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REPORT TO THE CONGRESS

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Improvements Needed In The Mobile Home Park Mortgage Insurance Program

Department of Housing and Urban Development

BY THE COMPTROLLER GENERAL OF THE UNITED STATES

RED-75-383

JULY 2, 1975

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

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To the President of the Senate and the
Speaker of the House of Representatives

This report addresses the Department of Housing and Urban Development's practices for determining financial feasibility of proposed mobile home parks and monitoring of park sponsor operations and suggests ways they can be improved. We reviewed the Department's mobile home park program to determine the reasons for its high default rate and to evaluate the Department's effectiveness in administering the program.

We made our review pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

We are sending copies of this report to the Director, Office of Management and Budget, and to the Secretary of Housing and Urban Development.

Elmer B. Staats
Comptroller General
of the United States

Contents

ABBREVIATIONS

HUD	Department of Housing and Urban Development
GAO	General Accounting Office

COMPTROLLER GENERAL'S REPORT TO THE CONGRESS

IMPROVEMENTS NEEDED IN THE MOBILE HOME PARK MORTGAGE INSURANCE PROGRAM
Department of Housing and Urban Development

D I G E S T

GAO's review of the mobile home parks program showed that the Department of Housing and Urban Development did not, in reviewing applications for mortgage insurance for mobile home park proposals, identify or adequately consider pertinent market factors.

Three of these factors were vacancy rates of surrounding mobile home parks, population trends, and employment potential in areas where the parks were being proposed for construction in determining financial feasibility for such parks. (See pp. 3 and 4.)

Failure to make adequate market analyses has resulted in an overprojection of demand for parks in certain areas. A number of insured parks have not obtained the desired occupancy rates which the Department considered necessary to make the parks financially feasible. (See p. 5.)

From the program's beginning in 1955 to January 31, 1975, the Department insured mortgages for 363 parks. At January 31, 1975, 95, or 26 percent of these insured mortgages whose unpaid balances totaled about $43 million, had been foreclosed or were in default--29 parks had been acquired by the Department; mortgages on 41 parks had been assigned to the Department; and 25 park sponsors were in default on their mortgage payments. (See p. 1.)

Furthermore, the Department's monitoring of park sponsors' operations was inadequate or too late to detect problem areas. Park sponsors were carrying out activities which discouraged occupancy. (See pp. 10 and 11.)

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GAO made a number of recommendations designed to correct these weaknesses. The recommendations, which appear on pages 8 and 15 of the report, relate to the need for improving the preparation of market analyses and strengthening of the Department's monitoring of park sponsors' operations.

The Department generally agreed with GAO that the preparation of market analyses needs to be improved. It plans to issue supplemental instructions to its field offices emphasizing those areas which need to be considered more adequately in its market analyses. (See p. 8.)

It also agreed with GAO that monitoring of park sponsors' operations needs strengthening but did not indicate how it plans to strengthen its monitoring activities or whether staffing would be provided in performing such task. (See p. 15.)

CHAPTER 1

INTRODUCTION

Section 207 of the National Housing Act was amended in 1955 (12 U.S.C. 1713) to authorize the Department of Housing and Urban Development (HUD) to insure mortgages made by lending institutions assisting in financing the construction or rehabilitation of mobile home parks.

The basic statutory mortgage limit was increased in August 1974 to $3,250 per park space. In high-cost areas this limit may be extended as high as $4,712 per park space. The mortgage can extend up to 40 years under certain circumstances and may cover up to 90 percent of the appraised value of the park site and improvements. The act provides that HUD will establish the maximum interest rate for such mortgages.

For a mobile home park to be eligible for mortgage insurance, the park must, among other things

--contain eight or more rental spaces;

--conform to State or local codes and ordinances concerning zoning, land use, design, and water and sewage disposal requirements;

--make adequate provisions for families with children;

--establish moderate rents;

--prohibit transient occupancy; and

--provide for recreational, laundry, and drying facilities, tenant and management storage areas, parking spaces, and private outdoor living and service space.

The parties involved in the mortgage insurance are the mortgagee (lender), the mortgagor (sponsor), and HUD.

If a sponsor defaults on his mortgage payments, the mortgagee may acquire the deed to the park through foreclosure and convey it directly to HUD for the insurance benefits or may assign the mortgage to HUD and forfeit 1 percent of the unpaid principal.

