
CHAPTER 1. GENERAL ADMINISTRATIVE POLICY

- 1-1. SCOPE. Title I of the Housing Act of 1969 provides a program by which financial institutions, the manufacturing and allied industries, and the Federal Government combine in assisting borrowers to finance the purchase of mobile homes intended for occupancy by the buyers as their principal residences. The guiding principles set forth in this chapter may be interpreted as the general administrative policy of HUD-FHA. This statement of policy is presented to clarify questions which may arise and to offer helpful suggestions based on the experience of the Federal Housing Administration in its insurance activities over a period of many years.
- 1-2. RESPONSIBILITIES. The operation of the mobile home loan program is based on the good faith of all concerned: the individual borrower who applies for and receives a loan; the dealer or manufacturer in carrying out the terms of his contract or warranties and rendering proper service to the customer; financial institutions in acquiring and servicing mobile home loans; and HUD-FHA in carrying out its obligations and responsibilities. Although certain regulatory measures are necessary to accomplish mutual objectives, a large responsibility is placed upon participating leading institutions for the exercise of discretion and prudent practices in carrying out the program.
- 1-3. CONTRACT OF INSURANCE. Under Title I of the National Housing Act as amended, the Assistant Secretary-FHA Commissioner is authorized and empowered to insure banks, trust companies, personal finance companies, credit unions, mortgage companies, building and loan associations, installment lending companies, and other such financial institutions, which he finds to be qualified and approves as eligible for credit insurance against losses which they may sustain as a result of eligible mobile home loans. Application for a mobile home loan contract of insurance should be submitted on Form FH-21 to the HUD-FHA Field Office servicing area.
- a. Qualifications for a Contract of Insurance. The following institutions are eligible to hold a contract of insurance:
- (1) Financial institutions which have held a contract of insurance and have demonstrated to the Assistant Secretary-FHA Commissioner their ability to conduct satisfactorily their property improvement loan operations.

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- (2) Members of the Federal Reserve System, of the Federal Home Loan Bank System, and institutions whose deposits are insured by the Federal Deposit Insurance Corporation.
 - (3) Any Federal, State, or municipal government agency that is or may hereafter be empowered to conduct an installment lending operation.
 - (4) Any lending institution not mentioned above may qualify for a contract of insurance upon application, if it possesses the following qualifications and meets the following conditions to the satisfaction of the Assistant Secretary-FHA Commissioner:
 - (a) It is a chartered institution or other permanent organization having succession.
 - (b) It is subject to inspection and supervision by a governmental agency, of if not subject to such inspection, it has sound assets properly proportioned to its liabilities and to the character and extent of its operations.
 - (c) If not under acceptable supervision, it submits with its application an independent detailed audit of its books made by an accountant satisfactory to the Commissioner, and so long as it holds a contract of insurance, it files with the Assistant Secretary-FHA Commissioner similar audits at least once in each calendar year.
 - (d) Its principal activity is that of lending funds, or investing in mortgages, consumer installment notes, or similar advances of credit, and it demonstrates its ability to pass on borrower's credit, and to effect collections.
 - (e) It is permitted by statute in the jurisdiction(s) in which it proposes to operate, to make mobile home loans.

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- (f) It has lending quarters and facilities that are in keeping with the accepted facilities of financial institutions making consumer credit loans.

- b. Termination of a Contract of Insurance. A contract of insurance may be terminated with respect to any future business at any time, upon five days' written notice from the Commissioner. Termination occurs where it appears to the Assistant Secretary-FHA Commissioner that a financial institution is not exercising proper credit judgement, is not taking reasonable steps necessary to safeguard its outstanding loans, or is not exercising proper care in selecting those from whom it purchases notes. Cancellation of a contract of insurance will in no way adversely affect the insurance reserve on eligible loans already accepted for insurance recordation.

If the insured elects to discontinue making mobile home loans it may request a termination of the contract of insurance, and all insurance reserves earned by such insured as of the date of termination by the Assistant Secretary-FHA Commissioner will remain to its credit until (a) exhausted by the filing of claims for loss, or (b) the liquidation of all loans in the portfolio of such insured. It is necessary that written notice of the contemplated action be given to the Assistant Secretary-FHA Commissioner sufficiently in advance of the desired effective date to permit an orderly processing of pending loan report manifests.

