



## How To Enter The Hot Mobile Home Lending Sector

📌 lending CRE

**Summary:** Community financial institutions are looking for lending opportunities. Yet, they may not naturally think about mobile home lending as a means to grow their loan portfolio. But, this sector had a stellar performance last year. In 2021 alone, more than \$3B in mobile home loans were issued, which is higher than anything experienced in this market in the past 5Ys. We explore this hot lending segment further.

Do you know which animal is the largest rodent in the world? If you guessed the capybara, you are correct. This animal can weigh up to 140 lbs., grow to over 4 ft. in length, and reach up to 2 ft. in height. Its home is found mainly in Central and South America, but has been seen in Florida and Texas too. It inhabits various habitats from plains to rainforests and is never far from water. Capybaras live in small family groups, yet roam in larger groups of herds.

With the housing crunch continuing, many people find themselves roaming for a place to live too. This trend has helped mobile home parks and financial institutions alike. Mobile home loans – either to individuals or mobile home parks – have risen tremendously. In 2021 alone, more than \$3B in mobile home loans were issued, which is higher than anything experienced in this market in the past 5Ys. Credit quality is holding up too, as delinquencies haven't risen significantly like other CRE sectors, even during the pandemic. As community financial institutions (CFIs) look for targeted ways to increase lending opportunities, we dig a little deeper into the mobile home lending segment.

Mobile homes – also called manufactured homes – had [an occupancy rate of 95.4%, an all-time peak](#), in November 2021, according to a report from JLL, a global CRE services company. They are especially popular for snowbirds from the country's colder climates wintering further south. Indeed, nearly half of the roughly 22MM Americans living in such homes are 50 or older and that percentage spikes in retirement havens like Florida and Arizona. Last year, more than 105K new manufactured homes were built, with the average sale prices clocking in at \$112K. The production of these mobile homes has risen each month consecutively from September 2021 through January 2022, despite ongoing supply chain and labor shortages. Manufacturers of mobile homes have succeeded in making their production more efficient.

*"Manufactured housing lending is good business for us," says one CFI executive in the Southeast. "In resort areas, many people have manufactured homes as vacation homes, and as a result, we are able to reach customers other banks can't. These loans are a relationship builder with customers who might not already be familiar with the bank."*

If you are interested in getting into this niche market, here are **two specific ways to get into the mobile home sector**.

**1. Target individuals.** A CFI in CA offers individual mobile home loans with either a fixed rate or an adjustable rate. For a 20Y fixed-rate loan, a person with excellent credit could pay an annual percentage rate of 5.659%. Furthermore, individuals buying a mobile home could be [eligible to receive an FHA loan](#), which lessens the risk

for financial institutions making the loan. To leverage the opportunities in this market, CFIs can hire lenders with expertise specifically in this sector.

This is a good way to capture new customers too. Plus, there are possibilities to cross-sell other services, such as deposit accounts and wealth management, strengthening the customer relationship and creating more customer stickiness.

*“We often hear customers say, ‘When will you open a bank here?’ as a result of the service they’ve received obtaining one of these niche loans. In many cases, we start a relationship with a customer because of one of these loans, and then they open other accounts or other loans with us,”* states the Southwest executive of those customers from outside its home market.

**2. Focus on mobile home parks.** This approach may feel more familiar to CFIs. Park owners lease lots to tenants who own the homes, paying either 50% upfront for the home or in full with cash. Besides having cash flow from the home sales, mobile home park owners charge monthly rent for the lots, which provides a steady income stream. Average monthly rents have surged to an all-time high of \$800. Not only that, but there are little or no maintenance costs since the parks don’t own the homes. Tenants are steady too. More than [nine out of 10 mobile homes never move](#) once they are placed in the park.

Financial institutions (FIs) lending to these park owners [typically offer short-term loans](#) with 1Y to 7Y terms, with interest rates of roughly 250 basis points over the 3-5Y Treasuries, depending on the term. These FIs will expect a personal guarantee from the borrower, so the greatest risk is in the borrower. Additional collateral can be required, if needed. As with other loans, DSC levels must be reached for a loan, usually 1.20 or better, and the appropriate market cap rate must be there. The lender should also look at the operating history to feel confident that the expected cash flow will be there. Projects needing funding range in scope from buying the land only, buying the land with the homes (to later resell), and infrastructure or improvement projects.

As with all niche lending, mobile home park lending may not be right for every CFI. However, there are opportunities in this segment that could expand the loan portfolios of those institutions that build the right lender skill set and connect with the growing number of borrowers.

## LOOKING TO GROW YOUR LOAN PORTFOLIO?

Financial institutions are looking for ways to boost their loan portfolio. Depending on your portfolio concentration, you may need C&I loans or choose a hedging solution to satisfy the long-term, fixed-rate needs of your customers. Check out our [Lending Services](#) to find the right solution for your institution.

## ECONOMY & RATES

Rates As Of: 05/06/2022 01:48PM (GMT-0700)

Treasury	Yields	MTD Chg	YTD Chg
3M	0.85	0.00	0.79
6M	1.41	0.00	1.22
1Y	2.03	-0.07	1.64
2Y	2.74	0.02	2.00
5Y	3.08	0.12	1.81
10Y	3.14	0.21	1.63
30Y	3.24	0.24	1.33

FF Market	FF Disc	IORR
0.83	1.00	0.90
SOFR	Prime	QIBR
0.79	4.00	0.82

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