

Consumers Union Dealing with Dealers and Financiers

A Manufactured Home Buyers Guide

Whether you want a simple single wide or a multisection home, the details of your negotiations with a manufactured home dealer and finance company can make the difference between getting a good deal and a bad deal. If the deal seems too good to be true (no money down, low interest rate, “free” options) examine it very carefully – it probably is. Take time to understand everything about the purchase contracts and loan documents you consider signing.



Shop around for park space, insurance, finance, utility services before you buy

Shop around for each component of your package. Dealers may offer to act as your dealer, real estate broker, insurance broker, and mortgage company, but he or she may not be able to offer you the best deal on these services. Get quotes straight from insurance companies, parks, or real estate agents.

In particular, you will pay less for your property insurance if you buy it directly from an insurance company. If you buy it from the dealer, the cost of one to five years of coverage is added to your loan and you will pay significant interest on it. And at the end of that initial policy, you will still need to go out and buy property insurance from an insurance company.

For financing, it's a good idea to look into

available terms before you even get on the lot. Knowing the terms that are available elsewhere will help you evaluate the dealer's terms. Check out banks and credit unions as well as traditional manufactured housing lenders. Dealers often get a commission for obtaining credit for you, so you may be better off talking directly with the lenders. If you are buying land to place the home, combining the loan for the house and the land may save you money, especially if the house is placed on a permanent foundation and therefore eligible for a conventional mortgage. Be sure to explore such options with lenders.

Select a home location first

Before you select a home, decide whether you want to rent or own your land, and find a lot. If you own the land and place the home on a permanent foundation, you may have better financing options.

- Rental parks and some localities have restrictions on the size, type, and appearance of homes allowed in their communities.
- Many rental communities require you to move your home out of the community if it is a certain age at the time you decide to sell it.
- Some parks have specific rules relating to the landlord's right of access to the inside of your home, behavior of children, petitions, use of clothes lines, parking and much more that might affect your decision to live there.

It's important to be aware of these restrictions before purchasing a home. Be sure to examine all park rules and lease terms, including allowable rent increases.

Resist high pressure sales

Buying a home, any home, is a long-term commitment. Manufactured home contracts frequently require payments for 30 years. In contrast, dealers can get you approved and have the contract ready for you to sign in a matter of hours or days.

Resist high-pressure sales techniques that entice you to “sign today.” Reputable dealers

will still want to sell you a home next week. Be skeptical of “special” prices, freebies, and other enticements to sign quickly. Be prepared to walk away from the deal if you ever feel uncomfortable.

Get your credit report and score from the three major credit bureaus (Equifax, Experian, TransUnion) before you start looking for a manufactured home. They all offer easy access on-line for a small fee.

If your credit score is low, visit a credit counselor and find ways to improve your credit profile. If your score is good, you can take this information with you when you shop for a manufactured home. Do not give your personal information to each dealer to run your credit, but ask them to give you a home price and *estimate* of the loan terms based on the credit information you give to them. Unfortunately, if multiple dealers check your credit, it could actually reduce your score, but you should not allow this to keep you from thorough comparison shopping.

Go to several dealerships

Avoid pinning your hopes on only one home or one dealer. Ask dealers for references of satisfied customers. Get firm prices from several dealers and several brands, since dealer markups on homes can vary widely. Also check the “blue book” value for a similar make and model from the previous year listed in the appraisal guides typically available at your public library. This will tell you if the quoted price is reasonable. Know the prices of substitute housing options in your area, such as condos, houses, and apartments; this can help you place sticker prices (along with land rental and other required monthly costs) in a larger perspective. Do not put money down on a home until you have compared prices. You may have trouble getting your money back if you change your mind, especially if you ask for any customization. Once again, reputable dealers will sell you a home now or later.

Continued on back

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Don't buy based solely on the monthly payment offered by the dealer

Buy the home based on its actual price. It is important to buy a home that fits in your budget, not the home that a salesperson wants to sell you. That means watching the total cost as well as the monthly payment. Compare the price of many homes before you begin to negotiate.

Keep the term of your loan to the shortest reasonable time period. The longer the term, the slower you will build equity in the home. With a long term and low down payment, it is easy to find yourself owing more than the home is worth. This makes it very hard to sell the home without a loss.

