Resources, Community, and
Economic Development Division**RESTRICTED--Not to be released outside the
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B-246751

January 31, 1992

RELEASED

The Honorable Bob Wise, Chairman
Subcommittee on Government Information,
Justice, and Agriculture
Committee on Government Operations
House of Representatives

The Honorable Steven Schiff
House of Representatives

Your February 12, 1991, letter asked us to review the Farmers Home Administration's (FmHA) manufactured housing program operated by one of its approved dealer-contractors in New Mexico. Specifically, some homeowners charged that the manufactured units sold and erected by Day's Mobile Homes had numerous defects and that Day's had not repaired these defects as required by the warranty agreement.

As agreed with your offices, this letter summarizes information on (1) corrective actions taken to resolve homeowners' complaints against Day's Mobile Homes and (2) FmHA's efforts to remove Day's Mobile Homes from future participation in government programs.

Day's Mobile Homes was approved as a dealer-contractor by FmHA's New Mexico State Office on August 18, 1987, to sell and erect manufactured homes in New Mexico. Day's was one of three dealer-contractors approved to operate in New Mexico. FmHA county supervisors reviewed and inspected the site development designs of Day's Mobile Homes as part of the loan approval process. Furthermore, the county supervisors inspected the manufactured homes after they were installed on-site to ensure compliance with approved design plans as part of the closing process. FmHA processed, approved, and financed loan applications for 41 low-income individuals to purchase homes from Day's between August 1987 and September 1988. However, in September 1988, the president of Day's died and the company went out of business.

According to an FmHA state official, while Day's Mobile Homes remained in business, repair and warranty work was performed on a routine basis in accordance with the warranty requirements. However, after the firm ceased operations, the homeowners were left without a dealer-contractor to repair defects under the warranty agreement. Of the 41 homeowners who bought manufactured homes from Day's Mobile Homes, 10 wrote letters that were kept on file in FmHA's New Mexico state and county offices after Day's went out of business. These homeowners complained about a variety of defects, such as a leaking and dripping bathtub, a sticking closet door, warped storm windows, and dead sod and trees around the homes.

In April 1990, an official with the New Mexico Manufactured Housing Division, Regulation and Licensing Department; state FmHA officials; and a representative from the manufacturer (Champion Home Builders) inspected the claimed defects for six of the homes. On the basis of these inspections, Champion agreed as a gesture of good faith to correct the defects at its own expense, even though some of the defects were not necessarily covered by the warranty agreement. Champion arranged for repairs to the six homes at a cost of \$2,473 between July 1990 and February 1991. The defects cited by the homeowners and the corrective actions taken are shown in enclosure I. The contractor performed such work as removing and repairing kitchen faucets, unplugging toilets, and resealing tubs. Although 10 complaints were received, two homes had repair work performed by the manufacturer prior to the April 1990 inspection and were considered resolved by FmHA. The remaining two homeowners had letters on file; however, FmHA officials were unable to explain exactly why no record of repairs on these homes existed. FmHA officials told us that no complaints have been received from these two homeowners since April 1990 and that they considered the matter closed.

In July 1989, FmHA initiated debarment proceedings against Day's Mobile Homes because the company was unable to perform all of the warranty work on homes it sold in New Mexico.¹ Subsequently, FmHA decided not to pursue debarring Day's Mobile Homes because the company was defunct and its president deceased. However, in June 1991, FmHA issued a

¹Debarment excludes individuals or businesses from participating either directly or indirectly in programs operated by any federal agency unless an exception is granted by an authorized person. FmHA instructions state that debarment is to be used only in the public interest and not for purposes of punishment.

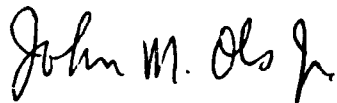
notice of suspension and proposed debarment of the company's surviving principal partners and its salesman from doing further business with the government. The individuals suspended had 30 days to contest the suspensions. No one contested the suspensions. Then in August 1991, FmHA issued letters debaring the surviving principal partners for 3 years and the salesman for 5 years. The salesman then contested the debarment. In December 1991, the salesman's debarment was overturned because FmHA failed to demonstrate by the applicable standard of evidence that the asserted grounds for debarment existed.

