, by such regulations or procedures as he shall deem advisable, to prevent the use of any financial assistance under this section (1) with respect to new residential structures (other than manufactured homes) that have not been completed and occupied for at least six months, or (2) which would, through multiple loans, result in an outstanding aggregate loan balance with respect to the same structure exceeding the dollar amount limitation prescribed in this subsection for the type of loan involved: *Provided*, That this clause (iii) may in the discretion of the Secretary be waived with respect to the period of occupancy or completion of any such new residential structures. The Secretary is hereby authorized and directed, with respect to manufactured homes to be financed under this section, to (i) prescribe minimum property standards to assure the livability and durability of the manufactured home and the suitability of the site on which the manufactured home is to be located; and (ii) obtain assurances from the borrower that the manufactured home will be placed on a site which complies with the standards prescribed by the Secretary and with local zoning and other applicable local requirements.

The insurance authority provided under this section may be made available with respect to any existing manufactured home that has not been insured under this section if such home was constructed in accordance with the standards issued under the National Manufactured Housing Construction and Safety Standards Act of 1974 and it meets standards similar to the minimum property standards applicable to existing homes insured under title II.

Alterations, repairs, and improvements upon or in connection with existing structures may include the provision of fire safety equipment, energy conserving improvements, or the installation of solar energy systems. As used in this section—

(1) * * *

* * * * *

(b)(1) **[No]** *Except as provided in the last sentence of this paragraph, no insurance shall be granted under this section to any such financial institution with respect to any obligation representing any such loan, advance of credit, or purchase by it if the amount of such loan, advance of credit, or purchase exceeds—*

(A)(i) * * *

(ii) **[\$17,500]** *\$24,500* if made for the purpose of financing alterations, repairs and improvements upon or in connection with existing manufactured homes;

(B) **\$60,000** or an average amount of **\$12,000** per family unit if made for the purpose of financing the alteration, repair, improvement, or conversion of an existing structure used or to be used as an apartment house or a dwelling for two or more families;

(C) **[\$48,600]** *\$68,040* if made for the purpose of financing the purchase of a manufactured home;

(D) **[\$64,800]** *\$90,720* if made for the purpose of financing the purchase of a manufactured home and a suitably developed lot on which to place the home; and

(E) **[\$16,200]** *\$22,680* if made for the purpose of financing the purchase, by an owner of a manufactured home which is the principal residence of that owner, of a suitably developed lot on which to place that manufactured home, and if the owner certifies that he or she will place the manufactured home on the lot acquired with such loan within 6 months after the date of such loan.

* * * * *

The Secretary shall, by regulation, annually increase the dollar amount limitations in subparagraphs (A)(ii), (C), (D), and (E) (as such limitations may have been previously adjusted under this sentence) in accordance with the index established pursuant to paragraph (9).

* * * * *

(8) **INSURANCE BENEFITS FOR MANUFACTURED HOUSING LOANS.**—*Any contract of insurance with respect to loans, advances of credit, or purchases in connection with a manufactured home or a lot on which to place a manufactured home (or both) for a financial institution that is executed under this title after the date of the enactment of the FHA Manufactured Housing Loan Modernization Act of 2006 by the Secretary shall be conclusive evidence of the eligibility of such financial institution for insurance, and the validity of any contract of insurance so executed shall be incontestable in the hands of the bearer from the date of the execution of such contract, except for fraud or misrepresentation on the part of such institution.*

(9) **ANNUAL INDEXING OF MANUFACTURED HOUSING LOANS.**—*The Secretary shall develop a method of indexing in order to annually adjust the loan limits established in subparagraphs (A)(ii), (C), (D), and (E) of this subsection. Such index shall be based on the manufactured housing price data collected by the United States Census Bureau. The Secretary shall establish such index no later than one year after the date of the enactment of the FHA Manufactured Housing Loan Modernization Act of 2006.*

(10) *FINANCIAL SOUNDNESS OF MANUFACTURED HOUSING PROGRAM.*—*The Secretary shall establish such underwriting criteria for loans and advances of credit in connection with a manufactured home or a lot on which to place a manufactured home (or both), including such loans and advances represented by obligations purchased by financial institutions, as may be necessary to ensure that the program under this title for insurance for financial institutions against losses from such loans, advances of credit, and purchases is financially sound.*

[(c)(1) Notwithstanding any other provision of law, the Secretary shall have the power, under regulations to be prescribed by him and approved by the Secretary of the Treasury, to assign or sell at public or private sale, or otherwise dispose of, any evidence of debt, contract, claim, personal property, or security assigned to or held by him in connection with the payment of insurance heretofore or hereafter granted under this section, and to collect or compromise all obligations assigned to or held by him and all legal or equitable rights accruing to him in connection with the payment of such insurance until such time as such obligations may be referred to the Attorney General for suit or collection.]