From the program's beginning in 1955 to January 31, 1975, HUD had insured mortgages totaling $183 million for 363 parks containing 62,088 mobile home spaces. At January 31, 1975, HUD had acquired 29 parks as a result of foreclosure. The mortgagees of 41 other parks had assigned their mortgages to HUD because the mortgagors had defaulted on their payments. Also, at this time, another 25 park sponsors were in default on their mortgage payments. From fiscal year 1955 through 1969 the program experienced little activity--only about 20 parks were insured. Program changes in 1969, such as increasing the mortgage limit from $500,000 to $1 million and increasing the maximum mortgage maturity to 40 years, stimulated program activity so that HUD approved an average of 82 parks for mortgage insurance from fiscal year 1970 through 1973. Several HUD officials stated that the increase in cost of standard type housing was a contributing factor to the increased program activity.

PROGRAM ADMINISTRATION

HUD's instructions provide that an analysis will be made on each park proposal for which mortgage insurance is requested. The analysis is made to determine the financial feasibility of the proposal. In making this analysis, HUD is to consider vacancy rates of existing parks in the market area; market absorption rates for existing parks in the surrounding area[1]; market need for the number and types of rental park spaces being proposed; projected revenue and operating expenses; project design; project location; and the sponsor's management and financial capabilities.

If a proposal is determined feasible and the sponsor's plans and specifications are approved by HUD, the mobile home park project is approved for mortgage insurance. During construction, HUD is required to inspect the project for conformance with approved plans and specifications. After project completion, HUD is required to monitor the sponsor's operations during the life of the mortgage. Monitoring activities include management and site reviews and analysis of the sponsor's annual financial statements to determine whether the sponsor is complying with HUD's requirements.

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[1]Historical rate of fill-up of parks in the market area which is used to estimate rate of fill-up in proposed park.

CHAPTER 2

IMPROVEMENTS NEEDED IN DETERMINING FINANCIAL FEASIBILITY OF MOBILE HOME PARKS

Contrary to its policy, HUD approved mortgage insurance for a number of mobile home parks before adequately determining whether a market existed for such parks. In reviewing applications for mortgage insurance on mobile home park proposals, HUD did not identify or adequately consider pertinent market factors, such as market absorption rates, park vacancies in surrounding areas or whether a market existed for the number of proposed spaces. These factors are necessary in determining the financial feasibility of proposals. The failure of sponsors to attract sufficient park occupants is important because adequate revenue may not be generated to continue their operations and to meet debt payments on their HUD-insured mortgages.

From the program's beginning in 1955 to January 31, 1975, HUD insured mortgages for 363 parks. At January 31, 1975, 26 percent of these insured mortgages whose unpaid balances totaled about $43 million, had been foreclosed or were in default. Two parks acquired by HUD at a cost of $758,000 had been sold at a net loss of $684,000 in fiscal years 1962 and 1968.

NEED TO IMPROVE PRACTICES FOR MAKING MARKET ANALYSES

A critical part of HUD's decision to insure a park project is that of determining the project's marketability. To assist in making market analyses of proposed multifamily projects, including mobile home parks, HUD field offices are required to obtain and to maintain data on the construction cost, operating income, operating expenses, and occupancy rates for existing parks in the area.

HUD instructions require field offices, in determining the market need for the number and type of proposed mobile home park spaces, to consider vacancies of existing parks in the market area and the market absorption rate for mobile home park spaces. By compiling historical occupancy rates and market absorption rates for HUD and conventional projects, HUD can estimate the absorption capacity of the market for mobile home parks. These instructions do not, however, indicate what vacancy and market absorption rates are generally necessary before approving a park for mortgage insurance. As a result, HUD has no criteria for assessing these market factors in determining the need for a proposed park.

HUD instructions suggest but do not require field offices to consider population trends and employment potential in their market analyses. Lenders and developers of conventionally financed mobile home parks and a mobile home park consultant said that population trends and employment potential are important factors in determining the demand for mobile home parks in a given market area. Sudden changes in employment conditions, such as relocation of a major employment center or population demand increasing or decreasing housing need in the general area, are important factors in determining the future need for park space in an area. Such conditions, however, could be so recent as to not be reflected in historical vacancy and market absorption rates of the proposed park area, but could have a spill-over affect on this area. We believe, therefore, that HUD's instructions should require population trends and employment potential to be evaluated in making market analyses for determining the financial feasibility of mobile home parks for mortgage insurance purposes.