- 1-4. LENDING AREA. The HUD-FHA expects a qualified financial institution to make mobile home loans only in the trading area usually served by the institution in its normal operations. When an institution extends its lending operations beyond a territory which it is able to service effectively, it cannot properly or profitably handle such business. A lending institution must be in a position to investigate credits, make spot checks of the mobile homes being financed, and have its own employee or qualified representative make personal contact with delinquent borrowers. Lenders wishing to expand their servicing territory shall obtain the approval of the Assistant Secretary-Commissioner.
- 1-5. DEALER RELATIONS. The retail financing and selling technique of a mobile home dealer will be reflected in every mobile home loan reported for insurance. His role is one of prime importance as

he or his salesmen, in effect, represent the lending institution in negotiations with the purchaser of a mobile home. Therefore, the lender must make a thorough investigation of the dealer's financial responsibility and stability prior to beginning a lending relationship.

- a. Irregularities. We are all aware of the abuses inflicted on

the purchasers by some elements active in the mobile home field. The nature of this industry has encouraged dealer activity by some unscrupulous persons whose integrity is questionable. These individuals are interested only in the quick profit they can make at the expense of the purchaser and lender. The abuses may include such practices as grossly overstating the merits of the home, misrepresenting performance and inflating the sale price.

- b. Dealer Supervision and Control. There is no place in the HUD-FHA program for persons who indulge in the practices discussed above. The closer the supervision and control maintained by the lender over the dealer, the less likelihood there is of misrepresentation, misapplication of funds, overselling, or other abuses. The prompt identification and elimination of unscrupulous dealer and salesmen from the program protects the home owner, the lending institution, and the Government.

1-6. DEALER APPROVAL. HUD-FHA does not approve dealers for participation in the program. This is a responsibility of the lending institution.

- a. Dealer File. The Regulations require the insured institution to have a file on each dealer containing an application signed and dated by the dealer. It is further required that the file contain a signed and dated approval of the dealer. This approval is supported by information in the file that the dealer is (1) reliable, (2) financially responsible, (3) qualified to perform satisfactorily the set-up of the home and (4) equipped to extend proper service to the customer. The dealer approval should be evidenced on the HUD-FHA dealer's application, which is the form specifically approved by the Commissioner for this purpose. The absence of such a file containing the required dealer application and approval

with supporting information is a violation of the regulations, and loans purchased from such unapproved dealers do not meet the requirements of the insurance contract. Where claim for reimbursement is shown to have resulted from default occasioned by fraud or faulty performance on the part of the dealer, the insured may be called upon to furnish the Assistant Secretary-FHA Commissioner with the file containing its approval of the dealer.

- b. The HUD-FHA Will Not Permit lending institutions to use insurance coverage afforded under the program for testing the

dependability of dealers. The lender should have full knowledge of the principals of the firm, the salesmen, and their method of operation. Only a thorough investigation will develop adequate and reliable information upon which the lending institution can make a proper decision.

c. Approval Procedure. Before accepting any dealer-presented loan application, the following steps should be taken:

- (1) Obtain a completed FH-13. (MH) Dealer Application and a current financial statement certified by a licensed public accountant.
- (2) Check the FHA Precautionary Measures List to ascertain if the firm or any of its principals or sales personnel are listed thereon.
- (3) Order a credit report on the firm and local retail credit report on each of the principals. (Information on paying habits of the principals on their personal obligations is useful in evaluating the financial stability of the business they operate.)
- (4) Make direct checks on trade and banking references. Check with the local HUD-FHA Field Office to see if that office has had any adverse experience with the dealer seeking your approval.
- (5) Inspect the dealer's place of business to determine the permanency of same and the adequacy of available equipment.

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- (6) Obtain copies of brochures, descriptive literature, guarantees, sales contracts, and price lists.
 - (7) Carefully analyze the information developed to determine whether the principals are of good character and the firm is solvent, financially responsible, qualified by experience to Set-up the home, and equipped to give customer proper services.
 - (8) If the dealer is approved, complete the reverse side of the FH-13 (MH) Application form, with particular attention to the blocks calling for the signature of the approving institution official and the date of approval.

