CANADA MORTGAGE AND HOUSING CORPORATION

Chattel Loan Insurance Program:

Evaluation Report

May 1998

Audit and Evaluation Services

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CHATTEL LOAN INSURANCE PROGRAM:

EVALUATION REPORT

May 1998

Prepared by:
Audit and Evaluation Services
Canada Mortgage and Housing Corporation

Ce rapport est aussi disponible en français sous le titre: Programme d'assurance des prêts pour logements transportables : Rapport d'évaluation

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EXECUTIVE SUMMARY

This is the final report on the evaluation of the Chattel Loan Insurance Program (CLIP). The Chattel Loan Insurance Program, implemented in September 1988 for a five-year trial period, provided mortgage insurance on loans used to purchase manufactured housing located on land that was rented on a short term basis. CLIP was designed to improve access to affordable housing. CLIP facilitated the financing of mobile homes and in doing so began to place mobile homes on an equal footing with conventionally built houses.

CMHC was required to evaluate this program after the five-year experimental period. The evaluation assessment report and the commencement of the evaluation was approved by CMHC's Senior Management in April of 1993. The draft final evaluation report was submitted to Senior Management in September of 1994.

The various data sources used in the evaluation included:

- surveys of mobile home occupants, branch staff of lending institutions, mobile home retailers, and CMHC branch staff;
- case studies of the impact of CLIP on ten housing market areas across Canada and interviews with national and regional office staff of major lending institutions;
- an econometric analysis of claim rates for insured mobile home mortgages, and an analysis of claim costs to date;
- a physical inspection and market value survey of a sample of mobile home units.

The evaluation team found that there was both a need and a rationale for the program.

- The potential market for CLIP was estimated to be 335,000 moderate income rental households.
- Mobile homes on rented land in general were very durable.

The program met its objectives, albeit program take-up was limited.

- The major impact of CLIP was to reduce the down payment requirements, which resulted in increased access to ownership.
- Mobile home owners have reasonable security of tenure.
- However program benefits were limited by lender unfamiliarity with CLIP.
- Many lenders who knew about CLIP did not offer it because of a concern about the cost of workouts and defaults, a concern which the evaluation team found to be largely groundless.

- Other factors limiting take-up were consumer preferences for stick built housing, local resistance to mobile home park developments and competing provincial programs.

Other program impacts and effects were found to be mainly positive.

- CLIP was a break-even line of business for the Mortgage Insurance Fund.
- The Program had a positive impact on mobile home park developments.
- The majority of clients were more satisfied with their communities, homes and housing cost than with their previous housing situation.
- The average income of CLIP clients was $37,000, significantly lower than the average income of other MLI clients. CLIP did assist some very low income households, but most experienced affordability problems. CLIP households had lower incomes than CHOSP households.

The evaluation team found that regularizing the program and removing some of the restrictions placed on it would be beneficial in most cases:

- Extending the program to existing units would increase the number of rental households eligible to use the program.
- Lengthening the maximum amortization period would allow lower income households to become homeowners without exposing the MIF to higher risk (since there is no evidence that lower incomes result in a higher probability of default).
- Extending mortgage insurance to mobile homes used for rental purposes would have marginal impacts on program take-up.
- The higher interest rates allowed on CLIP loans to encourage lender participation were not necessary or equitable.
- Extending the program to double wide units would not materially effect the operations of the MIF.
- Using the appraised market value of the unit to establish lending value (instead of sales price and set up costs) would reduce insurance risk, but would decrease lending values in the Atlantic and Prairie regions and increase them in British Columbia.
- The program requirement for a 12 month site lease promotes security of tenure but did not follow industry norms
- The policy of approving the loan only when the unit was in place and inspected by CMHC caused problems for the dealers who had to carry the loan during the interim.

1. INTRODUCTION

The Chattel Loan Insurance Program (CLIP), implemented in September 1988 for a five-year trial period, provided mortgage insurance on loans used to purchase manufactured housing located on land that was rented on a short term basis. CLIP was designed to improve access to affordable housing. It facilitated the financing of mobile homes and in doing so began to place mobile homes on an equal footing with conventionally built houses. CMHC was required to evaluate this program after the five-year experimental period to assess its risk.

Background

Some Canadian households live in mobile homes instead of conventional forms of housing which have traditionally been site-built. In this report, a "mobile home" refers to a transportable, single or multiple-section single-family dwelling.

The 1991 Census showed that over 180,000 occupied private dwellings were moveable housing units. The majority of these were mobile homes. Annual production of mobile homes was 49,118 units in 1974, 21,292 units in 1979, and 2,898 units in 1985. Expressed as a proportion of total annual housing starts, production of mobile homes reached as high as 19.2 per cent in 1974, 10.4 per cent in 1979, but had fallen to just 1.7 per cent in 1985. (Joint CMHC-CMHI Report on the Feasibility of Insuring Chattel Mortgages on Mobile Homes Under the National Housing Act, January 1987).

Before 1988, only houses on land owned by the homeowner or leased on a long-term basis were eligible for mortgage insurance under the National Housing Act (NHA). Homes placed on rented sites with short-term leases were not eligible for NHA financing. In order to improve access to alternative forms of affordable housing without involving government expenditures and to place mobile homes in a more competitive position with site-built homes, the federal government amended the National Housing Act in 1988 to authorize the implementation of the CLIP.

Issues Addressed

The Chattel Loan Insurance Program: Evaluation Assessment Report, (CMHC, 1993) provided the terms of reference for the evaluation. The evaluation study addressed 9 issues related to Program relevance and success and 6 issues related to Program design and delivery. The purpose of the evaluation was to answer these questions so that CMHC could decide whether or not to continue the program, and on what terms. One issue in the assessment report dealing with household expenditure patterns was not examined because of the cost of the required data collection.

Approach

This is the final evaluation report. It reviews and analyses a number of data collection projects that have been undertaken by or for the Program Evaluation Division since the launch of the evaluation in 1993. These include the following:

- surveys of mobile home occupants, branch staff of lending institutions, mobile home retailers, and CMHC branch staff;
- case studies of the impact of CLIP on ten housing market areas across Canada and interviews with national and regional office staff of major lending institutions;
- an econometric analysis of claim rates for insured mobile home mortgages, and an analysis of claim costs to date;
- a physical inspection and market value survey of a sample of mobile home units.

1. PROGRAM PROFILE

Program Objectives:

The objectives of the CLIP program were to put mobile homes on an equal competitive footing with conventionally built houses with respect to financing, and to facilitate the availability of alternative affordable housing. CLIP improved access to homeownership without involving direct government expenditures and was to thereby lessen the demand for government-assisted housing.

Program Description:

Financial institutions are required to obtain insurance against default by the borrower for residential mortgage loans in excess of 75% of the value of the property. CMHC offers NHA mortgage insurance for residential property loans up to 95 percent of the cost of the property.

Although CLIP was experimental, its parameters were similar to those of other mortgage insurance programs. For example, the underwriting fee, insurance premium, borrower eligibility criteria and loan interest rates under the CLIP program were comparable to those under conventional housing programs.

However, because of many unknowns regarding the delivery and administration of a national program, particularly in terms of default and claim ratios, certain safeguards were put in place during the pilot stage. Only new units meeting Canadian Standards Association (CSA) standards for mobile and modular unit construction were eligible for insurance. Also, use of the CMHC Full Processing Service, which requires that all units be inspected and appraised by CMHC, was mandatory.

When CLIP was first introduced, both single-wide and double-wide mobile dwellings built to CSA standard Z240 MH Series-M86 were eligible. In addition, floating homes were also eligible. On 1 December 1989 technical standards for mobile homes were officially specified (Amendment 13 to the Technical Builders' Bulletin, Professional Standard Division, CMHC).

The unit had to be used as the borrower's principal residence. While loan insurance coverage was limited to new units, units which were previously insured under the CLIP and subsequently resold were eligible.

The policies governing NHA loan insurance regarding borrower's income, credit verification, and debt service ratios applied to CLIP applicants. The monthly cost of the land or site rental had to be included in the calculations of gross debt service ratios.

Program Activity:

Table 1 presents data on movable dwelling stock as published in the 1991 Census of Canada. Ontario and Quebec households make less use of mobile homes than the rest of Canada as measured both by the numbers of occupied mobile dwelling units and incidence of mobile homes in the occupied dwelling stock.

Table 1: Occupied Dwellings and Movable Homes, 1986 and 1991

	Occupied dwellings				
	Movable Homes				Moveable homes as % of occupied dwellings
	Total	**Owned**	**Rented**	**All dwellings**	
Canada 1991	180,010	154,935	25,075	10,018,267	1.8
Atlantic	29,820	26,760	3,060	797,705	3.7
Quebec	24,720	22,015	2,705	2,634,301	0.9
Ontario	20,230	17,405	2,825	3,638,364	0.6
Prairies & NWT	56,390	47,760	8,630	1,694,736	3.3
B.C. & Yukon	48,850	40,985	7,865	1,253,809	3.9
Canada 1986	115,240	98,730	16,510	8,991,675	1.3
Atlantic	18,980	17,200	1,780	727,240	2.6
Quebec	17,100	15,220	1,885	2,357,105	0.7
Ontario	11,345	9,465	1,880	3,221,730	0.4
Prairies & NWT	39,300	33,160	6,140	1,590,520	2.5
B.C. & Yukon	28,515	23,690	4,825	1,095,095	2.6

Source: Statistics Canada, Dwellings and Households, Census of Canada, catalogues 93-311, 93-105

Notes:
1. Movable homes include mobile homes and other movable dwellings such as houseboats and railroad cars.
2. According to Census definitions, an "owned" dwelling may be situated on rented or leased land or may be part of a condominium.
3. A movable home is classified as "rented" if both the home and the land on which it is situated are rented.
4. Statistics Canada definitions of tenure of units located on Indian reserves changed between 1986 and 1991. The Canada total for 1986 excludes 2,005 units located on Indian reserves. The 1991 total excludes 545 units owned by Indian bands.
5. Modular homes may not be included in "moveable homes".

Table 2 presents the number of mobile and modular housing units insured under the CLIP and other regular NHA insurance programs between 1988 and 1994. Residents of the Atlantic provinces participated in CLIP more than all of the rest of Canada combined, accounting for about 75 percent of all program activity. CLIP was all but unknown in Ontario and Quebec.