We selected four HUD field offices which had approved a total of 57 mobile home park mortgages totaling $35 million, and reviewed the adequacy of the market analyses performed by HUD on 52 of these mortgages. These analyses were performed before fiscal year 1973. HUD was unable to locate files on the five remaining parks. In most cases we found that HUD had not made the required market analyses. In those cases where analyses were made, they were inadequate because they did not identify or consider all market factors necessary to determine the economic soundness of park proposals. We also reviewed the four latest applications, processed in fiscal year 1973, for which market analyses had been performed by the field offices included in our review. We found that the market analyses were inadequate because the information used in determining market demand did not always provide a basis for establishing market absorption rates or for determining the need for the parks in the areas concerned.

Our review of the 52 parks showed that,

--for 51 or 98 percent of the parks, the market absorption rates were not determined by HUD, and

--for 35 or 67 percent of the parks, the vacancy rates of existing parks in the market area were not determined by HUD.

We also noted that for two parks HUD had determined the area population trends and for three parks it had determined the employment potential.

HUD's failure to conduct proper market analyses has resulted in an overprojection of demand for parks in certain areas. In this regard, our review showed that a number of HUD-insured parks had not attained occupancy rates of 85 to 93 percent considered necessary for financial feasibility. As a result many HUD-insured parks are experiencing financial difficulty. (See appendix II for status of the 57 parks in the four field offices reviewed.) As of June 30, 1974, the mortgages on 32 of the 57 parks were either in default, or had been assigned to HUD, or the parks had been acquired by HUD. Sponsors of four parks said that if they were not contributing additional capital to meet operating deficits they would also be in default.

The following three examples illustrate HUD's practice of approving mortgage insurance on mobile home parks before adequately determining if a market exists.

Project A

HUD approved a $589,000 mortgage for the development of a 191 space mobile home park in Ohio. HUD did not perform an adequate market analysis for this park. The sponsor did, however, provide state-wide data on mobile home sales, average park occupancy, occupants per mobile home, average number of school students per mobile home, average number of children per mobile home, average unit placement per acre, average value of mobile home excluding furniture and appliances, and number of parks and rental spaces provided in the State.

The data provided by the sponsor, however, did not discuss specific feasibility factors such as the market demand for the proposed number and type spaces and the market absorption rates for the proposed park area.

We found that the market data obtained by the HUD office was inadequate because it did not provide information for analyzing historical occupancy rates for surrounding parks and for projecting the park's absorption rate. In an attempt to determine the market demand for the proposed park, a HUD official told us that they obtained opinions from mobile home dealers and park managers concerning the current park occupancy levels in the area. This information was inadequate for determining whether a market existed for the project because it did not

--establish the need for a park at the proposed location,

--define the target area to be served by the park,

--dictate the size park the market would sustain, and

--provide a basis for establishing market absorption rates for the park.

HUD estimated that during the park's first year of operation it would experience a $12,000 operating loss and an occupancy rate of 62 percent. HUD projected the occupancy at 90 percent with no operating deficit for the second year of operation.

The park had been in operation for about 2-1/2 years as of June 30, 1974, and had an occupancy rate of only 70 percent contrasted to HUD's projection of 90 percent. The park sponsor had been in default since June 1973 on his HUD-insured mortgage and had contributed $43,000 of his funds to meet park operating expenses.

Project B

HUD approved a $917,600 mortgage for a 256-space park in California. In reviewing the sponsor's proposal, the HUD field office prepared a vacancy report in April 1970 on mobile home parks in the market area. The report showed that there were

--465 existing park spaces in the area of which 216 were vacant,

--4 parks under construction which would account for an additional 308 spaces,

--5 additional proposed parks which would contain a total of 759 spaces.

The report, however, did not comment on the desirability of HUD approving the proposed 256 space park.

In addition to the vacancy report, we noted that the HUD field office made a general rental and vacancy survey of the market area in August 1970. This survey showed that mobile home park spaces were definitely excessive to the needs of the area. HUD's analysis did not establish market absorption rates or the need for the park in the area. In spite of this, HUD approved mortgage insurance for this project on November 30, 1970. As of April 1974 the project was about 70 percent complete.

We noticed that mobile home parks in the area were experiencing occupancy problems. For example, another HUD-insured park which had been in operation for over 2 years was only 38 percent occupied as of June 1974. This park would have been in default if additional capital had not been provided to the park by the sponsor.