1-7. SUPERVISION BY LENDING INSTITUTIONS. Review the contents of the

Mobile Home Regulations with the approved dealers, familiarize the dealer with the required Title I forms with emphasis being placed upon the proper completion of all documents. The experience of many years of consumer lending has shown the following procedures to be the minimum for a lending institution to adopt in supervising dealers:

- a. When the Dealer Brings in his First Loan Application, set up a dealer experience record showing at least the volume of loans purchased, transactions rejected, claims filed, and borrower complaints received or irregularities discovered.
- b. Make an On-The-Premises Inspection of the Mobile Home placement on the first transaction discounted by a new dealer and interview the borrower prior to disbursement. Thereafter by phone, letter, or observation, spot check an average of at least one of every four loans discounted.
- c. Require Each Approved and Active Dealer to submit an up-to-date financial statement annually, certified by a licensed public accountant.
- d. Supplement the Financial Statement obtained by up-to-date credit report(s) or direct inquiries to the dealer's supply sources, as considered necessary.

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- e. Analyze Dealer Experience Records on monthly basis. Principal considerations in this analysis should be:
 - (1) The dealer's reject ratio. If in excess of 20 percent, review the rejected applications to determine the dealer's area of operation, the quality of the paper being presented, etc.
 - (2) The number and nature of complaints received to ascertain the quality of the dealer's workmanship, his past cooperation in satisfying complaints, and tendencies to perpetuate irregularities.
 - f. At Least Every Three Months visit the dealer's place of business to observe condition of premises and discuss the quality of the paper being presented, problems encountered, and changes in sales personnel.
- 1-8. MAINTENANCE OF RECORD ON EACH APPROVED DEALER. As a basis for determining whether continued dealer approval is warranted, the insured institution is required to establish and maintain a

separate control record on each dealer indicating at least the volume of loans purchased, claims filed, and borrower complaints received or irregularities discovered. A suggested control record which an institution may use is supplied by the HUD-FHA upon request. Whenever an institution has occasion to withdraw approval of a dealer, the dealer file should clearly indicate who took the action, the reason for the action, and the date.

- 1-9. REPORTING IRREGULARITIES TO HUD-FHA. Materials irregularities or unethical practices perpetrated by anyone participating in the program should be immediately reported to HUD-FHA. The report may be sent either to the local HUD-FHA Field Office or directly to the Central Office in Washington.
- 1-10. PRECAUTIONARY MEASURES. When irregularities or disregard for the Statute and Regulations on the part of dealer, or salesmen employed by them, are brought to the attention of the HUD-FHA lending institutions will be notified. When such notification is received from the Assistant Secretary-FHA Commissioner or his authorized agent, the provisions of Section 201.615 of the Regulations will apply. Lending institutions should consult with the local HUD-FHA Field Office if a dealer problem arises where they believe assistance is needed.

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- 1-11. INELIGIBLE PERSONS. A procedure has been established under which individuals, companies, or institutions may be barred entirely from further participation in the various housing programs. The procedure is intended to be employed in connection with particularly flagrant violations or abuses. Insured lending institutions will be given appropriate notification of actions taken under this procedure.
 - 1-12. INSURANCE RESERVES. An insurance reserve is established for each participating lending institution. For each eligible loan reported by an insured lender and accepted for insurance registry by HUD-FHA, 10 percent of the net proceeds of the loan is credited to the lender's insurance reserve. The cumulative credits to the insurance reserve for each lender will equal 10 percent of the net amount advanced by it on all eligible loans. Each lending institution is thus insured against losses on its overall lending operation, with the amount of each claim paid being subtracted from the insurance reserve recorded for the particular lending institution that submitted the claim.
 - a. Annual Reserve Adjustments. On July 1 next following the expiration of a period of 5 years after the date of acceptance of the contract of insurance issued to a lending

institution by the Commissioner, the amount of insurance reserve to the credit of such insured is adjusted by carrying forward into the next annual period 90 percent of the unused reserves outstanding on such date. The insurance reserve of each insured is adjusted in like manner on each subsequent July 1. No such adjustment shall reduce the insurance reserve of any insured to an amount less than \$15,000.