Table 2: Mobile Homes Insured under CLIP and Regular NHA Mortgage Insurance Programs (units)

	Chattel Loan Insurance Program							
Region	**1988**	**1989**	**1990**	**1991**	**1992**	**1993**	**1994**	**Total**
Atlantic	2	514	612	507	335	313	119	2402
Quebec	..	14	3	10	21	21	13	82
Ontario	..	3	..	1	2	..	1	7
Prairies & NWT	1	2	1	19	52	80	30	185
BC & Yukon	1	54	131	64	80	156	109	595
ALL	4	587	747	601	490	570	272	3271
	Regular NHA Mortgage Insurance Programs							
	1988	**1989**	**1990**	**1991**	**1992**	**1993**	**1994**	**Total**
Atlantic	23	151	171	169	349	313	125	1301
Quebec	37	436	589	641	716	673	350	3442
Ontario	10	35	36	34	43	55	12	225
Prairies & NWT	54	256	440	699	925	982	462	3818
BC & Yukon	33	181	254	378	587	861	376	2670
ALL	157	1059	1490	1921	2620	2884	1325	11456

Source: The Insurance Business System, CMHC

Notes:
1. Mobile homes placed on owner-occupied land or on rented sites with a long-term lease are eligible for regular NHA insurance programs.
2. CLIP insured new units as well as units previously insured under the NHA and subsequently resold. The regular NHA insurance programs insure both new and existing units.
3. The 1994 figures include program activity to the end of May.
4. CLIP totals include units enrolled under the First Home Loan Program that were secured by chattel mortgages.
5. Under 3 per cent of the CLIP portfolio was comprised of resale units compared to about 80 per cent of mobile homes insured under the regular NHA program.

3. PROGRAM RATIONAL

Guidelines published by Treasury Board specify that program evaluations should examine program rationale, success, and alternatives (i.e. program performance). The topic of success is often divided into an objectives achievement section examining explicit objectives, and an impacts and effects section dealing with unintended results, either positive or negative. The issues outlined in the assessment report are examined under these four headings.

3.1 HOW DURABLE ARE MOBILE HOMES? (ISSUE 1)

One of the concerns raised by CMHC's Senior Management was the durability of mobile homes and the liability to the Mortgage Insurance Fund that would arise in the event of default by the borrower. This concern was composed of two problems: uncertainty about the time path of deterioration of mobile units under normal use; and added uncertainty about the probable relocation rates of mobile units, particularly in the event of default.

Three subsamples of the population of mobile home units in Canada were included in the evaluation surveys: CLIP insured units, units insured under regular NHA insurance (called NHA mobile units), and uninsured units. CLIP subsample units were generally located on leased sites and were built since 1988. NHA subsample units were nearly all on owned sites and were built since 1967. The uninsured units were mainly located on leased sites and were built since 1959. It was expected that NHA units, being on owned sites, would have been relocated less frequently than CLIP and uninsured units, which were on leased sites.

Three indicators of durability were used in the evaluation. The first was the need for major repair as determined by self-assessment of units by their occupants. These repair need estimates were based on the same questions used in Statistics Canada housing surveys, and can be compared to published information on the condition of the Canadian housing stock and all of its components.

The other two durability indicators were an index of unit condition compared to the CMHC Minimum Property Standards (MPS), and an estimate of the total dollar cost of repairs necessary to bring the unit up to the MPS in all respects. Data for these two indicators were gathered through the physical condition survey undertaken by CMHC technical field staff during the spring of 1994 comprising 275 mobile home units.

The indicators were used in three types of analysis. Mobile and modular manufactured housing were compared to site-built housing. NHA units were compared with uninsured units, the difference being site tenure. Lastly, a regression analysis of a number of factors affecting repair costs was done to examine the influence of past unit relocations on condition.

Deterioration and need for repair

Comparisons with site-built housing:

If mobile or modular housing is less durable than site-built housing, there should be indications of poorer condition in the data collected. CLIP units were not included in this comparison since they were nearly new at the time of the survey.

The incidence of need for major repairs of mobile home units, as assessed by their owners, was 10.3 per cent for the combined group of NHA and uninsured units. The incidence of major repairs for all single detached units was estimated at 11.2 per cent by the 1991 HIFE survey. These differences in major repair needs may be influenced by the age of the units. Controlling for age, the condition of the manufactured stock and the single detached stock, as assessed by their owners, was roughly comparable.

Repair and replacement costs for NHA and uninsured units were $2,149. These were higher than costs for site-built housing delivered under the federal co-operative housing programs, which averaged $1,375 (in 1993 dollars) for units built from 1973 to 1986. However cost for mobile home units was less than the $3,000 of repairs needed by Rural and Native homeownership housing and the $3,213 needed by family-oriented public housing units.

Effects of unit relocation on durability - owned/leased sites:

Mobile units on owned sites were assumed to be relocated less frequently than units on leased sites and accordingly should have been in better condition. Therefore it was expected that the condition indicators would be worse for uninsured units than for NHA mobile units.

Costs by age were similar for NHA and uninsured units. For units built in the 1970s NHA units needed $2,759 of repairs compared to $3,069 for uninsured units, For 1980s units the respective costs were $2,173 and $2,201.

The incidence of major repair need was shown above to be 10.3 per cent for the combined NHA and uninsured group of units. However, the incidence was 10.6 per cent for NHA units and 9.9 per cent for the uninsured units. The differential favours uninsured units which was the opposite of what was expected. On the other hand, 7.6 per cent of NHA units and 21.3 per cent of uninsured units failed the minimum property standards. The moderate level of repair costs for uninsured units in conjunction with the elevated MPS failure rate suggested that minor building elements were failing the standard.

Repair costs were examined separately for new and resale units. New uninsured units would cost $767 to repair compared to $613 for new NHA units. Costs for resale units were $2,759 for NHA compared to $2,889 for uninsured units.

Building envelopes and structural elements (including foundations) represented the largest share of repair costs for NHA and uninsured units.

The durability of uninsured units that may be attracted to CLIP was found to be similar to units already insured by regular NHA programs as measured by repair cost data.

Effects of unit relocation on durability - regression analysis:

A regression analysis of factors determining repair cost was undertaken. Inspection data on repair costs were merged with occupant survey data on relocation history, household size, and occupant maintenance practices.

The analysis showed that repair costs increased with age but at a decreasing rate for older units. The small cost increases for older units was consistent with the continued use of very old housing. Units occupied by larger households had higher repair costs and higher quality units, as indicated by a masonry foundation, had lower costs.

Simple tabular analysis of costs by relocation status showed that relocated units often needed more repairs. However, such results did not account for unit age and household size, which were controlled by regression analysis. Relocation was not a significant indicator of deterioration when age and other variables were held constant.

Relocation practices

At the time CLIP was developed and launched, estimates of the proportion of mobile homes used as permanent dwellings that ever would be relocated was unknown. Estimates from the industry in Canada and from experience in the United States varied from 1.7 per cent to 5.7 per cent. The resident survey showed that 3.2 per cent of CLIP units, 6.7 per cent of NHA insured units, and 9.4 per cent of uninsured units had been moved. The aggregate rate for the total sample was 6.4 per cent. The question asked whether or not the respondents had moved their units from one location to another. It was possible that buyers of resale units were counting the move from the seller's lot to the present site. Considering new units only, the aggregate moving rate was 5.2 per cent. Resale units were therefore moved more frequently than new units.

Mobile home dealers were asked about their knowledge of moving practices. Just under half replied that five per cent or fewer were ever moved. The overall moving rate computed as a weighted average of dealer responses was 10.5 per cent, whereas the median moving rate was about 6 per cent. A small number of dealers estimated the proportion of units moved at over 50 per cent. This might indicate some misunderstanding of the question and might account for the large difference between the mean and median rate.

Nearly 13 per cent of the units that were moved suffered some degree of damage according to the resident survey. Dealers were asked for their expectations of damage in the event that units were moved. Eighty-eight per cent expected that some units would receive minor damage if moved, and 25 per cent believed that some units would receive major damage. Transport insurance was available when units were moved by qualified firms. However the sample size was insufficient to determine the proportion of units that were covered by such insurance.

The case study interviews were not directly aimed at investigating the durability issue, but occupants at three interview sites expressed satisfaction with the quality of manufactured housing units.

3.2 WHAT IS THE NEED FOR A CHATTEL LOAN INSURANCE PROGRAM? (ISSUE 2)

The second objective of CLIP was to facilitate the availability of affordable housing which would ease access to home ownership without involving government expenditure. Therefore one might ask, how many households could afford to buy a mobile home by using CLIP but could not otherwise do so?

Participation in CLIP allowed a household to buy a unit with a lower down payment than was required if consumer loan financing was used and to repay the loan at a lower interest rate. It turned out that the larger principal amounts borrowed by CLIP borrowers required larger monthly payments than the consumer loans even though interest rates were lower. This is because the reduction in the size of the down payment was proportionately larger than the interest rate reduction.

Assuming the purchase price of a new mobile home unit (including set-up etc.) was $60,000, a household using CLIP financing would have put $6,000 down and would have borrowed $55,585. The loan amount would have included the balance of the purchase price, the mortgage insurance premium and the application fee. This works out to a monthly payment of $457 at 7.9 per cent amortized over 20 years. Adding a monthly site rent of $170, the required annual income to carry total shelter costs at a GDS of 30 per cent would have been $25,076. Without using CLIP but paying 25 per cent down, a household would have borrowed only $45,000 which would have required an income of just over $22,800.

It was further assumed that the potential buyers of mobile units were renters which comprised 3,587,999 households according to the 1991 HIFE survey.

Therefore to find out how many households could buy using CLIP but could not otherwise, it was necessary to find out how many could make a down payment of at least $6,000 but not $15,000 while carrying the CLIP payments.
The 1984 Asset/Debt file from the Survey of Consumer Finances (Statistics Canada, 1984) was the most recent micro database of household asset and debt information available at the time of the evaluation. The income and asset variables from the database were inflated to 1993 levels. It was assumed that the distributions of assets and debts had not changed in real terms since 1984. The distributions of total financial assets were examined to determine the proportion of renters that could make the downpayments necessary using CLIP and consumer loan financing respectively. Financial assets were used rather than net worth because of the difficulty in converting non-financial assets into cash versus the relative liquidity of financial assets. Also, converting cars or furniture into cash for a downpayment would require some major lifestyle

changes that might be a sufficient impediment to discourage a household from buying, even if they had sufficient assets on paper.

Using the above methodology for identifying potential buyers and the Asset/Debt file from the Survey of Consumer Finances , it was found that just over nine per cent of households could afford to buy a new mobile home using CLIP but could not afford one using consumer loan financing. This amounted to just under 334,800 renter households in 1991. Nearly 11 per cent of renters (389,300 households) could potentially have afforded a used unit costing $40,000.

4. PROGRAM OBJECTIVES ACHIEVEMENT

4.1 TO WHAT EXTENT HAS THE CLIP PROGRAM IMPROVED MOBILE HOME FINANCING TERMS AND SO INCREASED ACCESS TO HOMEOWNERSHIP? (ISSUE 3)

This issue was examined in two stages. The first stage was to identify, quantitatively, the differences in financing terms between uninsured consumer loans and insured CLIP loans. The second stage identified the extent to which improved lending terms translated into changed consumer behaviour and market impacts. The main data sources used in the examination of this issue were the surveys of dealers, lender branch staff, and mobile home occupants. Additional information was drawn from interviews conducted with national office and regional office staff of lenders, which comprised one of the case studies.

