

---

CHAPTER 2. DISBURSEMENT OF ELIGIBLE LOANS

- 2-1. GENERAL. This chapter provides the insured lending institution with the policy and requirements in connection with the disbursement of eligible loans, including: property, structural and location standards; credits; loan documents; financing charges; refinancings, assumptions, and modifications; and collection procedures.
- 2-2. DISTINCTION BETWEEN "DIRECT LOANS" AND "DEALER LOANS". It is important that a clear understanding be had as to the elements constituting "direct loans" as distinguished from "dealer loans
- 2-3. DIRECT LOANS. The lending institution may make a direct loan by drawing the proceeds check jointly to the borrower and seller of the mobile home. The direct loan procedure should be used only where the application for the loan, and all contacts and arrangements are made solely by the borrower.
- a. On a direct loan, the provisions of Section 201.595 of the Mobile Home Regulations covering dealer investigation, approval, and control do not apply.
  - b. In addition, on a direct loan, the credit application bearing the borrower's signature must be filled out and completed by one of the following:
    - (1) The borrower or borrowers; or
    - (2) The maker of the obligation other than a borrower; or
    - (3) A person acting at the direction of a borrower who has no financial interest, directly or indirectly, in the contract for the purchase of the mobile home. (An officer of the lending institution will normally qualify under this category.)
- 2-4. DEALER LOANS. In connection with all loans not made directly to the borrower, the lending institution must have investigated and approved the dealer (See Chapter 1).

- 
- 2-5. BORROWER'S USE. The borrower must establish that he is purchasing the mobile home for his own use and occupancy as his principal

shelter, i.e., a residence where he expects to live not less than 9 months of a year.

A mobile home purchased for the purpose of establishing a second home, vacation home or for other temporary use and occupancy is not eligible.

- 2-6. NEW OR USED MOBILE HOMES. A mobile home loan may be made for financing the purchase of either a new or used unit.
- a. A New Unit is the current year model or a previous year model, neither of which had been previously used or occupied at the time of purchase.
  - b. A Used Mobile Home may be financed provided the unit being sold has been acquired with financing provided under the Title I Mobile Home Program, or has been occupied under lease from a governmental agency for temporary shelter when the President has determined a major disaster exists.
- 2-7. STRUCTURAL DESIGN AND STANDARDS. To assure buyer protection the mobile home must be designed and constructed so as to insure adequate durability and livability as well as safety for the occupants.
- a. A mobile home to be eligible for financing must be constructed in accordance with the specifications in effect at the time the loan is made as prescribed in Mobile Home Standard No. A119.1, as approved by the American National Standard Institute. These standards cover the equipment and installation of plumbing, heating, and electrical systems as well as the body and frame design and construction of the mobile home.
  - b. A certification from the manufacturer stating that the mobile home was constructed in accordance with Standard No. A119.1 must be obtained and become a part of the borrower's individual loan file.
  - c. An eligible mobile home must have a minimum floor space area of at least 400 square feet and may consist of one or more modules. For instance, a single wide module 40 feet long

---

and 10 feet wide would be eligible as well as a double module consisting of two units 30 feet long and 8 feet wide intended by the manufacturer to be joined to make a single house.

- 2-8. LOCATION STANDARDS. The mobile home may be placed in a mobile

home park, approved by the Assistant Secretary-FHA Commissioner, or on a site owned by the borrower which meets the requirements prescribed by the Assistant Secretary-FHA Commissioner.