- b. Unused Reserves. The amount of unused reserves to be carried forward at the beginning of each annual period is determined according to the records of the Assistant Secretary-FHA Commissioner, and a statement showing the amount of such unused reserves is furnished each insured as promptly as possible after the close of each annual period.
- c. Co-mingled Reserves. The aggregate amount of loans advanced by a lending institution, for the purpose of determining its general insurance reserve, shall include loans reported for insurance under both the property improvement and mobile home loan programs.

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- 1-13. CLAIM FOR LOSS. Claim for reimbursement of loss on an eligible obligation may be made to the Assistant Secretary-FHA Commissioner after default, repossession, and sale of the mobile home. Unless an extension of the claim filing period has been granted by the Assistant Secretary-FHA Commissioner, the allowable claim period will run to 9 months and 31 days after the due date of the earliest fully unpaid installment.
- a. Amount Payable on Losses. The amount of claim is limited to 90 percent of the calculated principal loss sustained by the lender, plus other allowances permitted by the Regulations. Interest at 7 percent per annum will be computed on the outstanding principal balance from the date of default to the date of application for reimbursement of loss, or to a date nine months and 31 days from date of default, whichever period of time is the lesser. In no event shall the total interest allowance exceed the maximum permissible financing charge on the principal amount outstanding nine months and 31 days from the date of default.
 - b. Assignment of Obligation. The obligation on which a claim is paid is assigned in full to the United States, and 10 percent of the calculated loss will be borne by the lender. The obligation is not reassignable even though HUD-FHA may make full recovery of the amount due on the obligation, nor will there be any transfer or credit of funds in such

instances. In no case may an insured lending institution ask a borrower, dealer, or other person to reimburse the institution for co-insurance loss, or any other deduction made by HUD-FHA in settlement of a claim, since the National Housing Act contemplates that such loss will be borne by the lender. Since the lending institution is no longer holder of the obligation, it has no legal basis for requesting the obligor to make further payments. Any amounts received on account by the lending institution after assignment of the claim must be forwarded promptly to HUD-FHA.

- c. Cancellation or Voluntary Repurchase of Claims. A claim may be withdrawn upon return of the Treasury check. In the event the check has been accepted for deposit, the insured may voluntarily repurchase the claim by submitting its official check for the claim amount, provided in each instance the transaction is consummated not later than thirty-one (31) days from the date the Treasury check was received by the lender.

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- 1-14. INSURANCE CHARGE. The Regulations provide for an insurance charge of thirty-three one-hundredths of one percent per annum of the net proceeds of each loan reported for insurance. The charge for a full month is made for the fractional period of a month if more than 14 days, but no charge is made if the fractional period is 14 days or less. For example, in the case of a loan for a term of 36 months and 14 days a charge is made for 36 months, and in the case of a loan for a term of 36 months and 15 days a charge is made for 37 months.
- a. As an Illustration of the Computation of the Insurance Charge, if the net proceeds of a loan maturing in 144 equal monthly installments beginning one calendar month after the date of the note is \$10,000, the insurance charge would be \$3.96 percent (12 years time 0.33 percent) of \$10,000 or \$396.00. Stated another way, the factor for one month at 0.33 percent (.00027500) is multiplied by the amount of net proceeds, and this result is then multiplied by the term in months--that is, .00027500 x \$10,000 x 144 months in the foregoing example.
 - b. Lending Institutions are Billed on monthly statements. The statement covering initial insurance charges constitutes acknowledgment of the acceptance of the related loans for insurance registration. Detailed information and instructions pertaining to the computation and payment of the insurance charge are given in Chapter 3.

- c. No part of the Insurance Charge may be passed on to the borrower directly or indirectly if such charge would cause the total payments made by the borrower to exceed the maximum charge permitted.

1-15. RESTRICTIONS OF ELIGIBILITY OF LOANS FOR INSURANCE

- a. Dealer Reserve and Guarantees. A dealer reserve account is established when a lender sets aside or holds back a portion of the net proceeds or principal of a loan for return to the dealer, contingent upon the repayment of the mobile home obligation as scheduled. Such reserve accounts to cover losses on loans reported to the Assistant Secretary-FHA Commissioner for insurance are prohibited.