Project C

HUD approved a $765,000 mortgage in September 1970 for the development of a 243-space mobile home park in a town in Texas with a population of about 1,800. The park is located about 30 miles from Dallas. Construction began in November 1970 and was completed in June 1972. HUD estimated the park would obtain satisfactory occupancy without difficulty and without any operating deficit.

HUD did not conduct the required market analysis to determine whether a market existed for the size park proposed by the sponsor. Also, no record was made of potential competition in existing or planned mobile home parks. A field office official said that because of a heavy workload they did not have enough time to make an adequate market analysis.

The park had been in operation for over 2 years and was only 5 percent occupied by July 1974. HUD's record showed that the lender foreclosed on the mortgage in May 1973. HUD has now acquired the property from the lender in exchange for insurance benefits.

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Officials at the HUD offices included in our review agreed that their offices did not perform the required indepth market analyses. Officials in two HUD offices said that HUD headquarters and field offices placed too much emphasis on production rather than on quality of underwriting practices or making market studies before approving mortgage insurance on mobile home parks. A headquarters official confirmed this stating that following the implementation of the National Housing Act in 1968 (which set a national housing goal) a large segment of the field offices were concerned with production, and as a result, personnel administering the program were not always permitted or encouraged to follow underwriting instructions. Because of the emphasis placed on production, he said that the field offices have not always obtained market data necessary for determining whether proposed parks would be successful.

CONCLUSIONS

HUD has not made adequate market analyses for insured mobile home parks. HUD field office officials, in determining the need for proposed parks, failed to follow procedures requiring them to consider market factors such as vacancy and market absorption rates in existing parks. Also, procedures for making market analyses of proposed parks should be strengthened by requiring HUD to consider population trends and employment potential in the proposed market area and by providing field office officials with criteria for assessing the market factors to be used in determining the need for a proposed park.

RECOMMENDATIONS

We recommend that the Secretary of HUD:

--Require that criteria be established so HUD officials can assess market factors in determining the need for a proposed park.

--Revise instructions to require that population trends and employment potential be considered in making market analyses for proposed parks.

--Reemphasize the need for field officials to obtain and use current market data in making feasibility analyses of proposed parks.

--Require that mortgage insurance be provided to a park sponsor only after HUD officials, in performing an adequate market analysis, have verified and documented in the mortgage files that the sponsor's park was determined financially feasible for mortgage insurance purposes. In determining the financial feasibility of a park, HUD officials should be required to document how they considered such factors as vacancy rates of surrounding parks, population trends and employment potential in the proposed park area, target groups to be served by the park, and market absorption rates.

AGENCY COMMENTS AND OUR EVALUATION

In a letter dated May 6, 1975 (see app. I) HUD told us that it was in general agreement with our findings on underwriting and market analysis for mobile home parks. HUD stated that it would supplement its instructions to field offices by issuing a notice emphasizing

--the need for examination of population trends and employment prospects;

--the importance of vacancy rates in existing mobile home parks; and

--the need for detailed file documentation, sufficient to show what consideration was given to data obtained from other mobile home parks in the market area.

In addition, HUD stated that a post review of all mobile home park processing by field offices would be made by each HUD regional office and that these offices would be instructed to provide any needed guidance or training to the field offices as determined by such reviews.

HUD stated that its handbook does contain minimum and maximum occupancy rate criteria of 85 and 93 percent, respectively, for use in evaluating surrounding park vacancies. A HUD official subsequently advised us that these rates are used for estimating the effective rental income of a proposed park and are not used for evaluating surrounding park vacancies in determining the need for a park. We believe, therefore, that HUD still needs to provide field office officials with criteria for assessing the market factors to be used in determining the need for a proposed park.

HUD said that its market analysis for a mobile home park proposal includes demographic and economic characteristics of the market area. As pointed out on page 4 of our report, HUD's instructions do not require field offices to consider population trends and employment potential in their market analyses. As evidenced by our review, HUD field offices did not determine the population trends and employment potential for a substantial number of mobile home parks that they approved. It is our continued belief, therefore, that HUD needs to revise its instructions to require field offices to consider both of these factors in their market analyses.

CHAPTER 3

NEED TO STRENGTHEN MONITORING PRACTICES

To make certain that HUD-insured mobile home parks are operating in accordance with program requirements, HUD needs to effectively carry out its program for monitoring the management activities of park sponsors. Infrequent and ineffective monitoring has resulted in sponsors carrying out activities which are discouraging occupancy and are contrary to HUD's requirements, such as

--charging unauthorized rental rates and entrance fees,

--permitting transient occupancy which discourages permanent occupancy, and

--carrying out restrictive occupancy practices which discouraged families from residing in their parks or which, in effect, required prospective occupants to purchase mobile homes from specific dealers.

