Consumers Union

Publisher of Consumer Reports

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Executive Summary

In the wake of declines in the manufactured home loan market in recent months, Consumers Union investigates deals gone awry. We reviewed more than 400 manufactured home consumer complaints filed with the Attorney General or the Office of Consumer Credit Commissioner.

Many of these complaints illustrate the reasons why manufactured home loan default rates have risen sharply. Many consumers could not afford the credit deal they were offered, or got a home that was probably worth substantially less than they paid. Others reported loans packed with insurance, financed "points" and other charges that left them with negative equity for the first several years after their purchase.

Consumers report a variety of dealer problems including falsified down payment information on credit applications, and misrepresentations about terms, price, or the home itself. And while dealers are quick to ask for a deposit, they are sometimes slower to refund it when consumers change their mind after seeing the terms of the final deal. Deposit requirements and credit checks discouraged buyers from adequate comparison shopping.

General Findings

Nearly half of the consumer complaints we reviewed (46 percent or 196 individual cases) involved allegations of dealer fraud or misrepresentation. The final deal often looked different from the one consumers thought they had made. Consumers said:

- the dealer switched the house with a different make, model, year or size or a completely different home;
- the salesman tried to falsify loan application information, including falsifying the down payment amount or taking money a consumer borrowed as a down payment;
- the actual price of the home increased from the original quote to the final loan;
- the terms or conditions of the sale worsened, including additional costs for items consumers thought they had already covered, additional loan fees, higher interest and more;
- the dealer refused to give buyers copies of contracts, including loan contracts; and more.

About 19 percent of consumer complaints involve dealers who are unwilling to return money after a consumer decides to walk away from a deal—even if they try to walk away long before the home is built or delivered. Dealers say once a purchase contract has been signed, the consumer is on the hook even if the consumer has not seen the home or all the costs. Hooking consumers before they understand their financing is particularly troubling in light of the high costs associated with manufactured home loans.

Consumers Union reviewed loan documentation for 127 consumers who included such information in their complaint to the AG or the OCCC. Of the 127 loans with interest rate disclosure, we found that most loans were typically issued to consumers at interest rates of 9 percent to 13 percent APR.[1] Ordinary home loans for the same period hovered between 7 and 8.5 percent.[2]

We collected reasonably complete loan information (with detailed breakdown of charges) for 65 of the people who reported their interest rate. About half of these loans included more money to finance points, insurance and extended warranties than the consumers' down payment, starting these families off "underwater." The true number of consumers in our study who are "underwater" is probably far higher, since many of the reported frauds tend to inflate the home's purchase price and thus its recorded value.

In the mortgage market, on site home appraisals and inspections prior to the release of loan funds help to ensure that homes are worth what consumers pay for them. Manufactured home consumers reported that lenders accepted a "phone audit" as verification that the home has been placed on the land, but did not verify the home's value, its proper installation, or quality independently.

Consumers who have no equity in their homes have less incentive to keep making payments when job loss or other crisis hits. Both consumers and their banks pay when a loan is made for far more than the value of the collateral.

Recommendations in Brief

- Facilitate shopping by posting prices, notifying consumers of their full refund rights, and eliminating credit scoring models that penalize rate shopping.
- Provide 5 day "cooling off" period after full disclosure of final loan terms with cancellation right and full refund.
- Provide standard contracts and standard Spanish translation.
- Prohibit financed points if points and fees together will add more than 3% to the home price.
- Require independent inspection/appraisal of every home prior to release of loan funds.