Manufactured Home Financing Tips

"What You Need to Know!"

There are two types of manufactured home loans, manufactured home and land loans and chattel loans. Manufactured home and land loans are actually real estate mortgage loans. Within this type of mortgage loan there exist many variations. For example, there are conventional, FHA, VA and USDA manufactured home and land mortgage loans. Each type of manufactured home and land mortgage loan carries its own set of advantages and disadvantages. For example, FHA manufactured home and land loans require an FHA engineered foundation. Additional lender mandated improvements to the home and property are also a prerequisite. A series of inspections to be completed by licensed professionals is also required. Due to the stringent requirements and elongated process of these type loans, most FHA loans will include interim construction loan fees in addition to standard customary mortgage loan charges. All FHA lenders also require private mortgage insurance. The advantage of FHA manufactured home and land loans is that lenders can approve lower credit scores and offer low interest rates. Contrarily conventional manufactured home and land loans have lesser fees and no interim construction loan costs. Furthermore private mortgage insurance is not required. These types of loans allow the buyer (as opposed to the lender) to decide which land and home improvement are to be included in the loan. Conventional manufactured home and land loans require higher credit scores and the interest rates are slightly higher than government backed VA, FHA and USDA manufactured home and land mortgage loans.

Chattel loans are categorized as personal property loans. These are manufactured home only loans. Since real estate is not attached to these type loans, chattel loans are considered higher risk by lenders and are therefore assessed a higher rate of interest. The advantage to this type loan is that while interest rates are traditionally higher, loan fees are minimal and loan terms are shorter. The result is less overall interest and less overall total of payment costs. Interest rates on these type loans are generally based on the customer's credit score and the amount of their down payment. Five percent down is the lowest down payment available on this type loan program and the customer receives a break in interest rate up to twenty percent down. The better the credit score and the larger the down payment the lower the customer's interest rate, monthly payment and total finance charges. Due to

minimal fees, shorter terms and less overall interest charges many consumers find these loans advantageous to manufactured home and land mortgage loans.
Licensed Mortgage Loan Originators are trained and qualified to assist customers in deciphering which loan type best meets their financial needs.

Regardless of what loan type is chosen, all lenders will be using similar criteria to qualify customers for a loan.

1. Debt to income ratio: Lenders will use a front-end or housing ratio and back-end or overall debt to income ratio in determining how much they can loan for a home. These ratios fall between 31-33 percent for housing and 43-45 percent for overall total debt to income ratio. The housing ratio includes the manufactured home, land and escrows for taxes and insurance. The overall debt to income ratio includes housing and all other bills included on the credit bureau. Additionally the number of overall dependents and child care expenses affects these ratios and the total loan amount. In general, the higher the income and credit score the more flexible the lender can be with regard to these ratios.

2. Job stability: Lenders will be looking to verify a minimum of two years job time with minimal gaps in employment. Tax returns, verification of employment letters and W-2's can all be used to verify income and verify employment history. Lenders also count higher education as job time! That's right, a transcript from a college or trade school counts toward employment history.

3. Residential stability factors into the approval process. For customers with limited or minimal credit lines a letter of good payment history from a commercial landlord or apartment complex can serve as an open line of credit.

4. Credit scores weigh heavily on the lenders overall decision to loan money. A customer with higher credit scores will have more lender and more loan programs available to them than customers with lower credit scores. Financing programs for chattel and manufactured home and land loans are available to customers with credit scores of 580 and higher. There are also loan programs for customers with zero credit scores or no social security number. Customers with credit scores of less than 580 can still be approved but generally these customers will be required to put down between 25 to 35 percent of the total amount of the sales price. Credit counseling and credit restoration programs available through licensed Credit Service Organizations can help customers raise their credit score by removing erroneous items from their credit file. Additionally licensed Credit Service Organizations can counsel customers toward achieving higher credit scores. For example, paying down just one maxed out credit card to less than 25 percent of the balance can raise a customers credit scores by 25 points or more. Some Credit Service Organizations utilize desktop credit analysis software that can help determine what steps are necessary to legitimately raise credit scores to acceptable approvable levels.

5. Lenders will be requiring proof of identification such as a copy of the customer's driver's license, state ID and or social security card. Lenders will also be asking customers to source their down payment. At the closing table present the closing agent with the total down payment and a bank statement confirming proof of funds.

If customers do not currently have a bank account it is highly recommended that they open an account and deposit their down payment in full. Down payments can materialize from personal funds, IRS refunds, 401K's, savings accounts, paychecks, and "mattress money" with a letter of explanation or even be gifted from a relative but it can never come from the dealership directly. Dealerships assisting customers with their down payment are engaging in fraudulent business practices. Parties to fraud can be fined, jailed or both. However financing utility connections, skirting, decks and some other home related items are acceptable as long as these items are properly disclosed to the lender. The amount of the down payment factors into the approval process so be prepared to source the down payment in its entirety.

6. Lenders will use a combination of the above listed items in determining loan eligibility. No one thing can guarantee a customer an approval. Instead lenders will use a combination of this information in making their loan decision. For example a lender may turn down a customer with a high credit score but minimal job time and minimal trade lines yet approve a customer with a low credit score but good job history and established lines of credit, even if derogatory credit exists on the credit file.

7. In summary have these items readily available when applying for any type manufactured home loan:

    a. A copy of your driver's license and social security card
    b. Year-to-date check stub
    c. W-2's or tax returns for the last two years
    d. School transcripts if applicable
    e. Verification of employment history for the last two years
    f. Bank statements to verify source of down payment
    g. Letters of explanation for derogatory credit

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No Credit, Low Credit, Bad Credit, No Problem!

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