INADEQUATE MONITORING OF PARK ACTIVITIES

HUD field offices are required to perform the following monitoring activities of park sponsors' operations.

Management review--Within 6 months following the availability of all spaces for occupancy, HUD is required to make an indepth review of the park. HUD is to determine (1) its physical condition, (2) the adequacy of the maintenance program, (3) the adequacy of the bookkeeping system, (4) whether the management plan has been properly implemented, and (5) any developing problems.

Physical inspection--Starting about 2 years after construction, HUD is required to inspect annually each park to determine the degree of maintenance provided.

Control of rental rates--HUD is to approve or disapprove all requests for rental increases on a park. HUD's objective is to maintain reasonable rentals and to allow a reasonable return to the sponsor on his investment.

<u>Financial statement analysis</u>--HUD is required to annually review the financial condition and operating results of each park. The purpose of this review is to detect, among other things, questionable financial practices concerning rental and other income.

<u>Occupancy report analysis</u>--HUD is required annually to review rent schedules submitted by the sponsor or to make onsite verifications of rental charges. The purpose of this analysis is to uncover any violations of approved rent schedules.

Our analysis of HUD's monitoring activities during a 2-year period for 33 of the 61 parks in 5 field offices visited showed that HUD failed to perform the required monitoring activities on many of these parks because it did not

--make 28 of the 29 required management reviews,

--make 6 of the 23 required annual physical inspections,

--obtain 48 of the 57 required occupancy reports or make spot check rent verifications (a HUD official at one field office stated that spot checks were made but the results were not recorded in the files), or

--obtain 27 of the 53 required financial statements.

We also found that when monitoring was performed it was generally inadequate or too late to detect problem areas relating to the sponsor's operations.

We visited 13 parks and noted that sponsors of

--6 parks were charging rental rates in excess of those approved by HUD,

--2 parks were charging entrance fees not approved by HUD,

--2 parks were permitting transient occupancy contrary to HUD's requirements,

--2 parks sold assets without obtaining HUD's approval, and

--3 parks were carrying out restrictive occupancy practices which discouraged families from residing in their parks or which, in effect, channeled prospective mobile home occupants to specific dealers.

The following two examples illustrate HUD's failure to effectively carry out its monitoring program to detect and correct management practices not in accordance with established program requirements.

Restrictive occupancy practice

HUD instructions provide that park sponsors are not to restrict the use of rental spaces to individuals who will purchase or rent their mobile homes from specific dealers or manufacturers. Also, the sponsors are not to assess additional charges to prospective tenants who have not purchased or leased their units from a specific dealer or manufacturer.

HUD insured a mortgage for $948,000 on July 7, 1970, for a park located near Richmond, Virginia. The park has 283 mobile home spaces covering 47 acres. The park was virtually complete on December 19, 1972, even though initial occupancy had begun a year earlier.

From initial occupancy in December 1971 until April 1974, the sponsor allowed only exterior wood-paneled mobile homes into the park. This policy limited occupancy--2-1/2 years after initial occupancy the park had reached only a 36 percent occupancy level, contrary to HUD's projection of a 70-percent occupancy after 2 years of operation. The sponsor said that because of low occupancy the park was not generating enough cash flow to meet operating expenses. As a result, the park defaulted in July 1973. This default was subsequently cured in November 1973, but the park was again in default in July 1974.

The sponsor's policy of limiting occupancy to families with wood-paneled homes was identified by HUD when the park opened for occupancy. HUD did not, however, believe that this policy restricted future occupants to buying mobile homes from the sponsor. The sponsor, however, told us that there were no other dealers who sold wood-paneled mobile homes in the area. As of April 3, 1974, there were 102 wood-paneled homes in his park and all but 2 of these homes had been purchased from the sponsor's dealership located adjacent to the park.

The sponsor's representative told us the sponsor changed his policy concerning wood-paneled homes in April 1974 because he was experiencing problems in renting his park spaces. The sponsor said this action was not prompted by HUD. About 17 non-wood-paneled homes have been admitted to the park since the policy change.

The sponsor concurrent with this policy change initiated an entrance fee up to $200 for occupants not purchasing mobile homes from his dealership. As of July 31, 1974, the sponsor's financial records indicated he had collected $1,490 in entrance fees. Unless HUD approves them, fees of this type are prohibited. In this case, HUD had not authorized the sponsor to charge an entrance fee.