Comparison of financing conditions of uninsured and insured loans

Gross Debt Service Ratio:

CMHC guidelines governing mortgage initiation specified that lenders may approve loans when the borrower's gross debt service (GDS) was up to 32 per cent. Higher GDS ratios could be approved by CMHC. The lender branch surveys showed that the average GDS ratios for uninsured loans were just over 33 per cent. Thus CLIP seems to have had no impact on GDS ratios as they were nearly the same for NHA insured chattel loans and for uninsured loans.

Interest rates:

All lenders in the survey were asked to report their interest rates on uninsured consumer loans or chattel mortgages and CLIP lenders were asked to report their one year and five year CLIP loan rates. The survey was conducted during the first two weeks of February, 1994. The mean interest rate on uninsured loans was 8.36 per cent. The low end of the range quoted for the best borrowers was 8.2 per cent for a five year term, while the high end was 10.1 per cent. Interest rates on CLIP loans for one and five year terms (6.5 and 7.9 per cent respectively) were both lower than the rate for uninsured loans. Therefore, CLIP seems to have had a marginal impact.

Downpayment:

The downpayment requirement of CLIP lenders for uninsured loans was just over 21 per cent of the property value and for non-CLIP lenders was nearly 27 per cent. For CLIP insured loans the downpayment was ten per cent, and five per cent if the units were subject to the First Home Loan Program. CLIP introduced a major reduction in downpayment requirements.

Amortization period:

The maximum amortization period for uninsured consumer loans was just under 19 years for CLIP lenders, and 17 years for non-CLIP lenders. The maximum allowed under CLIP was the lesser of 20 years or the economic life of the unit.

The effects of CLIP financing in terms of the number of renter households potentially admitted to home ownership by the program were illustrated by the example presented in issue # 2.

Consumer and market impact of CLIP

Survey evidence:

The advantageous financial terms available to CLIP borrowers were viewed by mobile home dealers and lenders as having had a substantial real impact on consumer behaviour and on the market for mobile homes.

The most important impact of CLIP in dealers' opinions was the reduction in the downpayment requirement. A majority of dealers also believed that CLIP had improved lender attitudes towards mobile home purchases, lowered interest rates and lengthened amortization periods. In the view of dealers, these factorsenabled CLIP to reach borrowers not qualified for other types of financing. Close to 90 per cent of dealers believed that CLIP was responsible for at least some increase in mobile home sales. Dealers were equally convinced that cancellation would have a negative impact on sales.

Lender branch staff believed that CLIP admitted "many" or "very many" households to mobile home ownership that would have been unable to buy without CLIP. Over sixty per cent of lenders believed that there would be a significant or a large decrease in lending activity if CLIP were no longer available. These views were consistent with dealer opinions.

The mean ages of the respondents (a person normally involved in decisions about household finances) in CLIP and NHA households were 37 and 35 years, respectively, compared to a mean age of 48 years for households in uninsured units. If the length of occupancy were to be subtracted from age, the result would be the respondent's age at the time of purchase. These ages were 34, 31, and 39 for CLIP, NHA, and uninsured households respectively. For new units, the age of a person buying an uninsured unit rose to 42, with the other household ages remaining unchanged. It appears that CLIP allowed households to buy new units about eight years earlier than households not using mortgage insurance.

Incomes of households in insured units ($37,047 and $48,599 for CLIP and NHA respectively) were higher than those of uninsured households at $30,658.

The proportion of first home owners was highest for NHA insured units at just under 62 per cent. The proportions for CLIP and uninsured units were quite close at 53 and 55 per cent respectively. CLIP occupants were asked what they would have done had they not been able to have CLIP insurance. Over half of those that answered, said that they would have bought a cheaper unit, waited longer to buy, or would have continued to rent. This was further evidence that CLIP had some influence on the rate at which households gained access to home ownership. However, the limitation of the program to new higher priced units prevented some low income renters from participating.

Case study evidence:

Interviews in a number of case study sites indicated that CLIP was important to the local market. One dealer said that CLIP was used in 50 per cent of sales and another, in 90 per cent. It was also reported that the absence of CLIP on resale units extended sale time or reduced the asking price. Some CLIP retailers advised buyers to register their units under CLIP as an aid to resale.

An observation made in a number of case study sites, and not emphasized elsewhere, was that CLIP was almost unknown to consumers, even when it was used for their loans. The transaction was, in effect, carried out between the dealer and lender. The buyer was sometimes unaware of the details of the program's operation.

4.2 WHAT IS THE SIGNIFICANCE OF VARIOUS FACTORS AFFECTING PROGRAM TAKE-UP? (ISSUE 4)

This issue had two components: a discussion of the total market for mobile homes, and a discussion of the factors limiting the use of chattel loan insurance within current market conditions. The former examined the supply and demand for mobile homes, while the latter examined supply and demand for loan insurance.

Limits on the market for mobile and modular housing

Table 1 showed that 1.8 per cent of housing in Canada consisted of movable units in 1991. Mobile and modular unit production was about 4,000 units each over the five years ending in 1992. There was some undercounting of mobile units relative to modular units because units delivered to Alberta all used the Canadian Standards Association modular designation, A277.

Since some manufactured units were placed on owned lots, production figures only put an upper bound on the maximum annual demand for loan insurance for units on leased land. If it was assumed that mobile units were placed on leased sites (i.e.. in parks) the limit on CLIP demand would have been 4,000 units per year. This was just over two per cent of the average number of housing starts in Canada since 1981. It was also consistent with the census count of movable units in the total housing stock which grew from 1.3 per cent in 1986 to 1.8 per cent in 1991. The contribution of mobile homes to annual starts would have to have been over 1.8 per cent to raise the national share to 1.8 in the 1991 census. About half of the CMHC staff surveyed estimated that mobile and modular homes on rented sites constituted less than one per cent of all new units in their market areas. This is generally consistent with census counts.

The overall market for mobile units on rented sites, and hence for financing of such units, was thus in the order of 4,000 units per year, less whatever share was bought for cash. The occupant survey found that about a third of uninsured units were purchased for cash. This reduced the overall market for insured chattel loans to about 2,600 units. On the basis of these assumptions, CLIP insurance activity at about 500 units per year was serving about 20 per cent of its potential market.

About two-thirds of mobile home occupants gave "good price" as the reason that they bought a mobile or modular home. This was overwhelmingly the most frequent reason. The only other reason given by more than 10 per cent of occupants was "other", which itself contained reasons relating to low price or economy but described in other terms.

The main constraint on sales of mobile and modular housing cited by dealers was lack of sites in mobile home parks. The majority of lenders did not see low consumer demand, lack of sites or zoning restrictions as serious barriers to their use of chattel loan insurance, although all three were considered to be at least something of a barrier by substantial numbers of lenders.

Interviews with dealers, lenders, municipal officials and occupants undertaken for the case studies also revealed that a shortage of sites was a critical factor. Interviewees in the Atlantic provinces and Alberta reported better site availability than in the Prairies, Quebec, and Ontario.

Dealers attributed lack of mobile home park sites to lack of land zoned for mobile homes, development costs, and regulatory controls. Again this view was supported by the case study that identified rising zoning and development standards as loading extra costs onto new mobile home parks. Mobile home dealers expected mobile and modular home sales to grow during the next five years.

Limits on use of CLIP within the existing market

Survey evidence:

A quarter of the lenders that did not use chattel loan insurance had never heard of it, and a further 28 per cent did not know any details of the programs. Lenders in Quebec and Ontario reported not having heard of CLIP more frequently than lenders in other regions. It was clear that awareness of the opportunity to offer insured mobile home loans was low in much of the financial industry. Lenders that knew some details of CLIP stated that their information came from either CMHC or their own national or regional offices. Manufacturers, dealers, and park operators were rarely given as sources of information. Manufactured housing associations were cited by less than three per cent of lenders as being a source of program information.

The level of experience with mobile home lending was similar between CLIP and non-CLIP lenders, with CLIP branches reporting an average of seven mobile home loans on file and non-CLIP branches reporting eight. The rationales given for participating in mobile home financing were similar for CLIP and non-CLIP lenders: they both reported responding to market demand or consumer need for service. However, a greater proportion of non-CLIP lenders reported that they were more cautious about initiating loans for units on rented land.

The reasons given as barriers to using CLIP by non-CLIP lenders were the availability of more competitive financial instruments, or provincial programs. About 50 to 57 per cent of non-CLIP lenders judged these to be at least a minor barrier to their use of chattel loan insurance, while less than 35 per cent of CLIP lenders made the same statement.

Roughly 40 per cent of CLIP and non-CLIP lenders said that the mortgage interest rate ceiling of 0.5 per cent over posted rates was at least a minor barrier, although they both judged it to have only weak influence.

Case study evidence:

Lending officers in branches of major financial institutions were interviewed in the ten case study markets. They were asked why they did or did not participate in CLIP. A series of interviews with national and regional office staff of major lenders covering the same subjects was undertaken as the eleventh case study.

The case study report confirmed the importance of competition from provincial programs. This factor was operative in Alberta and Manitoba until 1993, but as of 1994 Manitoba was the only province that maintained a home ownership subsidy program that assisted mobile home purchases.

The two case study markets visited in Quebec revealed a unique feature of the Civil Code. The Code did not recognize a chattel mortgage before January 1994. Consequently, the loan security (i.e. a chattel mortgage) required by CLIP was not available. While some Caisses Populaires offered a contract for sales by installment to some borrowers, the availability of consumer loan funds for purchase of mobile homes was probably patchy in Quebec. Amendments to the Civil Code expected in January 1994 were expected to improve availability of funds.

Lenders were also asked about the administrative effort involved in CLIP and uninsured consumer loans and about how these influenced their decision about participation. Branch lenders that did not use CLIP stated that the problem of whether or not to participate was not the cost of loan administration. Administrative costs for loan initiations were quoted at about $225.

The actual use of CLIP (like any new financial product) was determined by a sequence of decisions. National and regional office staff said that products were initially considered by a centralized product group to assess whether there was a market, level of risk, and whether the product fited existing product and business lines. The business margins were also discussed at this stage. If the product received central approval, regional offices retained the right to participate or not depending on their assessment of the mobile home market. Given that the regional decision was positive, there were also market threshold problems. A branch of a participating bank might have been located in a small market in which another institution was more active and had more experience. While such a bank would be able to participate, it might not because it faced a "market leader" in that geographic area.

Opinion was split about whether administrative costs were higher for CLIP than for other types of loans. Some lenders expected that CLIP would be more administratively burdensome than other loans but admitted that experience did not turn out that way. Some lenders did not charge the extra 0.5%, which suggested that extra administrative costs did not exist.