You also asked us for information on federal standards for manufactured homes and how FmHA's manufactured housing program operates. This information is provided in enclosure II.

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In performing our work, we discussed the manufactured housing loan program in New Mexico with FmHA officials in Washington, D.C., and New Mexico. We reviewed FmHA policies and procedures regarding site and home inspection standards and certification of approved dealer-contractors. In addition, we reviewed FmHA files of homeowners who bought their homes from Day's Mobile Homes in New Mexico, concentrating on the nature of complaints and follow-up actions to correct the defects.

As agreed with your offices, unless you publicly announce its contents earlier, we plan no further distribution of this correspondence until 30 days from the date of this letter. At that time, we will send copies to the Secretary, Department of Agriculture; the Administrator, Farmer's Home Administration; the Director, Office of Management and Budget; and other interested parties. We will also make copies available to others upon request. Should you require any additional information, please contact me at (202) 275-5525.



John M. Ols, Jr.
Director, Housing and
Community Development Issues

Enclosures

DEFECTS AND CORRECTIVE ACTIONS TAKEN ON SIX MANUFACTURED HOMES

<u>Unit</u>	<u>Defects cited by homeowners^a</u>	<u>Corrective actions^b</u>
1	Windows do not stay open, floor squeaks, mildew on bathrooms walls, bathtub faucet drips, sod and trees dead, and heater does not turn on unless set at 75 degrees or higher.	Tightened floor lags, repaired corner of wall, removed and repaired tub diverter, fixed loose panels, adjusted toilets.
2	House splitting in two, floor squeaks, windows slide down on their own, front door drags, mildew on walls, trim all over house is loose or broken, electrical outlets loose, shingles on roof have blown off, air condition rattles and leaks.	Removed and repaired three panels in bathroom, replaced self-edging, removed and repaired wall crack, tacked up loose trim, tacked up trim around windows, painted exterior, unplugged tub, renailed panels on end of house.
3	Tub leaks, sink drips, toilets run too long, house splitting apart, kitchen wall cracked, screws coming out of kitchen cabinets, house trim coming off, windows do not close, lock, or stay up.	Removed and repaired exterior panel and painted outside, installed outside vent, repaired trim, sealed nail holes, resealed tub, removed and repaired three panels, installed floor registers, repaired kitchen sink, tightened floor lags, repaired toilet.
4	Three storm windows warped and hard to close, seam connecting house is separating, carpet very cheap with no padding, living room floor has risen, shut-off valves needed under sink and toilets, no extension hose from gas connection to oven.	Repaired windows, corrected partition wall, replaced broken glass, fixed living room floor, installed new carpet padding.

ENCLOSURE I

ENCLOSURE I

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| 5 | House is not level, floors are warping, toilet flooding, outlets coming out, window coming apart, water under house, dirt and landscaping caving in, outside doors separating. | Installed four mini blinds, fixed stud in wall, adjusted shower door, work order indicates that water under house is not the fault or responsibility of dealer/contractor or Champion. |
| 6 | House splitting down middle, floors throughout squeak, bathtub leaks and drips, toilets overflow, water heater leaks, shingle on shed fell off, doors warped, one window sticks, and drawers in kitchen and bathroom falling apart. | Adjusted floor lags, repaired two panels, fixed trim, adjusted toilet tanks, removed and repaired kitchen faucet, and ordered kitchen drawers. |

^aDefects listed were taken from homeowner complaint letters on file in the county offices. We did not verify the validity of the complaints.

^bCorrective actions are based on repair orders that were on file at the contractor that performed the work for Champion Home Builders. The defects listed are not always addressed by a corrective action because, according to a representative from Champion, a serviceman would not normally list every repair item if they were minor.

FmHA's MANUFACTURED HOUSING PROGRAM

The Housing Act of 1949 (42 U.S.C. 1441 et seq.) authorized FmHA, an agency within the Department of Agriculture (USDA), to administer housing programs specifically for rural residents. Section 502 of the act authorizes FmHA to provide low-interest loans to very low-, low-, and moderate-income individuals who live in rural areas to buy, build, repair, or rehabilitate modest but adequate, decent, safe, and sanitary single-family housing.