Our review of this project showed that HUD did not

--conduct the 6-month management review of park activities,

--obtain required financial statements,

--obtain occupancy reports or perform onsite verification of rental charges.

The Director of the field office informed us that his office did not obtain occupancy reports or make spot checks of rents because, with the limited staff available, priority was given to the subsidized projects and monitoring was limited to investigating complaints received. Although the field office staff has required submission of a certified financial statement, the sponsor has refused to comply.

As a result, for 2-1/2 years, prospective occupants were effectively limited to buying their mobile homes from the sponsor. Had HUD properly monitored this park, it would have been aware that this restrictive policy was the cause of low occupancy.

Unauthorized rental increases

Section 207 of the National Housing Act provides that rental rates established for mobile home parks shall be reasonable. HUD's instructions provide that moderate rental rates shall be established before occupancy and that such rates shall not be increased thereafter without HUD's approval. The intent of this requirement is to charge reasonable rents to tenants and to provide a fair rate of return to sponsors.

Our review showed that six park sponsors had increased their rental rates without HUD's approval. The six parks are shown below.

Park	Monthly rents approved by HUD	Monthly rents as increased by sponsors
A	$50, 55, 60	$60
B	52, 62	60, 65
C	40, 50, 56	55, 70
D	58, 70, 75	85, 95
E	50, 65	55, 70
F	50	75

We found that although HUD has prescribed certain monitoring techniques such as reviews of park sponsors occupancy and financial reports, management reviews, and spot-check verifications of rents, to detect unauthorized increases in rental rates, HUD had generally not used these techniques.

HUD field office officials generally agreed with our observation on the lack of project monitoring. They said this was a result of an insufficient staff and a heavy workload.

To deal with the heavy workload, HUD, in fiscal year 1975, increased the authorized personnel ceiling for loan management activities by 47 percent, or from 605 to 890. HUD officials said the increase in staffing for loan management activities would be achieved primarily by reassignments and retraining of existing personnel. After the first 6 months of fiscal year 1975, 10 HUD regional offices reported that field offices in their jurisdiction had only 602 loan management personnel on hand, indicating that the needed staffing level had not yet been achieved.

A field office official informed us that HUD has little leverage to enforce regulatory provisions, except to threaten foreclosure. A HUD headquarters official said there were other courses of action which could be taken, such as holding back approval of future requests for (1) deferment of principal payments, or (2) use of land for other purposes.

CONCLUSIONS

HUD has not effectively carried out its program for monitoring the management activities of park sponsors to insure that sponsors are operating their parks in accordance with program requirements. HUD's infrequent and ineffective monitoring of mobile home parks has resulted in sponsors' activities which discouraged occupancy and were contrary to HUD's requirements.

RECOMMENDATIONS

We recommend that the Secretary of HUD:

--Provide the necessary staff to enable HUD to monitor the management activities of park sponsors.

--Require that field offices effectively monitor the management activities of park sponsors to insure compliance with program requirements. Such monitoring should be made so that potential problems which may discourage occupancy can be identified and corrected promptly.

AGENCY COMMENTS AND OUR EVALUATION

HUD told us that it agrees with our recommendation for strengthening its program of monitoring park sponsor operations. HUD did not, however, indicate what specific action it plans to take in providing the necessary level of staffing to monitor the activities of park sponsors or how it plans to strengthen its monitoring system to insure that mobile home parks are being operated in accordance with program objectives and requirements.

CHAPTER 4

SCOPE OF REVIEW

Our review was made at the HUD headquarters in Washington, D.C., and at the HUD field offices in Los Angeles, California; Cincinnati and Columbus, Ohio; Dallas, Texas; and Richmond, Virginia. These offices were selected because they represent a geographical cross section of the country and include the office with the highest mobile home park default rate.

We reviewed the provisions of the National Housing Act authorizing the mobile home park program. We also reviewed pertinent policies and procedures under which HUD insures mortgages under this program.

We examined HUD's and sponsors' records, including reports concerning feasibility studies, financial and management operations. In additional we visited 25 HUD-insured mobile home parks and observed the sponsors' management of park operations.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
FEDERAL HOUSING ADMINISTRATION
WASHINGTON, D C. 20411

ASSISTANT SECRETARY-COMMISSIONER

MAY 6 1975

Mr. Henry Eschwege
Director
Resources and Economic
Development Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Eschwege:

This is in reply to your letter of March 13, 1975, concerning improvements needed in the Mobile Home Park Mortgage Insurance Program.