[(2) The Secretary is authorized and empowered (a) to deal with, complete, rent, renovate, modernize, insure, or sell for cash or credit in his discretion, and upon such terms and conditions and for such consideration as the Secretary shall determine to be reasonable, any real or personal property conveyed to or otherwise acquired by him, in connection with the payment of insurance heretofore or hereafter granted under this title and (b) to pursue to final collection, by way of compromise or otherwise, all claims against mortgagors assigned by mortgagees to the Secretary in connection with such real or personal property by way of deficiency or otherwise: *Provided*, That section 3709 of the Revised Statutes shall not be construed to apply to any contract of hazard insurance or to any purchase or contract for services or supplies on account of such property if the amount thereof does not exceed \$1,000. The power to convey and to execute in the name of the Secretary, deeds of conveyance, deeds of release, assignments and satisfactions of mortgages, and any other written instrument relating to real or personal property or any interest therein heretofore or hereafter acquired by the Secretary pursuant to the provisions of this title may be exercised by an officer appointed by him without the execution of any express delegation of power or power of attorney: *Provided*, That nothing in this paragraph shall be construed to prevent the Secretary from delegating such power by order or by power of attorney, in his discretion, to any officer or agent he may appoint.]

(c) *HANDLING AND DISPOSAL OF PROPERTY.*—

(1) *AUTHORITY OF SECRETARY.*—*Notwithstanding any other provision of law, the Secretary may—*

(A) deal with, complete, rent, renovate, modernize, insure, or assign or sell at public or private sale, or otherwise dispose of, for cash or credit in the Secretary's discretion, and upon such terms and conditions and for such consideration as the Secretary shall determine to be reasonable, any real or personal property conveyed to or otherwise acquired by the Secretary, in connection with the payment of insurance heretofore or hereafter granted under this title, including

any evidence of debt, contract, claim, personal property, or security assigned to or held by him in connection with the payment of insurance heretofore or hereafter granted under this section; and

(B) pursue to final collection, by way of compromise or otherwise, all claims assigned to or held by the Secretary and all legal or equitable rights accruing to the Secretary in connection with the payment of such insurance, including unpaid insurance premiums owed in connection with insurance made available by this title.

(2) ADVERTISEMENTS FOR PROPOSALS.—Section 3709 of the Revised Statutes shall not be construed to apply to any contract of hazard insurance or to any purchase or contract for services or supplies on account of such property if the amount thereof does not exceed \$25,000.

(3) DELEGATION OF AUTHORITY.—The power to convey and to execute in the name of the Secretary, deeds of conveyance, deeds of release, assignments and satisfactions of mortgages, and any other written instrument relating to real or personal property or any interest therein heretofore or hereafter acquired by the Secretary pursuant to the provisions of this title may be exercised by an officer appointed by the Secretary without the execution of any express delegation of power or power of attorney. Nothing in this subsection shall be construed to prevent the Secretary from delegating such power by order or by power of attorney, in the Secretary's discretion, to any officer or agent the Secretary may appoint.

* * * * *

(f)(1) PREMIUM CHARGES.—The Secretary shall fix a premium charge for the insurance hereafter granted under this section, but in the case of any obligation representing any loan, advance of credit, or purchase, such premium charge shall not exceed an amount equivalent to 1 per centum per annum of the net proceeds of such loan, advance of credit, or purchase, for the term of such obligation, and such premium charge shall be payable in advance by the financial institution and shall be paid at such time and in such manner as may be prescribed by the Secretary.

(2) MANUFACTURED HOME LOANS.—Notwithstanding paragraph (1), in the case of a loan, advance of credit, or purchase in connection with a manufactured home or a lot on which to place such a home (or both), the premium charge for the insurance granted under this section shall be paid by the borrower under the loan or advance of credit, as follows:

(A) At the time of the making of the loan, advance of credit, or purchase, a single premium payment in an amount not to exceed 2.25 percent of the amount of the original insured principal obligation.

(B) In addition to the premium under subparagraph (A), annual premium payments during the term of the loan, advance, or obligation purchased in an amount not exceeding 1.0 percent of the remaining insured principal balance (excluding the portion of the remaining balance attributable to the premium collected under subparagraph (A) and without taking into account delinquent payments or prepayments).

(C) Premium charges under this paragraph shall be established in amounts that are sufficient, but do not exceed the minimum amounts necessary, to maintain a negative credit subsidy for the program under this section for insurance of loans, advances of credit, or purchases in connection with a manufactured home or a lot on which to place such a home (or both), as determined based upon risk to the Federal Government under existing underwriting requirements.

(D) The Secretary may increase the limitations on premium payments to percentages above those set forth in subparagraphs (A) and (B), but only if necessary, and not in excess of the minimum increase necessary, to maintain a negative credit subsidy as described in subparagraph (C).

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