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- (1-15) (1) A loan may be endorsed or guaranteed by a dealer or other person; however, it must be undertaken without the aid of a dealer reserve and must cover the full amount due on the obligation.
 - (2) Dealer participation, wherein the lender sets aside a portion of the financing charge for the dealer is acceptable provided the total financing charge taken does not exceed the maximum allowable charge permitted.
 - b. DISCOUNTS, POINTS, AND FEES. The maximum financing charge allowed by the regulations is fixed by law and is intended to cover all expenses that may be incurred by the lending institution in acquiring the obligation and placing the transaction on its books.
 - (1) In acquiring an obligation the lender may not charge the dealer or others a discount on the purchase price nor may the lender assess the dealer any other points. For example, a mobile home obligation presented to the lender in the principal amount of \$8,000 must be purchased at this figure. That is, a 2% discount lowering the purchase price to \$7,840, or assessment of 2 points wherein the lender accepts \$160, would be a violation of the Regulations.
 - (2) A lending institution may not charge an application or origination fee in purchasing a mobile home obligation.
 - c. Outstanding Mobile Home Obligations. The Regulations do not permit an individual borrower to have outstanding more than one mobile home obligation at any time. The lending

institution must determine that any prior insured mobile home obligation has or will be paid in full prior to disbursal of proceeds of an additional mobile home loan. Upon presentation, of the facts to the Director, Property Improvement and Mobile Home Division, consideration to granting a waiver to this provision may be made provided the loan otherwise qualifies for insurance.

- d. Outstanding Federal Obligations. If, prior to the disbursement of the loan proceeds, the lending institution has knowledge that the borrower is past due more than 15 days in the payment

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of either principal or interest on an obligation owing to or insured by a department or agency of the Federal Government, the transaction will not be eligible for insurance.

NOTE: If the borrower is in default under such an obligation by reason of his being in the military service, this provision may be waived upon presentation of the facts to the Director, Property Improvement and Mobile Home Division.

1-16. GNMA PARTICIPATION. To facilitate financing under the Title I Mobile Home Loan Program a mortgage-backed security program under a "modified pass-through" concept has been established with the Government National Mortgage Association. The Modified Pass-Through Mortgage-Backed Securities are based on and backed by pools of mobile home loans insured by HUD-FHA and guaranteed by GNMA. Full particulars regarding this participation with GNMA are detailed in Reference (1) of the Foreword.

- a. A pool must consist of at least \$500,000 in outstanding principal balance of loans accepted for insurance by HUD-FHA under Title I of the National Housing Act, as amended. Mobile Home Loans to be eligible for inclusion in a pool shall in addition to the Mobile Home Regulations comply with the following modifications:

- (1) Pool "A" all loans shall have been made for a term of 12 years at 7.97% simple interest in an amount not to exceed \$10,000 on a single wide unit.

- (2) Pool "B" all loans shall have been made for a term of 15 years at 7.63% simple interest in an amount not to exceed \$15,000 on a double wide unit. (A double wide unit not exceeding \$10,000 in cost may be included in Pool "A").

- (3) Loans in Pool "A" and Pool "B" may not be co-mingled as each must contain only loans of prescribed uniform original terms and rate and must not have been discounted at any time.

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- (1-16) (4) Each pooled loan must be written as a simple interest obligation. It shall have equal monthly payments of principal and interest due. It shall be payable on the first day of the month following execution of loan documents (example: all loans closed in August must have the first payment due September 1st).
- (5) All loans must commence amortization on or before the date of issue and no loans may be delinquent more than 15 days at the time of execution of the Schedule of Pooled Mortgage.
- (6) The lending institution must certify that he has in its possession a valid, standard policy of insurance for fire and extended coverage, or comparable insurance coverage. The policy will be in an amount equal to the unpaid balance of the obligations or the value of the unit, whichever is the lesser. The policy will have loss payable endorsements designating the lending institution as payee, as well as vendor's single interest (VSI) coverage. The lender will also certify that it will use its best efforts to maintain such insurance in full force and effect.

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