- a. A mobile home park to be approved by the Assistant Secretary-FHA Commissioner must meet minimum standards and specifications relating to sanitation, site or lot location, vehicular access, landscaping, and such other requirements conducive to a adequate environment. Park acceptability may be obtained by inquiry and request for inspection to the local HUD Field Office.
- b. A park constructed or financed with government assisted funds or located within the confines of a government or military reservation is an accepted site without the need for inspection.
- c. Privately owned property or property being acquired under a land contract agreement are eligible sites for the emplacement of mobile homes. In the event the site is serviced by a governmental authority with respect to central water and sewer facilities there is no minimum size requirement. However, if the site requires installation of a well, septic field system, cesspool, etc., the minimum size of the property may not be less than one-quarter acre. Additionally, a certification from an authorized local official must be obtained certifying that the emplacement of a mobile home does not violate sanitary, zoning, or other restrictive codes.
- d. Emplacement of a mobile home on rented or leased private or municipal property is ineligible.
- e. Insurability of a transaction will not be adversely affected if after complying with initial placement procedure, the borrower with lender knowledge, moves the unit to a site which does not conform to eligibility standards.

---

2-9. CREDIT INVESTIGATION AND APPROVAL. In applying for and accepting a contract of insurance, the lending institution assumes the responsibility of applying sound principles in the evaluation of credit. The lending institution in considering the credit of the applicant must bear in mind that HUD-FHA insurance coverage does not relieve it of the responsibility of exercising the care that a prudent lender would take if the loan were not being offered for insurance.

- a. Credit Application. The applicant must furnish the lending institution with an executed credit application on a form

approved or provided by HUD-FHA for each loan made or obligation purchased. The credit application form provided is numbered FH-1(MH). The lending institution should assure:

- (1) that all questions are answered;
  - (2) that the form is properly dated and executed by the eligible borrower;
  - (3) that if proceeds are to be disbursed to a dealer, the persons selling the mobile home have signed; and
  - (4) that if prepared by other than the applicant, the person preparing the application has signed.
- b. Credit Investigation. The application must be supplemented by either a commercial credit report on the borrower or evidence of the lender's investigation of the borrower's credit to satisfy the lender that the applicant represents an acceptable credit risk. Such other information as is considered desirable should be obtained and on the basis of all information in its possession, the lending institution must then pass upon the acceptability of the credit risk.
- c. Credit Approval. There should be assurance that the applicant has a steady and sufficient income that will permit orderly reduction of his mobile home loan as well as living and operating expenses and other obligations. Income from rents and other sources should be given credit consideration only when such income is verified and is determined to continue for the life of the loan. The applicant must have a reputation for meeting his obligations promptly.

---

9/73

Page 2-4

HUD-Wash., D. C.

---

4710.1

- d. Inflated Prices. When considering an application for a loan, it is important that the lending institution, determine that the amount of credit applied for is in proper proportion to the value of the mobile home being purchased. Lending institutions are expected to exercise due diligence to detect inflated charges for homes to be financed with proceeds of the Title I loan. It is obvious that loans which finance excessive costs represent unsound credit advances on which collection will be difficult. More importantly lending money under such conditions is a grave disservice to mobile home purchasers.

2-10. ELIGIBLE OBLIGATIONS.

- a. To be Eligible it is necessary that:
- (1) An obligation bear the genuine signature of the borrower(s);
  - (2) The obligation must be valid and enforceable against the "borrower(s)" as defined in the Regulations;
  - (3) Any signature in addition to that of the borrower(s), such as the co-makers or endorsers, must be genuine;
  - (4) The name of the payee must be stated;
  - (5) The numerical and written face amounts must be in agreement;
  - (6) The obligation must stipulate the number and amount of the equal periodic payments, and;
  - (7) If the obligation calls for monthly installments, the first payment must not be due more than two calendar months from the date of the obligation.
- b. Postdating or Delayed Dating Obligations to project or extend the due date of the initial payment is not permitted. It is suggested that the date fixed by the insured institution for the first and subsequent payments should be made agreeable to the borrower and correspond whenever possible with the date on which he receives his income. The obligation must contain a provision for acceleration of maturity upon default.