We accept the general validity of the GAO comments on underwriting and market analysis for mobile home parks. The projects cited, however, were mostly insured prior to several corrective directives. By HPMC-FHA Circular 4205.20 dated February 25, 1972, which was superseded by HUD Handbook 4035.3 dated July 1974, entitled "Market Analysis Services Related to Housing Production" a market analysis by EMAD (the Area Office Economic and Market Analysis Division) is required on mobile home parks of 100 spaces in SMSA areas and 50 spaces in non-SMSA areas. For smaller parks an EMAD analysis may be requested by the Director. In any event, the valuation processor has final responsibility for market analysis. The analysis includes demographic and economic characteristics of the market area.

We agree with the recommendation on page 27 of the draft report that HUD needs to strengthen its program of monitoring the management activities of park sponsors. The rare instances uncovered by the GAO audit pertaining to the owners' breaking the Regulatory Agreement should not have taken place.

Although the number of defaults, projects assigned to HUD, and foreclosures are high, most mobile home parks are still operating successfully. It should be noted that there has been a concentration of cases assigned or foreclosed in the States of Texas and Oklahoma, and particularly within the jurisdiction of the Dallas Area Office. On the other hand, experience has been favorable for the Atlanta Region with only one foreclosure out of 45 parks insured and for the Kansas City Region with one out of 18.

Subsequent to the processing of most of the projects cited in the report, field processing instructions with respect to market analysis and file documentation have been strengthened. HUD Handbook 4545.1 entitled "Mobile Home Park Program Section 207" dated May 1973, in paragraph 2-2 c., provides that the analysis of market demand for space rentals must consider the vacancies in existing parks in the market area. The ratio for a typical project is fixed at 85% with a maximum ratio of 93%. Documentation is required by Change dated October 12, 1973, paragraph 2-2 j justifying estimated occupancy.

Paragraph 2-2 of HUD Handbook 4545.1 further provides that the processing of mobile home parks will also be subject to the basic instructions for Section 207. Handbook 4445.1, January 1973, "Underwriting-Technical Direction for Project Mortgage Insurance" calls for first stage processing to be known as Site Appraisal and Market Analysis ("SAMA"). Paragraph 2-6 directs that adequate data on the market be accumulated, and states that data accumulated through market studies and outside contacts are vital to the screening process. If feasible, a SAMA letter is issued to the effect that the site is acceptable and that there is a market for the type and number of units proposed.

Documentation for market absorption data is also required by Handbook 4465.1 "Valuation Analysis for Project Mortgage Insurance", dated September 1972, which states in paragraph 6-5 what data are required for the data bank and project files. Each project binder must contain absorption data to support conclusions with respect to operating deficits.

Although the present instructions to the field do contain requirements as recommended by the GAO, an increased emphasis on the factors recommended by the GAO report will be made in instructions to the field in the form of a Notice.

These instructions will emphasize:

1. The need for examination of population trends and employment prospects;

2. The importance of vacancy rates in existing mobile home parks; and

3. The need for detailed file documentation, sufficient to show what consideration was given to data obtained from other mobile home parks in the market area.

In addition, a post review of all 207 mobile home park processing by the field offices will be conducted by each Regional Office. The Regional Offices will be instructed to provide the needed guidance and training as pointed up by the results of these reviews.

If additional information is required, please advise.