In 1983, the act was amended to authorize the financing of manufactured homes. FmHA's manufactured housing program was designed to provide an alternative to reduce housing costs and to serve a greater number of individuals. Manufactured homes represent a small proportion of the single-family home loans FmHA made. The latest available information shows that FmHA loaned about \$1 million for manufactured housing during fiscal year 1990, or less than 1 percent of the approximately \$1.3 billion it allocated for single-family rural housing loans.

CONSTRUCTION AND SAFETY STANDARDS FOR MANUFACTURED HOMES

As part of the qualifications for FmHA financing, a manufactured home must be constructed to conform to the Department of Housing and Urban Development's (HUD) Federal Manufactured Home Construction and Safety Standards (FMHCSS). FMHCSS ensures that the home has been inspected by an independent reviewer and that its equipment and installations are adequate for the protection of the homeowner's health and general safety. HUD also conducts inspections and investigations necessary to enforce these standards.

Enforcement of the standards is performed through state and/or private organizations called Primary Inspection Agencies (PIAs). There are two types of PIAs, a design approval PIA and a production inspection PIA. Design Approval PIAs (DAPIAs) evaluate and approve or disapprove manufactured home design and quality control procedures. These agencies ensure that the designs conform to manufactured home construction safety standards and the manufacturer's quality assurance manuals. Production Inspection PIAs (IPIAs) evaluate and approve or disapprove individual manufactured units by conducting inspections in manufacturing plants as the units are built. These inspections ensure that the manufacturer's operations are consistent with its quality assurance manual and that each home conforms to the design and applicable standards. Once the unit is completed at the factory, a FMHCSS label is affixed to the unit certifying that the manufactured home meets all federal standards. Completed homes are then shipped to sites for set-up.

FmHA does not assume responsibility for ensuring that construction and safety requirements are met for FmHA-financed manufactured

homes when the homes leave the factory and are set up at sites. According to FmHA officials in New Mexico, although they inspected the homes when they reached the site, they relied on the fact that when a home carries the FMHCSS label, it has been inspected for structural durability prior to setup at the installation site. FmHA county supervisors are required to conduct inspections at the site where the homes will be located to ensure that the government's security for the loan is adequate and that all certification and site development requirements have been met. FmHA also requires that the home be attached by anchoring devices to a site-built, permanent foundation that meets or exceeds the minimum property standards for one- or two-family dwellings or model building code acceptable to FmHA. FmHA regulations state that the home must have a properly affixed certification label indicating that the construction of the unit is in accordance with FMHCSS. The houses Day's Mobile Homes sold in New Mexico were manufactured by Champion Home Builders in York, Nebraska, and transported to the various sites in New Mexico. The 41 manufactured homes Day's sold in New Mexico and financed through FmHA had the FMHCSS label indicating that they met the federal standards required by DAPIA and IPIA.

MANUFACTURED HOMES ARE SOLD BY
FMHA-APPROVED DEALER-CONTRACTORS

FmHA does not sell the manufactured homes bought under its program by rural residents. Purchasers acquire these units through dealer-contractors, who are approved by FmHA state offices. To qualify as a dealer-contractor certified to sell and erect manufactured homes, the dealer-contractor must, among other things, provide a warranty against defects on damages that may have occurred during transportation or setup of the unit and must be able to extend proper services to the customer to correct warranty defects. According to FmHA's instructions on construction and repair, if the defect is structural or is covered by the dealer-contractor's warranty agreement, the dealer-contractor is expected to correct the defect.¹ The warranty requires that individuals or businesses be able to repair defective workmanship and repair or replace any defective materials within 1 year of the borrower taking possession of the home.

¹Structural defects are (1) defects in the dwelling or unit installation or set-up of a unit (or related facility) or (2) a deficiency in the site or site development that directly and significantly reduces the useful life, habitability, or integrity of the dwelling unit.

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