It seems to have been expected that CLIP take-up would be roughly uniform across Canada or might vary in some proportion to the numbers of mobile homes in use. The idea of regional autonomy of financial institutions was not considered. This autonomy along with competition from provincial housing programs, the absence of a chattel mortgage in Quebec, and inconsistent program promotion accounted for the patchy use of CLIP during its pilot phase.

5. PROGRAM IMPACTS AND EFFECTS

5.1 WHAT IS THE IMPACT OF THE CLIP PROGRAM ON SECURITY OF TENURE? (ISSUE 5)

Mobile homes in mobile home parks are unlike conventional housing with respect to security of tenure because the land is rented. Therefore, the home owner might be forced to leave for several reasons, including rising site rents, eviction, or park redevelopment. However, all households face some level of risk to the tenure of their dwellings due to income loss or cost increases that are beyond their control. Consequently, the expectations of a forced move reported in the occupant survey should be compared to results of similar research into security of tenure for other housing forms and not compared to some idea of absolute security.

Nearly 83 per cent of CLIP insured units and 87 per cent of uninsured units were on rented sites. Median monthly rent for CLIP sites was $140 and for uninsured sites was $175.

Over 63 per cent of CLIP and 69 per cent of uninsured occupants either had a rent increase or received notice of a rent increase in the previous twelve months. Rent increases (for occupants that had an increase or a notice) averaged 7.1 per cent for CLIP units and 5.7 per cent for uninsured units. However, including those with zero increases reduced the mean increases to 4.5 and 4.0 per cent respectively. These increases were substantially higher than recent levels of inflation.

Over 83 per cent of dealers reported that rents for sites in parks have kept pace with or risen more slowly than residential land prices in their market areas over the last five years.
Residents were asked whether or not they had ever moved out of a mobile home park because of high rents or because the park closed. No resident of an uninsured unit reported moving because of high rents, but over 11 per cent had moved because of a closure. Nearly nine per cent of residents of CLIP insured units had moved because of high rents but only two per cent because of a closure.

About 30 per cent of occupants of all types of units indicated that they were at least somewhat likely to move out during the next two years. Residents of NHA insured units were slightly more likely to move, at 33 per cent. The most frequent reasons given for moving related to the size or type of unit, to the availability of services or travel requirements, and a preference for site-built units. The first two could be summarized as suitability needs and locational needs. Affordability was mentioned as the first reason for moving by 7.2 per cent of residents of NHA insured units, but by only 2.6 and 1.3 per cent of CLIP insured and uninsured units respectively.

A review of provincial and territorial landlord and tenant legislation showed that most provinces include rented mobile home sites in the protection provided to tenants, although such protection varied among jurisdictions. The strongest protection offered by such legislation was the deemed continuation of a tenancy after the expiry of a lease. Five jurisdictions deemed that some rights of tenancy persisted after the end of an initial lease as long as the terms of the initial lease continued to be respected. Probably the most important of these was the continued payment of rent.

As part of the Evaluation of the Federal Co-operative Housing Programs (CMHC, 1992), homeowners and renters were surveyed about the probability of their being forced to move because of loss of income or rising housing costs. Seven per cent of owners and 21 per cent of renters replied that it was at least somewhat likely that they would have to move within a year as a consequence of affordability problems. A comparison of these figures to the responses of mobile home residents (who were estimating the likelihood of moving within two years) showed that mobile home occupants perceived themselves to have at least as much security of tenure as owners and renters of conventional housing. This was consistent with the existence of the security of tenure protection in major rental markets. Although the incidence of occupants having moved due to high rents and park closures was not negligible, it is consistent with the incidence of moves of current units already discussed in issue #1.

5.2 WHAT ARE THE IMPACTS OF THE CLIP PROGRAM ON THE MIF? (ISSUE 6)

This section has four parts. The first is a description of mortgage insurance claims in general. The second discusses actual claim rates and the third analyses claims settlement experience. The fourth is an analysis of market prices for mobile homes as determined from the appraisal survey. The last part indicates whether or not mobile homes without land ownership would appreciate or not. If they do not, part of the mechanism that leads lenders to stop making claims on defaulted mortgages would be missing. If they do appreciate, then the mechanism will be expected to work for the CLIP portfolio.

Mortgage insurance claims

The proportion of insured mortgages for which CMHC pays a claim to a lender is called the total claim rate. It is the sum of the annual claim rates from the year of initiation to the year of mortgage discharge. An assessment of the impact of insurance of chattel loans on the MIF requires an estimate of the claim rate for CLIP accounts, and an assessment of the expected fund losses if an account defaults. Together these determine the expected cost to the MIF which in turn can be compared to premium revenues to establish whether there might be a profit or loss on this line of business. The expected profit or loss could then be compared to other lines of insurance business.

It is important to obtain a good estimate of claim rates and costs in order to compare them to premium revenues and to determine the portfolio profit or loss. Revenue was easily estimated since it is a simple function of the loan to value ratio. However, the total claim rate for a year's insurance activity would not be known with certainty until all mortgages were discharged, which could take up to 35 years from the year of initiation. In practice though, the annual claim rates increase for a short time, then stabilize and decline to negligible numbers for regular insurance lines. Total claim rates therefore grow for a period then reach a maximum.

The reason for the wave pattern of annual claim rates is fairly straightforward. A mortgage goes into default when payments are in arrears. Lenders will usually not make a claim where the loan is well secured, but will make a claimwhere the security is poor. An old mortgage that is in default will have much of its principal paid down and the value of the property, which is the security for the mortgage, will have grown with inflation and with market appreciation. Year by year claims against accounts initiated in a given year therefore decline from peak rates, which have been observed to occur about three or four years after initiation, then fall to almost nothing because the loan security becomes better with age. In the early years mortgages have not had time to default so claim rates begin effectively at zero, rise to their peak then fall. The question is whether or not loan security for CLIP accounts would follow this pattern or not.

Claim rates

Claim data were available from underwriting administration files. Claim rates were analyzed for CLIP, regular NHA homeowner, and NHA mobile home accounts initiated from October 1988 to the end of December 1991 comprising 1,938 CLIP accounts, 322,569 homeowner accounts, and 4,627 NHA mobile accounts. The 1991 cut-off was used because the homeowner portfolio of the 1988-91 era passed its peak annual claim rates. It was assumed that the CLIP and NHA mobile portfolios were similarly mature but the relatively small number of CLIP claims in any year made the annual claim rates volatile. Claims for accounts initiated since 1992 were expected to rise for another two or three years so including these years in claim rate calculations would probably bias expected costs downward, producing overly optimistic estimates of claim settlements.

Mortgage insurance claim rates were affected by borrower characteristics (such as income and family composition), loan characteristics (such as amortization period, loan to value ratio and GDS ratios), and property characteristics (such as location and structural type). The characteristics of each type of borrower were somewhat different and the geographic distributions (and hence economic circumstances of households and communities) were considerably different. The major difference was the geographic distribution. Over 84 per cent of CLIP activity was in the Atlantic region compared to about ten per cent of regular homeowner and NHA mobile home activity. Average incomes of CLIP owners at $37,257 were somewhat lower than incomes of NHA mobile owners, at $41,532, and considerably lower than the $53,462 of regular homeowners. GDS ratios were fairly close for CLIP and NHA mobile accounts, at 21 per cent, and slightly higher for regular homeowner accounts, at 24 per cent. Loan to value ratios were also similar, being within one per cent of 87 per cent. Average property lending values were $96,462 for regular homeowner accounts compared to $54,361 for NHA mobile and $45,464 for CLIP accounts. The age distribution of accounts was constrained to be nearly constant.

Claim rates were examined by cross-tabulations, one factor at a time, and by regression methods that identify the individual effects of each causal factor holding all others constant. The tabulations showed that claim rates, with some exceptions, increased with GDS and loan to value ratios, and surprisingly were higher for borrowers with higher incomes. Rates for CLIP accounts were highest in the Atlantic region, and for regular homeowner accounts were highest in Quebec. The raw claim rates for CLIP, regular NHA homeowner, and NHA mobile mortgages initiated from 1988 to 1991 were 4.1 per cent, 3.6 per cent and 2.9 per cent respectively.

To analyze the relative strength of these explanatory factors on claim rates, a logistic regression of claims against borrower characteristics, geographical distribution, and insurance initiation year was done. The regression results showed that claim rates for all types of units were positively related to GDS and loan to value ratios. Rates were lower in British Columbia than in other regions, and were lower for borrowers with lower incomes.

An estimated standardized portfolio claim rate could be calculated by using the average values of variables in the dataset and the regression coefficients. These turned out to be 4.2, 2.3 and 1.7 per cent, respectively for CLIP, NHA mobile and regular homeowner accounts. As with the raw rates, CLIP claim rates were highest. NHA mobile claim rates were higher than regular homeowner claim rates when they were standardized, suggesting that the effects of higher GDS ratios for regular accounts caused the raw rate to be higher than for NHA mobile borrowers.

Claim settlement

Portfolio comparisons:

Claim settlement data was analyzed for accounts initiated in 1989 and 1990 so that conclusions would be based on the most mature part of the portfolio. Final claim settlement data was available for 59 CLIP, 93 NHA mobile, and 8,250 regular homeowner accounts. Administrative costs and premium interest earnings were not included in this comparison, but are discussed for the CLIP portfolio by itself in the next section.

The net loss per claim (excluding CMHC administrative expenses) was $18,900 for CLIP, $21,461 for NHA mobile, and $32,948 for regular homeowners in 1989, and respectively $18,052, $20,375, and $33,730 in 1990. This reflected the higher value of the NHA properties. Claim rates for both years were similar for CLIP and regular homeowner accounts, ranging from 4.5 to 4.9 per cent. NHA mobile account rates were 3.7 per cent in 1989 and 4.1 per cent in 1990. The claim rates were multiplied by the average loss on accounts where there was a claim to estimate the expected claim cost per unit in the portfolio. Expected claim costs were lowest for NHA mobile accounts and highest for regular homeowner accounts.

The premium revenue was naturally highest for regular homeowner accounts because it was related to the insured loan amount. Revenue for regular accounts was roughly twice CLIP revenue. Revenue for NHA mobile accounts was slightly higher than for CLIP accounts. The profitability for a portfolio is the difference between premium revenue and claim losses. It declines as claims use up premium revenue, but later stabilizes when claims decline. Accounts initiated in 1989 were in their sixth year, and those initiated in 1990 were in their fifth. The 1989 CLIP portfolio had an $88 loss and the 1990 portfolio had an $47 profit. NHA mobile accounts had a $148 profit in 1989 and a $166 profit in 1990. Regular homeowner accounts made a profit of $175 in 1989 and $317 in 1990.

CLIP revenues and corporate costs:

Did the 1989 and 1990 CLIP insurance activity break even or not? To answer this question, estimated interest earnings from 1989 to 1994 on CLIP accounts were included in the settlement analysis as MIF income, and CLIP administrative costs were included as expenses. The inclusion of these costs created a negative balance in the MIF respecting the 1989 CLIP portfolio of $16,855 and a positive balance of $102,794 for the 1990 portfolio. These balances didnot include two units unsold from the 1989 portfolio, and one unit from 1990. The addition of an allowance for the expected sales proceeds produced positive fund balances of $45,094 and $135,235 for 1989 and 1990 respectively.