- c. Obligation Forms. HUD-FHA does not furnish the lending institution with mobile home obligation forms. Lending institutions have the responsibility of drafting forms and obtaining completed forms that are valid and enforceable in the jurisdiction where loans are made. Proposed mobile home obligation forms may be submitted to HUD-FHA to ascertain whether or not any of the provisions conflict with the requirements of the Title I regulations or the Housing Act of 1969. If a dealer loan, and the dealer is designated payee, the reverse of the obligation must bear a complete with or without recourse endorsement by the dealer-contractor. Example:

WITHOUT RECOURSE  
Pay to the order of

The Doe Bank  
ABC Home Improvement Company

By .....  
Manager  
Title .....

d. The Obligation must be secured by a properly recorded financing statement and security agreement or other security instrument which creates a first lien against the mobile home and its furnishings, equipment, and accessories.

2-11. LOAN DOCUMENTS. In addition to the credit application and obligation, other documents are required in connection with the disbursement of loans under certain circumstances. These documents (when applicable), as well as the credit application and obligation, must be included in the file if a claim for loss is made.

2-12. BORROWER'S AND DEALER'S PLACEMENT CERTIFICATE, FORM FH-2 (MH):  
The applicant must furnish the lending institution with a properly executed placement certificate on a form provided by HUD-FHA for each loan made or obligation purchased. The placement certificate form provided is numbered Form FH-2 (MH).

a. The purchase of the mobile home and the installation services performed by the dealer must constitute the entire consideration for which the obligation was executed and delivered by the maker.

---

9/73

Page 2-6

HUD-Wash., D. C.

---

4710.1

---

b. The placement certificate must be supported by a certificate of approval by a public authority which establishes that the site has adequate sanitary facilities and is in conformance with applicable sanitary codes of the jurisdiction where the mobile home is to be located.

c. The certificate must be properly dated and signed. The signature of only one eligible borrower is required as well as the signature of the person approved by the lender as dealer. The signature on the borrower's portion of the certificate should be compared with the signatures on the credit application and obligation as a precaution against forgery.

2-13. MANUFACTURER'S INVOICE. The dealer or the person selling the mobile home must furnish the lending institution with a manufacturer's invoice statement issued by the manufacturer and

stating the true wholesale price of the mobile home, its furnishings, equipment and accessories. HUD-FHA does not issue this form, thus, a document which is in general use in the industry is acceptable.

- a. The manufacturer's invoice must be reduced by the cost of all components removed by the dealer, and likewise, the invoice must be increased by the cost of all components added by the dealer. In no case may the net proceeds of a loan include an amount in excess of 115% of the invoice cost of the mobile home, furnishings, equipment, and accessories.
- b. Items which are eligible expenditures and may be included as accessories are skirts, tie-down straps, awnings, steps and stoops, as well as other accessories which substantially protect or improve the basic livability or utility of the property.
- c. Items which are ineligible expenditures include purchase of the lot, site preparation, grading, landscaping, well digging and installation of septic system or cesspool.
- d. A request for a specific ruling as to any item about which there may be doubt on the part of the lending institution as to eligibility may be requested from the Director, Property Improvement and Mobile Homes Division, Federal Housing Administration, Department of Housing and Urban Development, Washington, DC 20411.

---

2-14. ADVANCE NOTICE TO BORROWER. At least six days prior to making disbursement to a dealer, the lending institution is required to mail or personally deliver to the borrower written notice of its intention to make the loan if there is no objection from the applicant. It is not required that the borrower acknowledge receipt of the notice; however, the insured must have a record of having mailed or delivered such notice. Suggested record of such delivery is a dated carbon copy of the notice or a dated notation in the loan file.

- a. Supplies of the Advance Notice are not furnished by HUD-FHA as it is believed that the institutions should issue the notice on their own stationary. As the Regulations require such notice to be on a form approved by the Assistant Secretary-FHA Commissioner, this shall be considered as official approval of any notice containing in its text the minimum data in either of the suggested form illustrated below.

