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CHAPTER 2. UNDERWRITING

- 2-1. GENERAL. In processing an application under the Section 207 Mobile Home Park Program, the Underwriting procedures to be followed will be the same as those for the basic Section 207 rental housing program except as modified herein.
- 2-2. VALUATION ANALYSIS.
- a. Mobile Home Parks. The Section 207 Mobile Home Park Program is intended to stimulate new construction, expansion of existing construction, and the rehabilitation of mobile home parks. The procedures and standards for this program shall be kept as simple as possible. (For example, planning requirements are to be consistent with the projected rental levels rather than with rigid requirements which disregard the rental range and amenities to be offered).
- (1) A mobile home park is a residential facility designed as a relatively permanent place of residence providing spaces to be rented for the accommodation of mobile homes.
- (2) The analysis of design and market will not consider transient occupancy.
- b. Eligibility Criteria. The park shall conform to the state or local regulations. This includes zoning, land use, design, water supply, and sewage disposal requirements.
- (1) The domestic water supply and sewage disposal systems must meet state and local as well as HUD standards. Individual wells and septic tanks are not acceptable. Central sewer and water serving the development, or community systems serving greater areas, may be considered if public facilities are not available and the proposed systems meet the approval of both local and state health officials and HUD.
- (2) The project must consist of eight or more rental spaces. However, the project must be sufficiently large to meet the test of economic soundness. Smaller owner-operated projects of 30 spaces or less may prove economically feasible.

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(2-2) c. Underwriting Analysis.

- (1) The sponsor shall submit his application using Form 2013. Processing of this application involves the same fundamental valuation considerations that are outlined in the basic Section 207 instructions. Mobile home parks, however, generally have a different tenant appeal. For this reason, the particular categories of tenants to be served by the park shall be described, whether elderly, or whether construction workers, for example. Notwithstanding the market analysis prepared by EMAD, the valuation processor is responsible for the marketability determination.
- (2) Occupancy rates in existing mobile home parks are important for market determination and calculation of the operating deficit. These rates should be fully considered in the market analysis. Where data on other mobile home parks show variations from estimates made for the project in process, justification for using an occupancy rate that is higher than that indicated by comparable projects is required. The Remarks section of the Form 2264 or an accompanying memorandum may be used for this purpose.
- (3) Adequate documentation is essential to assure a thorough review of all factors in the underwriting process.

d. Market Analysis.

- (1) A market analysis review of every mobile home park application of significant size shall be prepared by the Area Office Economic and Market Analysis Division or Insuring Office Market Analyst in accordance with the procedures of Reference (5) of the Foreword. Although the "significant size" criterion generally is considered to be applicable to mobile home parks with 100 or more spaces in SMSAs and to those with 50 or more spaces in non-SMSA areas, the Chief Underwriter should request a market analysis review for proposals of smaller size whenever there is uncertainty concerning market prospects.

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- (2-2) (2) Market analysis reviews of mobile home park proposals should encompass the analytical framework illustrated by the format outlined in Reference (5) of the Foreword.

Data collection and analysis, of course, should be tailored to the specialized nature of the mobile home submarket. In particular, there must be consideration of local economic factors (especially current and prospective employment) and also of current and prospective population changes (natural growth, immigration and outmigration, shifts in age structure, changes in number and rate of household formations, etc.) which would significantly affect prospective mobile home residents. Such critical housing variables as vacancies in existing mobile home parks, recent absorption experience of spaces in new parks, and the supply of spaces under development should be fully explored.

- (3) Where several consecutive mobile home park proposals have been received in a single office and where the Area Economist has previously analyzed specific proposals in depth and detail, he can refer to these antecedent reviews and findings, as appropriate, when reviewing subsequent proposals. Copies of these previous market analysis reviews shall be attached to the current project reviews in order to provide complete docket information and documentation.
- e. Market Area. Because of the comparatively limited sources of available land for mobile home park space in relation to the overall demand for housing in most communities, the market area for purposes of mobile home park market analysis may be much more extensive in some instances than the market area in analyzing the demand for conventional housing. A mobile home park may attract tenants from several communities within a reasonable commuting distance that are otherwise considered to be independent rental housing market areas.
- f. Analysis of Location. The use and design of the site for a mobile home park should not adversely affect adjacent properties. The site should be reasonably accessible to shopping centers or neighborhood stores, sources of employment, with the parks, and to schools, if families with children are anticipated. The analysis must reflect the preferences exhibited by this particular market segment. Consideration

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- (2-2) must be given to the alternative locations available. Rejection of an otherwise acceptable proposal is not warranted unless there are available alternative sites at better locations, which can be zoned for mobile home park use and better serve the same user group.