To derive these figures, premium revenues less net initiation costs were assumed to earn 8 per cent interest income for half of the first year. Net initiation costs are the difference between gross costs and the application fee. Gross initiation costs were assumed to be $300 per unit. This figure was slightly higher than the average initiation costs shown by the corporate accounting data for 1989 CLIP activity. However, it was consistent with other estimates of insurance initiation costs and was less than the costs for CLIP recorded for 1990.

For each following year up to 1994 a different calculation was made. The opening premium balance earned interest at 8 per cent for the full year then claims expenses and administration costs were deducted. Administration costs are composed of two parts, claim settlement and default management.

Estimated claims administration costs were based on the performance standards for the Mortgage Insurance Operations Centre for 1995. The number of claims each year was expressed as a fraction of the performance standard for claim settlement and multiplied by the total cost, including overhead, for a staff year.

The remaining part of the portfolio experiences default management costs. These costs were estimated by assigning a share of the total CMHC default management expense for single units to the CLIP portfolio. The CLIP share was based on the proportion of 1993 year end singles arrears that were CLIP accounts. The share of expenses of the 1989 CLIP portfolio is 19.6 per cent of the total CLIP expense which came to $2.20 per unit. The calculation for 1994 was carried up to the end of May.

The inclusion of all administrative costs, premium interest revenues, and real estate assets yielded the net fund balances reported above. It should be recognized that the 1989 and 1990 portfolios had been exposed to an adverse real estate cycle since they were initiated. It was expected that later CLIP portfolios would perform more profitably as the economic expansion progressed, but the degree of increased profitability was unknown.

Market value and price appreciation

It was clear that, to 1994, CLIP had approximately broken even for its 1989 accounts, although net profits to the MIF were lower than for the main lines of NHA insurance business. It was not clear whether CLIP claim patterns would follow the time pattern for regular homeowner accounts. CLIP claims were expected to follow the homeowner pattern if units showed market value appreciation, allowing the mechanism of increasing loan security to operate.

Appreciation was defined as the difference between the 1994 appraised value and the purchase price. In current dollar terms, the market appraisals showed that there was value appreciation on units in British Columbia but depreciation in the rest of Canada. There was appreciation for units bought in the 1970s and 1980s but depreciation of more recent units.

To examine the effect of time and other factors determining mobile home prices, a regression analysis was done on proportional constant dollar price changes. Factors influencing appreciation were unit and occupant characteristics furnished by the occupant, inspection, and appraisal surveys. The results of the regression showed that units in British Columbia appreciated but that they depreciated in the rest of Canada. Appreciation was greater where the site was owned. Resale units appreciated more (or depreciated less) than new units. These results were net of inflation. CLIP units outside British Columbia would avoid depreciation if inflation were from three to four per cent in the long term. Inflation rates of two to three per cent would be sufficient to protect property values for resale units.

5.3 WHAT HAS THE IMPACT OF CLIP BEEN ON MOBILE HOME PARK DEVELOPMENTS? (ISSUE 7)

This issue examines survey and case study data on changes in recent conditions in mobile home parks.

About two-thirds of mobile home dealers and CMHC field staff who had experience with CLIP reported that the number of sites in mobile home parks had increased during the past five years. Dealers without CLIP experience and CMHC staff in offices without CLIP activity tended to respond that site numbers had not changed.

Considering the quality of mobile home parks, 76 per cent of dealers with CLIP experience compared to 57 per cent of dealers without CLIP experience reported improvements.

Dealers were asked whether provincial and local government acceptance of mobile home parks had changed during the past five years. Most answered that acceptance had not changed. Of dealers who thought that acceptance had changed, 28 per cent of those with CLIP experience said that there had been greater acceptance versus only 14 per cent of those without CLIP experience.

Experience of dealer and CMHC staff with closure of mobile home parks was also examined. Eighty per cent of dealers with CLIP experience, and 86 without experience said that no parks in their areas had closed. Sixty-eight per cent of CMHC staff in branches with CLIP activity said that they knew of no parks that had closed, versus 40 per cent of staff in non-CLIP branches. Half of the CMHC respondents in non-CLIP branches said that they did not know, so the number of usable responses in this group is small.

Reported circumstances were better in CLIP areas than in non-CLIP areas. Generally, it appeared that mobile home park developments were facing an improving developmental environment. Quantity and quality of sites were improving, and site rents were in line with residential land costs.

5.4 WHAT ARE THE CHARACTERISTICS OF CLIP HOMEOWNERS? (ISSUE 8)

Table 1 shows the number of dwelling units and movable dwelling units in Canada and the provinces as counted in the 1991 Census. Table 2 shows that over 80 per cent of CLIP usage was concentrated in the Atlantic provinces. This was greatly in excess of the share of movable housing or insured mobile housing located in the Atlantic region.

The age of occupants was similar for the CLIP insured and NHA insured subsamples at 37 and 35 years, respectively. The mean age of respondents in uninsured units was 48 years. Mean household sizes were 2.9 and 3.1 respectively for CLIP and NHA respondents. Just under 59 per cent of CLIP households had children compared to 61 per cent for NHA insured households. The mean size of uninsured households was 2.4 persons and under 42 per cent had children.

CLIP households had mean incomes of $37,047 versus $48,599 for NHA insured households and $30,658 for households in uninsured units. Households in CLIP and NHA insured units were apparently larger, more family oriented, younger, and more well to do than households in uninsured units. Over 60 per cent of uninsured households had one or two persons, which coupled with the mean age, suggests that many were retired, perhaps living on low to moderate incomes.

5.5 WHAT ARE THE IMPACTS OF THE PROGRAM ON HOUSING SITUATIONS OF CLIP HOMEOWNERS? (ISSUE 9)

Issue #8 summarized some demographic characteristics of mobile home residents. This issue discusses the change in housing circumstances of mobile home residents since moving into their current dwelling units. It then reports housing costs and estimates the incidence of core housing need.

Comparative housing conditions

Close to 30 per cent of occupants of mobile homes in the three subsamples moved to their present units from rented apartments. For occupants of CLIP and NHA insured units, the second most frequent type of previous housing was a rented house, but uninsured occupants were more likely to come from their own site built house. Sixty-eight per cent or more of all three respondent types previously lived in a site built house or an apartment. The housing conditions being compared in this section were therefore present mobile home accommodations versus some type of site built housing.

Mobile home residents were asked to compare their satisfaction with their surrounding communities, homes, and housing costs with the same characteristics of their previous dwellings. Occupants in all three subsamples reported greater satisfaction with their present conditions than with previous conditions, with one exception - over 40 per cent of occupants of uninsured units were less satisfied with present housing costs than previous costs, while 23 per cent experienced no change. For all other comparisons the ratio of increased satisfaction to decreased satisfaction ranged from two-to-one to twelve-to-one, depending on the comparison and subsample group.

To gain additional perspective on satisfaction with mobile homes relative to residents of other forms of housing, the survey data werecompared to answers given to similar questions asked in other evaluations. Over 85 per cent of all occupant groups expressed positive degrees of satisfaction with their communities. This rating was roughly the same as the ratings given by residents of co-operative and public housing projects as reported in the evaluation of co-operative housing. The co-operative evaluation also reported an overall housing satisfaction rating for co-operative residents, public housing residents, renters, and all households in Canada. These ratings ranged from 76.8 per cent satisfied (renters) to 96.4 per cent satisfied (subsidized renters in Section 61 co-operatives). All households recorded 86.8 per cent satisfaction. Mobile home resident satisfaction ratings were comparable with the general population of all households, and exceeded rates for renters.

Housing costs and core need incidence

Housing finances and costs were substantially different for CLIP households than for households in uninsured units. Nearly a third of uninsured units were bought for cash or their owners had paid out their purchase loans. On the other hand most owners of insured units have loans outstanding. Monthly payments, including loan payments, site rents, and utility costs were $817 for CLIP households and $690 for uninsured households. CLIP units were slightly larger than uninsured units, but costs of CLIP units were higher even on a square foot basis.

It has been asserted that ownership of mobile or modular housing is an alternative to social housing, and that improving access to mobile home ownership may reduce the unmet demand for social housing units. To be eligible for social housing assistance, households must have incomes below the core need income threshold (CNIT) and have a housing problem. Such households are defined as being in core housing need. To claim that mobile home ownership reduces social housing demand, it must be established that substantial numbers of mobile home owners have incomes below CNIT but are not in core housing need.

The occupant survey showed that 8.4 per cent of CLIP households, 6.9 per cent of NHA households, and 27.1 per cent of uninsured households had incomes below the applicable core need threshold. This established only an upper limit of core housing need incidence for each group, because some low income households may not have housing problems. However, core need incidence tends to be close to the proportion with incomes below CNIT. This was in fact the case as the incidences of core need among CLIP, NHA, and uninsured households were respectively, 8.4, 6.3, and 25.2 per cent. On the basis of current information, mobile home ownership reduces social housing demand among homeowners in parks by just over 7 per cent. This may slightly understate the reduction due to mobile home ownership because most units include many built-in furnishings and appliances while these tend to be purchased extra in site-built housing. Therefore some adjustment of housing costs downward could be made which would reduce the incidence of affordability problems.

The three housing problems that may create core need eligibility are having a GDS of 30% or more, having a unit needing major repair, or having a crowded unit as per the National Occupancy Standard definitions. Of these, affordability problems were most common. At least 32 per cent of households in all groups paid 30% or more of their incomes for housing. Over 55 per cent of uninsured households had affordability problems.

Households living in CLIP insured and NHA insured units have not themselves reduced the demand for social housing substantially. However, well over a quarter of households in uninsured units would have been eligible for social housing had they chosen to apply. If CLIP financing were to achieve greater take-up among buyers of the types of mobile home units that were not insured (i.e. existing units), some of the savings due to better financing terms would flow to potential social housing clients.

6. PROGRAM DESIGN AND DELIVERY ALTERNATIVES

6.1 WHAT ARE THE POSSIBLE IMPACTS OF EXTENDING CLIP TO RESALE UNITS WHICH WERE NOT INITIALLY INSURED UNDER THE NHA? (ISSUE 11)

Resale units that were not initially insured under NHA mortgage insurance programs were not eligible for insurance under CLIP. This restriction wasestimated to exclude as many as 80 per cent of mobile home sales in some provinces. This issue examines the rationale for extending CLIP to presently ineligible resale units and has two aspects. The first is risk and refers to the discussion of default rates and costs of default in issue #6. The other aspect is the degree of support for the change among lenders, dealers, and consumers, who constitute the market for mobile homes and mortgage loan insurance.