Sincerely yours,

David M. deWilde
Acting Assistant Secretary-Commissioner

STATUS OF HUD-INSURED MOBILE HOME PARKS REVIEWED BY GAO

Dallas area office	Date available for occupancy	Spaces in park	Spaces occupied (note a)	Percent occupied	Loan status if in default
Townview	12-64	166	166	100	-
Pecan Lake	(b)	256	26	10	HUD-owned
Green Hill	3-71	72	39	54	HUD-owned
Hutchins	3-71	205	49	24	HUD-owned
La Mesa	4-71	192	54	28	HUD-owned
Wagon Wheel	7-71	192	172	90	HUD-assigned
Tierra Del Verde	7-71	200	72	36	HUD-owned
Stonegate #7	8-71	146	142	97	-
Westgate	8-71	160	29	18	HUD-owned
Wilmerton	8-71	278	53	19	HUD-owned
Garza Estates	9-71	147	37	25	HUD-owned
Village North	10-71	280	126	45	HUD-owned
Kings Court	10-71	200	28	14	HUD-owned
The Village	11-71	152	67	44	HUD-owned
Waco	12-71	72	58	81	-
Vista Hills	1-72	275	-	-	[c]Foreclosed
Executive	4-72	93	-	-	HUD-owned
Land of the Lakes	5-72	240	-	-	HUD-owned
Lake Pine City	5-72	136	125	92	HUD-assigned
Preston Trace	6-72	243	12	5	HUD-owned
T.S.B.	6-72	190	-	-	HUD-owned
Southpoint Park	8-72	420	63	15	HUD-owned
Villa View	1-73	174	24	14	HUD-owned
Los Palos Verdes	2-73	325	60	18	HUD-assigned
Paradise Parkway	4-73	189	47	25	HUD-owned
Park Village of Denton	6-73	350	41	12	-
Elm Grove	4-74	303	154	51	-
Lakeside Estates	(d)	225	-	-	[c]Foreclosed
Pleasure Acres	(d)	280	-	-	HUD-owned
		6,161	1,644	[e]29	
Cincinnati insuring office					
Dakin Mobile Estates	6-73	67	(b)	(b)	
Lakeside Estates	7-73	104	57	55	
Brookville Lake Estates	10-73	108	28	26	
		279	85	[f]40	

Columbus area office	Date available for occupancy	Spaces in park	Spaces occupied (note a)	Percent occupied	Loan status if in default
Mobile Home One	12-70	278	133	48	Default
Brookwood	7-71	100	80	80	-
Mobile Home Three	8-71	226	64	28	-
Lake Estates	9-71	297	257	87	-
Meadow Lake Estates	11-71	191	134	70	Default
Oak Hills	1-72	250	170	68	Default
Fountain Place	2-72	200	113	57	-
Greenfield Estates	7-72	126	117	93	-
Suburban	10-72	212	120	57	-
Mobile Home Two	11-72	259	60	23	-
Indian Trails Mobile Village	7-73	256	20	8	-
Bonanza Estates	(b)	192	81	42	Default
The Village Park	(d)	142	-	-	-
		2,729	1,349	[g]52	
Los Angeles area office					
Alto View I	12-70	67	57	85	-
Rialto Parkside Villas (note h)	4-71	165	107	65	-
Alto View II	8-71	114	43	38	HUD-assigned
Pioneer Pines (note h)	10-71	198	75	38	-
Shorewood (note h)	2-72	250	136	54	-
Grecian Isle	3-72	157	74	47	Default
Golden Coach	5-72	169	70	41	Default
Westwood Manor	6-72	100	90	90	-
Sun City	9-73	332	31	9	-
Silver Creek	(b)	65	36	55	-
Friendly Village of Lancaster	(b)	241	189	78	-
Coco Palms (note h)	(d)	256	-	-	HUD-assigned
		2,114	908	[g]49	
Total - all parks at the four field offices reviewed by GAO		11,283	3,986	[f,i]39	

[a]At various dates between June and August 1974.

[b]Not available.

[c]Mortgage not yet conveyed to HUD.

[d]Not completed.

[e]Excludes two uncompleted parks.

[f]Excludes one park for which data was not available.

[g]Excludes one uncompleted park.

[h]Sponsor contributed capital to the park.

[i]Excludes four uncompleted parks.

PRINCIPAL OFFICIALS OF THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT RESPONSIBLE FOR ADMINISTERING ACTIVITIES DISCUSSED IN THIS REPORT

	Tenure of office From	Tenure of office To
SECRETARY OF HOUSING AND URBAN DEVELOPMENT:		
George W. Romney	Jan. 1969	Feb. 1973
James T. Lynn	Feb. 1973	Feb. 1975
Carla A. Hills	Mar. 1975	Present
ASSISTANT SECRETARY FOR HOUSING PRODUCTION AND MORTGAGE CREDIT AND FEDERAL HOUSING COMMISSIONER:		
Eugene A. Gulledge	Oct. 1969	Jan. 1973
Woodward Kingman (acting)	Jan. 1973	July 1973
Sheldon B. Lubar	July 1973	Nov. 1974
David de Wilde (acting)	Nov. 1974	Present
ASSISTANT SECRETARY FOR HOUSING MANAGEMENT:		
Norman V. Watson	July 1970	Jan. 1973
Abner D. Silverman (acting)	Jan. 1973	Mar. 1973
H. R. Crawford	Apr. 1973	Present

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