When considering financing, remember that the monthly loan payment for the home itself is not the only financial commitment you must make. You may be responsible for annual property taxes, utilities, insurance, as well as park rent, park association dues or taxes on land. And don't forget upkeep and repairs. Despite warranties, surveys show new owners can have out of pocket repair costs.

If you get a variable rate loan and the monthly payments are affordable for you today, check the highest possible payments if interest rates rise. "Step" rate loans that start with very low interest rates are enticing because initial monthly payments are very low, but the rate (and your monthly payment) rises at regular intervals and you probably cannot refinance at the original low rate.

Negotiate carefully

Don't let the dealer coax you into naming a price or a monthly payment you'd be willing to pay. Have them cite you a cash price, and negotiate from that. Dealers may cite reasonable sounding monthly payments – but remember, the length of the contract can vary from 7 to 30 years. The APR (Annual Percentage Rate) can vary greatly as well. These details can more



than double the actual cost of the home.

Don't put money "down" until you have the loan documents in front of you. A deposit reserves a specific home for you, while a down payment is actually part of the home purchase. A deposit should be relatively small (\$100 to \$500) and may not be necessary. Remember, manufactured housing is mass produced—more homes very similar to the one you prefer will be for sale the next time you stop by. A down payment might range from 5-20% of the purchase price, and shouldn't be paid until the loan documents are complete, approved, and in front of you.

Beware of "package" deals. You pay for items in a package deal—prepaid park rent, insurance premiums, furniture, stereo systems, etc—by adding the cost onto your loan. This will cut into your equity in the home, and given the relatively high interest rates on many manufactured home loans, will cost you more than the items are worth in the long run. These add-ons can also be overpriced. For example, so called "credit life" policies, which payoff the loan in case of death, usually cost more than an equivalent life insurance policy with a cash payoff.

Don't assume financing terms and conditions can be changed in the future

Once you've settled on a price, and worked out the details of the options you want, you'll sit

down with the dealer to sign the purchase contract and loan documents. Carefully review the contracts, making sure the numbers (home price, APR, payment, points, charges, etc.) all are listed as you believe they should be. If they are not, don't be afraid to leave and come back when the papers are in order. Stop and review the disclosures and warnings such as the "formaldehyde health notice." Be prepared to halt the transaction if you do not agree with or understand anything.

Beware of contracts that appear to charge you finance fees (origination fees, prepaid points, "buyer" fees) then appear to deduct these fees from the "Amount financed" *as if you are not actually required to pay them*. The actual amount you are required to repay is the "Principal Outstanding Balance" (or unpaid balance or principal balance) plus the interest on the "principal balance." The finance fees are included in the "Principal Balance" and you must pay this amount back plus you pay interest on these fees.

Over 30 years at 10.99%, a \$4,000 up-front origination fee will cost you \$9,700 in interest or a total repayment of \$13,700. This extra money is nonrefundable and effectively eliminates your equity in the home over the first several years. Prepaid points that you finance will save you money if (1) you do not intend to sell the home over the course of the loan and (2) you know you are getting an interest rate reduction.

If the dealer tells you that a family member with better credit must co-sign or even buy the home for you, that family member may end up the permanent owner of the home. Dealers may promise to change these arrangements in the future, but be unable to fulfill such promises. Get details of these "buy-for" deals, such as when liability and ownership transfers occur, in writing. Also make certain that all the blanks on the contracts are filled in when you sign them. When you leave the signing, take fully signed copies of the contracts with you. Keep them in a safe place.

It is important that you do not sign any documentation that you know to be false. For example, don't sign papers stating you've put more money down on the house than you actually provided. This is illegal, and can limit your legal recourse later if you have problems with the loan or home. Arbitration agreements, prevalent in the manufactured home industry, will also limit your legal recourse in the courts. By signing such an agreement, you give up your right to sue if something should go wrong.

Never sign any documents you do not fully understand. Do not rely upon representations made by the salesperson about these contracts. If you do not understand them, bring someone you trust with you who can explain them to you. Remember, a purchase contract is a legally binding document—don't be afraid to wait until you have help if you need it!

Go Forth!!

Many purchasers of manufactured housing successfully navigate the dealer maze and end up happy in their homes. But the path is also littered with consumers who have been taken advantage of by unscrupulous dealers. Your best protection is your careful consideration of every part of the deal.