Risk

Probability of default:

Issue #6 determined that the claims rate on CLIP units was probably 0.5 to 1.0 per cent higher than the rate on NHA insured mobile units. It was also found that in the medium to long term price depreciation slows and eventually reverses. However, it was not clear how the extension of CLIP to resale units would affect the relative riskiness of the two portfolios.

The average loan to value ratio of CLIP accounts had been close to the maximum allowed under the Program. Therefore it probably would not have increased if resale units had been insured. While it was expected that incomes of households buying resale units would be lower than average, low incomes were not found to be related to claim rates. GDS ratios might increase if lower income households entered the program, but high GDS ratios did not influence claims as strongly as high loan to value ratios.

More CLIP activity resulting from the inclusion of existing units might lead to a wider geographic distribution of the insured portfolio. This could reduce variations in claims rates and possibly lead to a reduction of claims rates if more units were insured in regions with stronger economic growth.

Insured loan amount and cost of claims:

The analysis of market price data supplied by the appraisal survey showed that in addition to the size, quality, and locational effects, prices were determined by the age of the unit. Price declined with age but at a decreasing rate. The price differential between new and five year old units was $10,107, and between five and ten year old units was $4,353. This indicated that the insured loan amounts could be expected to be reduced substantially by the admission of resale units, but that the price decline would moderate as units age.

It was shown earlier that the losses in the event of claims were a higher proportion of the original loan value for CLIP accounts than for regular NHA homeowner accounts. This was consistent with the suggestion that depreciation rates were higher for new units than for resale. The extension of CLIP to resale units would then tend to reduce the loss per default.

Market sector opinion

Over sixty per cent of both CLIP and non-CLIP lenders supported extending the program to resale units. If resales were included, over 75 per cent of CLIP lenders said that they would be at least somewhat likely to offer loans for their purchase.

The most frequent reason given by CLIP lenders for supporting the extension was the affordability of such units to potential buyers. Of lenders objecting to the inclusion of resales, higher risk, and other reasons were most frequently given.

Nearly 46 per cent of CLIP lenders believed that offering loan insurance for resale units would increase their mobile home loan volume. Less than seven per cent predicted a decrease in volume.

Occupants were asked about their plans for future housing. The preferred option among 57 per cent of NHA insured and 43 per cent of uninsured occupants was to buy or build a house. CLIP occupants had a more nearly even distribution of future plans, only a quarter opting for a site built house. A substantial number of CLIP and uninsured occupants planned to buy a lot and move their present units to it.

About 12 per cent or fewer indicated that they planned to buy another mobile home or modular home. Of those that did, the preference was clearly for a new unit. Only uninsured residents indicated any interest in used units at 30 per cent. A further 15 per cent said they would consider either. It is clear that the market for loan insurance for resale units would not come from current owners.

Dealers were asked how an extension of CLIP to resale units would affect their business volumes. Over 79 per cent of all dealers expected at least some increase in sales. An even larger majority of dealerships selling resale units and dealerships with CLIP experience expected sales to increase.

Case study findings

The main change to CLIP recommended on the basis of the case study interviews was inclusion of resale units. This comment was made by dealers and tenants in several market areas. Two arguments were raised in favour of the change.

First, some commentators mentioned that failure to enroll a new unit penalizes the owner in some markets by making it more difficult to sell later. They stated that there were two prices in their markets for essentially the same product. CLIP insured units sell for more than uninsured units. In some New Brunswick market areas, units were insured when financing terms did not require it, to protect future resale values. Admitting uninsured resale units would integrate the market making it more efficient, in the sense that price would reflect the usual basket of commodity traits (size, quality, location etc.) and not insurance status. This market integration might not benefit CLIP owners, or CMHC through the MIF directly, but it would widen the market for uninsured units possibly enabling these sellers to buy up to newer CLIP units.

Secondly, inclusion of resale units (with lending value based on market appraisals) would bring CLIP into line with other NHA mortgage insurance practice. CLIP was, after all, originally introduced to put the financing of mobile home purchases on a more equal footing with site built housing.

6.2 WHAT ARE THE POSSIBLE IMPACTS OF EXTENDING THE AMORTIZATION PERIOD? (ISSUE 12)

The maximum amortization period for CLIP was the lesser of 20 years or the remaining economic life of the unit. Extending the maximum amortization period permitted by CLIP would reduce monthly mortgage payments, but it would also slow the rate of repayment (extending the length of the loan), and increase lifetime interest payments. The larger outstanding principal balance at every period would mean that the owner's equity would be lower, and the loan to value ratio would be higher, at any point during the life of the mortgage.

Extending the amortization period of a mortgage from 20 to 25 years would reduce principal payments on a $40,000 mortgage by $324 after one year and by $1,908 after five years. Given the pattern of CLIP claims discussed in issue #6, about $40,000 would have been added to CLIP claim costs if the amortization period had been 25 years on all defaulted units.

Lenders and dealers were asked their opinions about extending the amortization period. Nearly 90 per cent of CLIP lenders said that the period should remain as it is. Non-CLIP lenders were asked whether an extension would increase the likelihood that they would begin to use CLIP. Nearly two-thirds answered that it would not. Too few lenders gave reasons for their opinions to allow a discussion of the reasons.

Over 64 per cent of CLIP lenders believed that decreasing the amortization period would decrease lending volume, while nearly 68 per cent believed that increasing the period would have no impact on volume. There was no support for a change to the amortization period among lenders.

Over 66 per cent of dealers reported that an increase in the amortization period to 30 years would increase sales. A larger majority of dealers with CLIP experience and dealers that sell resale units held this opinion. Dealers were also asked about the impact of shortening the amortization period to 10 years. From 88 to nearly 94 per cent said that this would have no impact on their sales.

It is important to avoid situations in which the economic life of a house is less than the mortgage repayment period. The appraisal survey estimated total economic life to be over 36 years for all unit types. Remaining economic life was 33 years for the CLIP sample and 20 years for the uninsured sample. However, five per cent of CLIP units and 74 per cent of uninsured units had less than 25 years of life remaining. The data on durability discussed in issue #1 indicated that mobile homes had similar major repair needs as site-built housing.

From the point of view of unit durability, an extension of the amortization period at least to 25 years may be appropriate, with the proviso that the period cannot exceed the expected economic life. However, the other impacts (larger MIF claims and losses, participation of lower income households, and increased program activity) would also be expected.

6.3 WHAT ARE THE POSSIBLE IMPACTS OF EXTENDING CLIP TO RENTAL UNITS? (ISSUE 13)

Rental units were not eligible for CLIP. Extending CLIP to rental units would provide some incentive for landlords to invest in mobile homes, thus increasing the supply of affordable housing to lower income households. However, any housing market advantages gained by such a change would have to be weighed against possible increased risks to the MIF.

It should be emphasized that the rental units to which this extension would apply would be those owned by a rental firm and placed on land not owned by the same firm. If the business owned the land, regular NHA rental insurance would cover them. The survey of uninsured units found only two per cent of units in mobile home parks were tenant-occupied. Table 1 showed that there were just over 180,000 movable housing units in Canada in 1991. Two per cent of the total was only 3,600 units. Themarket for this program extension could be only 3,600 if all of the movable homes in Canada were in mobile home parks, which they were not. There mightbe some application for this type of insurance in resource communities where the resource developer does not own the town site outright. Another application mightbe the acquisition of "granny flats" by a dealer. These would be leased to families who would locate them on their own residential lots. A potential growth area was the development of land lease communities, in which investors would lease a large plot and sublease rental units on individual sites.

Lenders and dealers were asked about extending CLIP to rental units. The question was also raised during the case study interviews, although few comments were made.

CLIP lenders were asked if the program should be extended to rental units and non-CLIP lenders were asked if such an extension would increase the likelihood that they would participate. Just over 20 per cent of CLIP lenders supported extension to rental units; over 57 per cent of non-CLIP lenders said that it would not encourage them to participate. The most frequent reason given for opposing the extension was a perception that mortgage lending on rental units was more risky. It might have been that some of the reluctance to consider rental loans was because mortgage and consumer loan officers, not commercial loans officers, were interviewed.

If rental units were eligible, CLIP lenders were nearly equally divided on whether they would process rental loans. Just over 51 per cent said they would while 43 per cent said they would not. Nearly 42 per cent of CLIP lenders believed that there would be some increase in loan volumes if rental units were eligible, suggesting that there was a demand for insurance services among some landlords.

Dealers were also asked about the impact on sales of extending CLIP eligibility to rental units. Just over 53 per cent either did not know or felt that there would be no impact. The majority of the remaining 47 per cent expected a small increase in sales.

There was one reference during the case study interviews to the limitation of CLIP to owner occupied units. The comment implied that removal of the limitation would increase program take-up. However the issue of extending CLIP to rental units did not arise in any of the other nine case study markets.

The issue of the relative risks of rental and owner occupied mortgage insurance has to be distinguished from the policy objective of offering consistent financing terms to manufactured and site-built housing. The decision to insure or not to insure rental units under CLIP depends on CMHC's ability to design a break-even underwriting guideline, not on the relative risk *per se*.

6.4 WHAT ARE THE POSSIBLE IMPACTS OF OTHER PROGRAM EXTENSIONS? (ISSUE 14)

Interest rate ceiling

Chattel loans were usually smaller than regular mortgage loans, and therefore administration costs might have absorbed more of the interest rate margin on this type of loan than on other, larger mortgages. Comments to this effect were received from lenders when CLIP was being designed. CMHC recognized these concerns by allowing mortgage rates on CLIP loans to be up to 0.5 per cent above the NHA/conventional mortgage interest rates.

The evaluation found that the same banks and trust companies that participated in CLIP in the Atlantic region often did not participate in the rest of Canada, suggesting that the interest rate premium was not a consideration in the decision to participate, and therefore casting doubt on the need for the extra 0.5 per cent.

In addition, about 30% of regular NHA homeowner insurance was written on loans that were the same size as CLIP loans This suggested that allowing lenders to charge the premium was an inequitable treatment of CLIP clients vis-a-vis regular MIF clients who were in the same situation.

Case study evidence:

The case studies placed special attention on the role of administrative costs in the lenders' decisions to participate or not. Case study evidence was summarized for issue #4 on program take-up. Lenders themselves were not unanimous as to whether or not insured chattel lending carried higher administrative costs. Some case study evidence also suggested that the 0.5 per cent premium was not necessary for lender participation.

Survey results:

Branch lenders were asked how changing the maximum CLIP interest rates would affect them. Non-CLIP lenders were asked whether they would be more likely to participate, and CLIP lenders were asked how changes would affect lending volume. Non-CLIP lenders were almost equally divided as to whether raising the maximum rate to one per cent over posted rates would or would not make them more likely to use CLIP. Over 65 per cent said that an increase to two per cent would not cause them to participate.

Just under 80 per cent of CLIP lenders reported that limiting interest rates to posted levels would not affect or would increase loan volume. Two-thirds of lenders expected no change.