- b. Lenders should Add to this Notice any additional information that may be helpful to the homeowner in fully understanding the transaction. Frequently, a warning is expressed and the borrower is cautioned that the placement certificate should not be signed until he is satisfied as to the completion of the installation and set-up of the mobile home.
- c. In Case the Amount of a HUD-FHA Home Loan is to be Increased, a second advance notice reflecting the new amount should be mailed to the borrower and disbursement not made until at least six days thereafter. If, for example, the notice is mailed on the first day of the month, disbursement shall not be made before the seventh day of the month. In a case where the amount of the loan turns out to be less than the amount indicated in the notice, it will not be necessary to send the customer another notice.
- d. Suggested Notice Forms. See Figures 1 and 2.

9/73

Page 2-8

HUD-Wash., D. C.

4710.1

CHAPTER 2 FIGURE 1

(letterhead of institution)

OUR NOTICE OF INTENTION TO EXTEND A  
MOBILE HOME LOAN TO YOU

\_\_\_\_\_  
Date

Dear \_\_\_\_\_:

We are pleased to have received your application for credit in the amount of \$\_\_\_\_\_, for \_\_\_\_\_ months under Title I of the Housing Act of 1969 as presented to us by \_\_\_\_\_.

In the event the application is approved, the face amount of your obligation will be \$\_\_\_\_\_ which includes financing charges and will be payable in installments of \$\_\_\_\_\_ per month.

If you have any questions regarding this transaction, or if we can be helpful in any way, kindly let us hear from you within 6 days from the date of this notice. Otherwise, if the loan is finally approved, we shall purchase your obligation and pay the proceeds to the dealer named above. It will be a pleasure to have you as a customer.



Sincerely,

---

Page 2-9

9/73

HUD-Wash., D. C.

---

4710.1

CHAPTER 2 FIGURE 2

---

Letterhead of Institution

ADVANCE NOTICE OF ACCEPTANCE AND INTENT TO PURCHASE  
AN FHA TITLE I MOBILE HOME OBLIGATION

\_\_\_\_\_ Date

Dear \_\_\_\_\_:

We will purchase the obligation payable to the dealer listed below. The face amount of your obligation will be \$\_\_\_\_\_ which includes financing charges and will be payable in installments of \$\_\_\_\_\_ per month.

It is our intention to disburse the funds to the dealer when all the necessary documents, including a placement certificate indicating the installation has been satisfactorily completed, are received in proper order, but not earlier than six days from this date.

If you have any questions regarding this transaction, or if we can be helpful in any way, let us hear from you within six days from this date.

Sincerely,

---

9/73

Page 2-10

HUD-Wash., D. C.

---

4710.1

---

2-15. ADDITIONAL LOAN REQUIREMENTS.

- a. Borrower's Minimum Investment. The borrower must make a minimum cash downpayment of 5% of the first \$6,000 of the total cost of the mobile home its furnishings, equipment, and accessories as shown in the purchase contract, plus 10% of

of any amount in excess of \$6,000.

- (1) While the foregoing is basically the minimum cash investment required on a Title I Mobile Home Loan, the occasion may arise where a greater down payment is required to comply with all of the provisions of the regulations.

For example, let us say that a borrower is purchasing a mobile home on which the manufacturer's invoice price of the unit, its furnishings, equipment, and accessories is \$6,000. The dealer is selling this unit at a price of \$7,500. The down payment requirement will thus be 5% of \$6,000 or \$300, plus 10% of \$1,500 or \$150, for a total of \$450. Deducting \$450 from the cost of \$7,500 leaves a balance of \$7,050. Since 115% of the manufacturer's invoice cost of \$6,000 amounts to only \$6,900, the borrower would of necessity have to make an additional down payment of \$150, the difference between \$7,050 and \$6,900.

- (2) The down payment must be in the form of cash. Trade-ins are not acceptable as a down payment unless converted to cash.

b. **PERMISSIBLE FEES AND CHARGES.** A loan may include the cost of filing and recording fees, documentary stamp taxes, state and local sales taxes, costs of comprehensive and extended coverage insurance and vendor's single interest coverage, transportation or freight and set-up charges.