Over 59 per cent of dealers believed that reducing interest rates to posted levels would increase sales. A further 17 per cent expected no change. Just over 67 per cent of dealers expected that increasing the CLIP premium by one per cent would result in at least a small decrease in sales. Fifteen per cent expected no impact.

Double wide modular homes

Double wide modular homes built in factories certified by the CSA-A277 standard were not eligible for CLIP because of concerns about possible relocation costs in the event that a defaulted unit were to be moved. However, double wide mobile units built in the same factories were eligible.

Units identified with the CSA-Z240 label and the CSA-A277 label were the same in terms of quality of construction and both were designed to be moved. The evaluation also found that some A277 units were already insured under the program because there was no clear distinction between a double wide mobile home and a double wide modular home in some areas.

Extension of the program to double wide modular units would formally put such units on an equal footing with double wide mobile home units. Based on responses to the occupant survey, double wide modular units comprised from three to seven per cent of the market. Consequently, program activity would be increased only marginally by this extension of eligibility.

Determination of lending value

In 1994, CLIP determined lending value on the basis of sales price plus certain recognized set-up costs, except in the BC Region where a cost-plus rule had been implemented. However, only 30 per cent of lenders reported using selling price to determine lending value while over half used appraisals, cost-plus, or other methods.

Dealers reported that the use of cost-plus methods, where applicable, caused them some degree of problems in their businesses. Over 77 per cent of dealers supported sales price as the method of determining lending value. In markets where sales price included a formal or informal park entry fee, the sales price method might have represented a mortgage insurance risk because part of the lending value would be lost if a defaulted unit were to be moved.

The appraisal survey found that purchase prices were higher than 1994 market values by $4,300 for CLIP units in the Atlantic region and by $5,300 in the Prairie region. In British Columbia, 1994 market values were $30,000 higher than purchase prices. A move to determination of lending value by market appraisals would reduce loan amounts in all regions except British Columbia. This would reduce access to housing since buyers would have to make up the difference with higher down payments.

Land component of lending value

The appraisal survey found that 16.3 per cent of CLIP units had some site value which amounted to $22,407 per unit. The incidence of site values was highest in British Columbia at 24 per cent. A change to market appraisal as the method of determining lending value would affect less than a quarter of CLIP units, most of which would be in British Columbia.

Site leases

CLIP requires a minimum site lease of one year, while mobile home parks usually operate on the basis of month to month leases.

Nearly 40 per cent of occupants of CLIP and uninsured units who tried to get leases for a year or longer reported that they had difficulty. About a quarter of dealers also said that the one year requirement posed some problems for their businesses.

Loan advancement

At present, insurance is approved and loans are advanced after set-up and final inspection. An alternative would be to advance certain proportions of loans at earlier stages in the transaction.

Over 85 per cent of dealers supported some system of partial advances. Dealers recommended that only 25 per cent should be held back pending final inspection.

Just over 25 per cent of lenders recommended partial advances, and the average advance suggested was 50 per cent of the loan amount.

6.5 NATIONAL WARRANTY PROGRAM? (ISSUE 15)

At the time of the inception of CLIP, concerns about the durability of mobile homes on rented sites were addressed by an undertaking given by CMHI to design, develop, and implement a national mobile home warranty program within one year. CLIP insured units were to be enrolled in the national program after it began operating.

The national program was never established although manufactured units had been accepted in the Atlantic new home warranty program, and some units were eligible for the provincial program in British Columbia.

The question of warranty coverage remainedan outstanding issue for two reasons. First, it affected MIF exposure to default risk insofar as units that were deteriorating rapidly due to a manufacturing defect might be abandoned by owners if the units' value dropped below the outstanding loan amount. Second it also raised the question of equal treatment of manufactured and site built housing. New site built housing had to be enrolled in a provincial new home warranty program to qualify for NHA insurance. Without an equivalent requirement, manufactured units would not be on an equal footing with site built units; they would have enjoyed an advantage.

To assess the need for warranty protection, it was necessary to consider the condition of mobile home units compared to site built units, the extent of warranty coverage currently offered by manufacturers or dealers (and consumer reaction to current warranty coverage), and demand for a national system of mobile home warranties.

Condition and durability of mobile homes

This topic was discussed in issue #1. There, it was concluded that the durability of the mobile home stock in terms of its dollar repair requirements was similar to comparable site-built housing that has been evaluated recently.

Current warranty coverage

Over 90 per cent of dealers reported that all units that they sold were protected by some type of warranty. However, only about half had warranties covering both structural components and workmanship. Most warranties were in force for 12 months although up to a quarter were for longer periods.

Occupants of CLIP insured units reported substantially higher rates of warranty coverage than other subsample types. Over 97 per cent of CLIP units had warranties compared to 29 per cent of NHA insured units, and 33 per cent of uninsured units. However, when only new units were considered, the proportion of uninsured units with warranties rose to 91 per cent, while 99 per cent of insured units were warranted. Warranty coverage was nearly complete for new units.

Most occupants of units with warranties reported that they had repairs done to warranted components. Just under half of residents of uninsured units reported repairs but owners of 70 per cent of NHA insured units and 74 per cent of CLIP insured units made repairs under warranty. Warranty claims varied from $362 for CLIP insured units to $1,875 for NHA insured units.

Residents were also asked whether their units needed repairs that were not covered by warranties, but which they felt ought to have been covered. Just over nine per cent of CLIP insured and uninsured units, and nearly 17 per cent of NHA insured units needed such repairs. About 55 per cent of these unwarranted repairs were made within two years of purchase. The value of such repairs was lowest for uninsured units, at $159, and highest in NHA insured units, at $896.

A larger proportion of occupants of CLIP insured and NHA insured mobile homes expressed satisfaction with their warranties (69 and 64 per cent respectively) than occupants of uninsured units (53 per cent). However more uninsured occupants sat on the fence on the satisfaction question, implying that owners of insured units tended to report greater dissatisfaction. The ratio of those satisfied with their warranties to those dissatisfied (neglecting the fence sitters) was lowest for NHA insured occupants at just over 2-to-1. Occupants of CLIP insured units were more satisfied, at 3-to-1 and occupants of uninsured units were most satisfied at 4-to-1. Generally more occupants were satisfied with warranties provided by manufacturers than were not.

Dealers were asked whether or not they believe that they have lost any sales because of inadequate warranty coverage. Over three-quarters said no and a further eight per cent did not answer. Four per cent or fewer answered yes.

Occupants and dealers generally seemed to agree that mobile home warranties were adequate. The anomaly was that owners of NHA insured units reported the greatest incidence of dissatisfaction and the smallest ratio of those satisfied to those dissatisfied. Most NHA units with warranties were new and many were registered in provincial new home warranty programs.

Demand for a national warranty program

If a national mobile home warranty program, similar to the existing provincial new home warranty programs, were to be organized, it would have to be financed adequately. One option for financing such a program would be to add a supplemental premium to the existing mortgage insurance premium. One per cent has been suggested. The key question is how would such a cost increase affect the demand for CLIP insurance?

Lenders and dealers were asked to give their impressions of the sensitivity of sales to a one per cent mortgage insurance premium increase. Over 55 per cent of lenders replied that it would probably not affect loan volumes, and nearly 38 per cent said that it would result in at least some decrease in volume.

Dealers were questioned about consumer demand for a national warranty program. They were asked whether all, some, or none of their customers would pay amounts varying from $200 to

$1,500 for national warranty program coverage. At a $200 premium, about 77 per cent of dealers thought that all or at least some customers would buy warranty protection. At a $500 premium, about 60 per cent of dealers thought some or all would buy. At a $1,000 premium, only 20 per cent of dealers saw some level of consumer demand. About two-thirds of dealers expected some decline in sales if a one per cent surcharge were added to the insurance premium.

A group of residents that indicated that they may be planning to move were recontacted and asked a number of questions about their interest in a five year warranty program. Most indicated that they would purchase such a warranty if it cost only $200, but about half indicated that they would not participate at a premium of $500.

There seems to be some interest in extended warranty program coverage, particularly at a premium surcharge of about $500 or less.

6.6 WHAT MODIFICATIONS CAN BE MADE TO THE DELIVERY PROCESS TO IMPROVE THE COST-EFFECTIVENESS OF THE PROGRAM? (ISSUE 16)

As CLIP was initiated as a pilot program, a number of special administrative processes were adopted to avoid MIF default losses. Some lenders said that the extended process required more documentation and generated extra administrative costs. This issue examines lender and dealer opinions about the delivery and administration of CLIP.

Program promotion

Only eight per cent of dealers who replied to the survey were unfamiliar with chattel loan insurance products. This was probably due to the continued support for CLIP from CMHI. Dealers were also asked about their satisfaction with promotion of chattel loan insurance and its financing terms and approval process. Dealers with CLIP experience tended to be satisfied with all three aspects of the program. Respondents who were satisfied with their CLIP experience outnumbered dissatisfied respondents 2-to-1 with respect to promotion, 12-to-1 with respect to financing, and 4-to-1 with respect to approvals.

Dealers without CLIP experience were dissatisfied with program promotion and the loan approval process, although nearly a third said they didn't know enough about the program to form an opinion.

Nearly three-quarters (74.2 per cent) of non-CLIP lenders said that they would be more likely to use CLIP if more information were provided to them and to borrowers. This suggests that increased program promotion to lenders would improve take-up. In issue #4 lenders reported that the primary sources of CLIP information are CMHC local and national offices and lender regional and national offices. Industry sources were rarely mentioned. CMHC could consider entering a partnership with industry to promote the program and to improve awareness of CLIP.

Program delivery

Lenders reported that approvals were fairly prompt, with a median approval time of 3 days. However, a substantial minority of lenders (37 per cent) believed that CLIP approvals were slower than regular NHA approvals. Fifty-six per cent of lenders said that they spend more time on approvals of CLIP loans than on NHA homeowner loans. Over 82 per cent were at least as satisfied with the administration of CLIP as were satisfied with administration of regular NHA insurance.

Over 96 per cent of occupants reported no delays in occupancy due to approval delays. However, only half of lenders reported that CMHC inspected insured units before funds were released.

About half of the dealers with CLIP experience claimed that they have had at least some problems with inspection timing.

CMHC was responsible for assessing the lending value and for inspecting the set-up of the unit before issuing mortgage insurance. Lenders were asked if they thought that the approval process would be more or less efficient if they undertook these activities. Thirty-seven per cent of CLIP lenders thought it would be less efficient, 33 per cent saw no change, and 30 per cent saw improved efficiency. Dealers were nearly equally divided as to whether devolving approval activities to lenders would increase, reduce, or have no impact on efficiency. There is no strong consensus on this change.

Claim settlement

A quarter of CLIP lenders have experienced a default and, of these, 83 per cent were satisfied with the claims settlement procedure.

7. CONCLUSIONS

The conclusions from the evaluation were:

1) What is the need for a Chattel Loan Insurance Program?