- (1) Items of furnishings, equipment, or accessories may not be included in permissible fees and charges.
- (2) Protective insurance in the form of credit life or accident and health insurance may not be included or incorporated in the net proceeds of a loan. While HUD-FHA has no objection to lending institutions

---

selling credit life or other protective insurance to borrowers under the Title 1 program, the borrower shall be permitted to purchase such insurance on a voluntary basis, and the cost of the insurance must be handled as a separate transaction.

- (3) Lenders are not authorized to charge an applicant a credit investigation fee, nor may such charge be included in the proceeds of a loan.

2-16. CHARGE FORMULA. Although the standard formula for determining the charge to the borrower contemplates a monthly installment note, it is intended that the same resulting ratio shall apply in the case of a note on which there is only one payment (or any number more or less than 12) per year, as in the case of a borrower who is making payments in accordance with the dates on which his income is received.

a. Discount Factor. A discount of \$5.50 on a \$100 obligation for a period of 1 year, with provision in the obligation for equal monthly installment payments, gives a ratio of 0.107-448 of total charge paid by borrower to average amount outstanding on the debt during the period of the loan. A discount of \$4.50 on a \$100 obligation for a period of 1 year, with provision in the obligation for equal monthly installment payments, gives ratio of 0.86992 of total charge paid by borrower to average amount outstanding on the debt during the period of the loan.

b. Gross Charge Factor. By using the gross charge factor, a lending institution can ascertain the maximum amount of interest it may charge on a loan of any amount and any duration.

c. Tables for Use in Determining Financing Charge.

(1) FHA No. 1354 Gross Charge Factors for Loans Having Seasonal Payments, i.e., quarterly, semi-annually, and annually.

(2) FHA No. 1356 \$5.50 Gross Charge Factor Table, one month through 180 months.

---

9/73

Page 2-12

HUD-Wash., D. C.

---

4710.1

---

(3) FHA No. 1357 \$4.50 Gross Charge Factor Table, one month through 180 months.

(4) FHA No. 1358 \$5.50 and \$4.50 Daily Gross Charge Factors, 1 day through 31 days.

d. Payment Schedule Booklets. The Regulations permit a monthly-payment note to provide for a period of as long as two calendar months from the date of the instrument to the due date of the first payment. A "calendar month" is the interval from a particular date in a month to the corresponding date in the following month. For example, from October 3 to November 3 is one calendar month; from February 15 to April

15 is two calendar months, etc. For simplicity, payment schedule booklets are available which contain pre-computed financing charges, monthly installments, and effective annual percentage rate. These are:

- (1) FHA No. 1359 and 1359A, for use in connection with loans in which the initial period (the interval between the date of the note and the due date of the first payment) is exactly one calendar month.
- (2) FHA No. 1360 and 1360A, for use where the interval is one and one-half calendar months.
- (3) FHA No. 1361 and 1361A, for use where the interval is two calendar months.

2-17. PREPAYMENT REBATE. Where the prepayment of an installment is merely a voluntary payment prior to its due date, such payment shall not be construed as increasing the ratio provided for in the Regulations. However, if the entire balance outstanding on the note is paid in advance, the lending institution must make a rebate of the full unearned portion of the total financing charge. The prepayment rebate will therefore be calculated in the same manner as a refinancing rebate, more commonly identified as the rule of 78ths. Where the law of the jurisdiction permits an acquisition or minimum retained charge, such charge may be deducted from the rebate. See booklet FHA No. 1355, Tables of Factors, for applicable factor.

---

In computing the prepayment rebate, the lender is not required to make a rebate of less than \$1.00 except on application of the borrower.

2-18. REFINANCING. HUD-FHA recommends that lending institutions utilize the refinancing privilege permitted by the Regulations in cases where the facts and circumstances justify retention of the account. Such action should be taken when it will assist the borrower to pay out his obligation in full. Care must be taken in refinancing to be certain that security is not released. The dropping of a signature in refinancing is considered a release of security. Each refinancing transaction should be reported within 31 days from the date of refinancing on the Title I Refinancing Report, Form FH-5. (See Chapter 3.)

- a. All loans previously insured may be refinanced in accordance with the provisions of the regulations in effect at the date of refinancing.