The financing terms of the Chattel Loan Insurance Program provided a home ownership alternative for approximately 335,000 moderate income rental households who could not previously afford to purchase a mobile home.

2) How durable are mobile homes?

Mobile homes on rented land in general were very durable. They were at least as durable as mobile homes on owned land. Relocation was not a factor that influenced repair cost when unit age and certain occupant characteristics were held constant. Mobile homes compared favorably with site built housing in terms of the incidence of major repair need and repair costs.

3) To what extent has the CLIP improved mobile home financing terms and so increased access to homeownership?

The major impact of CLIP was to reduce the downpayment requirement from 25 per cent, typical of consumer loan financing, to 10 per cent. CLIP had a slight downward impact (around a percentage point) on interest rates. There was little difference between CLIP financing and consumer loan financing with respect to amortization periods and GDS ratios.

The improvement in financing terms resulted in increased access to ownership. This conclusion was based on the finding that CLIP household heads were younger than uninsured household heads. The impact on access to ownership was not as great as the impact of other mortgage insurance programs probably because CLIP was restricted to new units.

4) What is the significance of various factors affecting program take-up?

The evaluators estimated the market for chattel loan insurance for new mobile homes on rented land to be about 2,600 units per year. With program activity of about 500 units per year, CLIP financing captured about 20% of the potential market.

A key factor affecting program take-up which was somewhat within CMHC's control was lender participation. The program was not well known by lenders and the majority of lending institutions didnot offer CLIP financing. For those lenders who knew about it, but still didnot participate, the reason seemed to be a concern about the cost of the program, in particular the cost due to having to deal with a large number of workouts and defaults. This fear was largely groundless as CLIP default rates were only marginally higher than rates for the regular homeowner insurance program.

Factors limiting take-up that were beyond CMHC's control were consumer preference for stick built housing (particularly in central Canada), local resistance to mobile home park developments and competing provincial programs. However, only one of these provincial programs remained active through 1994.

5) What is the impact of the program on security of tenure?

Mobile home owners in mobile home parks perceived themselves as having at least as much security of tenure as didowners and renters of conventional housing. The principal threat to security of tenure for home owners in mobile home parks appearedto be the closure of the park rather than increases in site rents. Six to seven percent of mobile home owners in parks said that they have had to move because of a park closure.

6) What are the impacts of the CLIP on the MIF?

Administrative data showed that CLIP claim rates were slightly higher and profit margins were lower than those of other lines of business. In addition, a financial assessment of CLIP claims showed that CMHC would incur small losses on loans committed in 1989 and might incur losses for loans committed in 1990. However, thiswas during anadverse economic and real estate cycle, and the financial performance of insurance written since 1991 might have improved as the economic expansion progressed. Therefore, for all intents and purposes, CLIP couldbe considered to be a break-even line of business.

Profitability of CLIP insurance waslimited by a number of factors:

- relatively low per unit premium revenues;
- relatively high claim settlement losses on properties which did not have a land component;
- relatively high claim settlement losses due to limitation to new units;
- use of purchase price instead of market value to establish lending value;
- concentration of activity in the Maritimes, where poor economic performancecontributed to higher default rates and higher default costs.

7) What has the impact of CLIP been on mobile home park developments?

The Program seems to have had a positive impact on mobile home park developments. A higher percentage of dealers and CMHC staff having experience with CLIP reported improvements in park quality, the number of available sites, and provincial and local government acceptance of mobile home parks than of dealers and staff having no experience with CLIP. The program seems to have had no impact on site rents.

8) What are the characteristics of CLIP homeowners?

One of the purposes of the evaluation was to assess whether the program could serve households who were previously served under housing market subsidy programs such as the Assited Home Ownership Program (AHOP)and the Canadian Home Ownership Stimulation Plan (CHOSP) or under the social housing programs such as public housing.

The average age of CLIP household heads was about 37, the average household size was 2.9 and the average income was $37,000.

With reference to social housing programs, CLIP did have capacity to assist some households in core need since over eight per cent of clients had incomes below the core need threshold. But most of those with incomes below the core need threshold also continued to have affordability problems.

CLIP served a different population than the housing market subsidy programs. CLIP households had older household heads, smaller household sizes and lower incomes than CHOSP households.

9) What is the impact of the program on the housing situations of CLIP homeowners?

According to the accounts of the CLIP households themselves, the program improved their housing situation. The clients were very satisfied with their present accommodation and surrounding neighbourhood and satisfaction ratings were on par with homeowners in general. The majority said that they are more satisfied with their current surrounding communities, homes and housing cost than with their previous housing situation.

11) What are the possible impacts of extending CLIP to resale units which were not initially insured under the NHA?

Extending the program to existing units would mean that the cost of owning the first home would be reduced. Households with lower incomes or lower savings could participate and program activity would increase. Evaluators estimated that the number of rental households eligible to use the program would increase by 60,000 if CLIP were extended to existing units. On the basis of the experience of the Alberta program, the ratio of existing to new units enrolled in the program could be about four to one. Also, more lenders might be interested in participating in CLIP because of the increased activity.

The evaluation's expectation was that extending the program to existing units would reduce the risk of this line of business. There were two factors leading to this conclusion. First there would be better geographic dispersion of the units. Second, existing units lose value more slowly than new units so that the cost of default would be expected to moderate. The lower incomes of new CLIP clients would not increase the risk of default and it was unlikely that loan to value ratios would be higher for existing units than for new units. However offsetting these factors was the likelihood that GDS ratios might be slightly higher for existing units.

The evalaution concluded that extending CLIP to existing units would make it easier for current owners of existing units to sell, thus removing regulatory constraints to the efficient operation of the mobile home market.

Finally the evalaution concluded that extending CLIP to existing units would place mobile homes on an equal footing with other types of housing vis-a-vis the MIF.

12) What are the possible impacts of extending the amortization period?

Lengthening the amortization period for NHA insured loans on mobile homes from the maximum of 20 years would lower initial amortization costs and so increase program activity by allowing lower income households to become homeowners. There was no evidence that lower incomes result in a higher probability of default. While the longer amortization period meant that less of the loan would be repaid at any time, an extension would be consistent with insurance guidelines for site built housing.

13) What are the possible impacts of extending CLIP to rental units?

Extension of mortgage insurance to mobile homes used for rental purposes would have marginal impacts on program take up since renting mobile home units situated on separately rented land did not appear to be a very common occurrence. However according to industry sources, the market for this type of arrangement might increase in the future.

The evaluation planned to survey landlords of rental units but the incidence of such units in the occupant survey was so small that only negligible numbers were identified. Therefore the evaluation couldnot come to any definitive conclusions about the riskiness of insuring rental units financed by chattel loans. Lenders believed that these loans would be more risky to insure.

However, the fact that this line of business might be more risky did not mean that rental loans could not be underwritten on a break-even basis. It meant that the underwriting guidelines would have to bedifferent from the guidelines for owner occupied units, as they are for regular rental mortgage insurance.

14) What are the possible impacts of increasing the mortgage rate ceilings (and other program amendments) on CLIP loans?

Interest rates: Lenders were allowed to charge an additional 0.5% interest rate on NHA insured chattel loans. This premium was initiated in order to cover the expected higher administrative costs for chattel loans.

The case studies found that the additional interest allowed on CLIP loans was not necessary to attract lenders into the program, as some already participated without charging the extra 0.5 per cent. Some lenders who were apprehensive about the potential cost under the program, but nevertheless did participate, found that their concerns were not realized. Further, about 30 per cent of the regular homeowner loans had principal amounts less than the maximum CLIP insured amount, but arguments for higher interest rates have not been applied to non-CLIP NHA mortgages with small principal amounts.

The lender survey reported that the premium was a condition for the participation of some lenders in the program. Further, a substantial number of lenders notparticipating indicated that they would participate if higher interest rates were allowed. If CMHC provided lenders with recent data about program performance, it might help to reconcile these views about the necessity of the interest rate premium.

Double wide modular homes: The risk to the MIF of insuring double wide modular units was not determined by the evaluation. The MIF would only be exposed to an added risk if the loan is defaulted and if the unit had to be disassembled and moved elsewhere after it had been repossessed. The incidence of double wide modular units in the portfolio insured was at most seven per cent. CLIP default rates were about five per cent. The incidence of repossessed units being moved was low according to information supplied by the Mortgage Insurance Sector. Together these factors indicated that the slight increase in activity due to the formal extension of the program to such units would not materially effect the operations of the MIF.

Lending Value: The policy established the sales price plus certain set up costs as the lending value for the property. This increased the risk to the MIF because the market value is below the sales price in most parts of the country (except British Columbia).

The alternative would be to use the appraised market value of the unit. This would reduce lending values by eight to ten per cent in the Atlantic and Prairie regions and would raise values by about 55 per cent in British Columbia.

Including land component in Lending Value: The evaluation found that the establishment of lending value was a problem in British Columbia because units often sell with a premium reflecting the value of the site even though the site was leased. This site value was not recognized in current procedures.

Just over 16 per cent of CLIP units in Canada were found to have some site value, amounting to $22,407 per unit. The incidence of site value was highest in British Columbia at 24 per cent. Including land in the value of the unit would increase the risk to the MIF only if site value were appraised in the first place and the borrower defaulted and the unit were moved.

Site lease length: The program requires a minimum 12 months for the length of the site lease. While this promotes security of tenure for the purchaser, it does not follow industry norms and forty percent of CLIP clients who tried to get a one year lease reported that they had difficulty doing so.

Loan advancement: The policy was that the loan not be approved until the unit was in place and inspected by CMHC. This was a problem in some areas if a CMHC inspector could not get to the site quickly since the dealer would be left financing the unit.

15) Warranties?

This issue related to the currently unfulfilled requirement that new mobile home be covered by an industry sponsored warranty insurance program. It raised questions about equal treatment of manufactured and site-built housing for mortgage insurance purposes, and about consumer protection.

The policy objective of providing equal treatment of the manufactured housing and site-built sectors has been raised in several issues in the evaluation. With respect to warranties, equal treatment requires provision of a nationally insured warranty program.

With respect to consumer protection, the evidence provided by occupants about costs of unwarranted repairs suggested that gaps in warranty coverage existed, but that it would be feasible to design coverage that would supplement manufacturer's warranties.

16) What modifications can be made to the delivery process and program design to improve cost-effectiveness

Program promotion: The program was not well promoted and many lenders were not aware of it. Non-participating lenders reported that more active promotion would increase the likelihood that they would participate. There was clearly an opportunity for CMHC and for the industry to increase use of CLIP through a promotional campaign.

Program delivery: While lenders seemed to be generally satisfied with the delivery of the program, the requirement that CMHC staff inspect the unit prior to the loan being authorized combined with some units being located in remote, difficult to get to, areas lead to complaints about the timeliness of the loan approval process.

Claims settlement: There were no problems with the claims settlement process from the point of view of lenders.