- b. In refinancing notes previously reported for insurance, the unearned portion of the financing charge must be refunded to the borrower. The borrower may be assessed a handling charge of not more than \$25.00 in connection with the refinancing. For simplicity in handling, it is suggested in the refinancing of an account that it be effected on the due date of an installment.

2-19. COLLECTIONS. A lending institution is expected to pursue an aggressive policy in the collection of HUD-FHA Mobile Home loans. In carrying out such a policy it is suggested that form notices, dictated letters, telegrams, telephone calls, and personal contacts be used. A system should be established calling for automatic follow-up, such as the fifth, tenth, and fifteenth day after default occurs. If this does not produce results, the account should receive special handling.

- a. The use of the telephone is recommended, but if results are not obtained the borrower should be personally contacted by a collector.
- b. Every effort should be made to discover the reason for default and to effect reinstatement of the account.

---

9/73

Page 2-14

HUD-Wash., D. C.

---

4710.1

---

- c. It is of the utmost importance to keep in close touch with the borrower when his note has become delinquent. Constant follow-up is essential to a successful collection program.
- d. Collectors should be urged "to make people think they will benefit by paying" on delinquent loans by emphasizing the necessity of shelter--"one of the needs of life" -- and values of homeownership rather than using general consumer orientated collection techniques.

2-20. ASSUMPTION AGREEMENTS. Where circumstances warrant, a lender may permit the assumption of the balance of a Title I Mobile Home Loan by a third party. This procedure in many instances will afford the lending institution with a prompt payer. It should be made clear, to all parties however, that the terms of the obligation must remain in full force and effect and the assumption does not relieve the original obligors of further liability.

- a. If, after obtaining credit reports, the lending institution is convinced that its security obligation is adequately protected, it may request release of original obligor by

writing for permission to the Director, Property Improvement and Mobile Home Division.

- b. Except in instances wherein a request for release of the original obligor is made, it is not necessary to notify HUD-FHA of the assumption.
- c. For all cases wherein a mobile home obligation is to be assumed, the lending institution should earmark its loan record since all future renewal insurance premiums will be billed in the name of the original obligors.

2-21. PERMISSIBLE LATE CHARGES. A late charge is to reimburse the insured for work involved in following the borrower for a delinquent payment. It is not a part of the original finance charge which is determined at the time the loan is granted on the basis that the obligation will be paid in accordance with its terms. The collection of late charges shall not be considered in computing the maximum amount which the insured institution may charge the borrower for discount, interest, or fees.

---

4710.1

- 
- a. Application of Late Charge. If the borrower makes a payment to be applied to his regular installment, it is not permissible for the institution to deduct late charges that have been billed unless the borrower specifies such deduction. However, if in the absence of specific instructions from the borrower the institution advises the borrower in writing that a portion of his payment has been applied to late charges and the borrower expresses no objection, such application shall be considered permissible insofar as the Regulations are concerned.
  - b. Evidence of Billing. Evidence supporting the application of late charges collected must be included in the file when a claim for loss is made. HUD-FHA does not reimburse the institution for uncollected late charges.
  - c. It is not Intended that late charges shall take the place of interest on the principal after the maturity of the whole obligation. Thus, a provision for such interest after maturity will not conflict with the limitations set forth in the Regulations. These limitations refer only to interest or late charges taken on a specific installment for failure to make that payment on time.

2-22. PRE-CLAIM COLLECTION ASSISTANCE. Preclaim collection assistance

is available when the financial institution determines that all collection effort on a defaulted account has been exhausted. Upon proper request (Form FH-83), HUD-FHA writes to the borrower(s) advising of the seriously delinquent condition of the account and urges that they immediately contact the financial institution to arrange a satisfactory repayment schedule. Detailed information about this plan may be obtained from the local HUD Field office. Lending institutions are requested to use this plan only as a last measure prior to filing a claim for loss with HUD-FHA. The plan should not be used when the lending institution knows there is a dispute or complaint by the borrower.