- g. Zoning. Zoning must be permissive. If it is not and zoning change is required, there should be evidence of community predisposition for such change or evidence from the sponsor that he is cognizant of the need for zoning and has a workable timetable for effecting the change. Zoning may be other than residential provided the site is not subject to annoying, undesirable or unhealthful uses or influences that would make it unsuitable for residential use.
- h. Environmental Clearance. The appraiser shall prepare the environmental clearance Form HUD-ECO-2/3, which shall be processed in accordance with Reference (6) of the Foreword. The burden of assessing environmental impact is with the HUD office and not with the sponsor.
- i. Clearinghouse Review. For mobile home parks with 50 or more spaces in urban areas, or 25 or more spaces in all other areas, a copy of the initial application shall be submitted by the Field Office to the appropriate State clearinghouse and metropolitan or regional clearinghouse for the 30 day review provided for by OMB Circular No. A-95 dated January 13, 1976.
- j. Mortgage Term.
  - (1) The maximum 40-year mortgage term is available only in instances when the file is documented to show:
    - (a) The proposed use is consistent with local comprehensive planning or,
    - (b) Where no such plan exists, the proposed use can reasonably be expected to be consistent with desirable growth patterns in the foreseeable future.
  - (2) In the event the file cannot be adequately documented to this effect, the maximum available mortgage term is limited to 20 years.

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- (2-2) (3) The appraiser must promptly advise the Chief Underwriter of the mortgage term available. The appraiser shall document the file by providing an explanation in remarks (see Section 0 of Form 2264) and by entering the mortgage term after Item K-1 of Form 2264.

- k. Analysis of the Sponsor's Proposal. The rentals proposed

by the sponsor shall be reviewed to see that they properly reflect the extent of facilities, services, and other amenities to be provided. Requirements relating to proposed facilities essential to the operation of the project, such as laundry facilities, bottled gas, hot water, etc., must be established. Structures housing necessary adjuncts of the operations, such as office or laundry, may be considered, but personal property, such as desks and washing machines, may not. The type of improvements required should relate to the rental range proposed and the market. The sponsor should be encouraged to include amenities demanded by the typical long-term occupant, such as adequate roadway width with convenient parking, walks in areas of heaviest traffic, underground wiring, and adequate buffering against adverse influences within and surrounding the mobile home park. The processor cannot, however, lose sight of the sponsor's concern for an economically competitive project.

- l. Non-Residential Use. Any portion of a project which is devoted to commercial use will be primarily for the use of or service to the project occupants. Any non-residential use of the property must be subordinate to the residential use and character of the property. A development is ineligible if the non-residential use adversely affects the continued marketability of the subject property or neighboring properties for family oriented residential use.
  
- m. Analysis of Income Expectancy. Estimate as precisely as possible the gross expectancy from space rentals and miscellaneous sources. Space rental rates must be estimated by the analysis of office data and by a study of the data supplied by the applicant. If the available data are inadequate, information shall be obtained from operators of similar courts in other localities as near to, or as similar to, the subject locality as possible. Transient (overnight) rentals are not permitted and shall not be considered in estimating income or vacancy. If rates are properly fixed, the occupancy ratio used in processing a typical project will be approximately 85% and will never exceed 93%. The files must be documented to support the estimate used in processing.

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- (2-2) n. Other Income. Only income in an amount equal to that which could be realized if the space were leased for accessory items such as laundry equipment, concessions, or telephones may be considered. Income from metered utilities when found typical in the area (and permitted by law) may also be considered. Income from equipment is not to be used. Form 2264 shall

be supplemented with necessary explanations of the estimated accessory income.

- o. Analysis of Operating Expense. In processing, expense data will be available from the multifamily data bank. Comparable mobile home parks are selected and the amount of expenses from such projects are adjusted as necessary for significant differences. The comparable mobile home parks should be in the locality of the subject or in other localities as near to, or as similar to, the subject locality as possible.
  - (1) Caution must be exercised to assure that the estimates of annual expense are sufficient to cover reasonable expectancy. The wear and deterioration that occur in utilities, streets, patio pavements, and structures subject them to constant maintenance. This will be a continuing process rather than a periodic investment, and therefore, the usual reserves for replacements will be required.
  - (2) Where sponsor's total expense estimate is within a reasonable range, as supported by the data, his dollar amount should be used in processing. However, if the sponsor's estimate varies widely from the supportable estimate based on data, the processor's estimate shall be used.
- p. Operating Expense. The estimate of operating expense should reflect the needs of the income group to be served. In some cases the operating expense may be higher than that of other similarly constructed projects. Additional management expense may be incurred due to delay and effort required in collecting rents.
  - (1) Management expense may be established as a dollar amount or a percentage of effective gross income depending upon which method the appraiser feels is more accurate under the circumstances and which is more fully supported by

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- (2-2) data on comparable projects. The estimate shall be based upon the type and extent of management services that are typical of comparable projects as evidenced by the data. Mobile home parks often are managed by the owner who, perhaps, may live in the project. Notwithstanding such ownership-management operation, an amount for management expense must be included always in the operating expense estimate. If the appraiser fails

to do this, the project will be overvalued because, in effect, an expense amount will be included as net income that is capitalized into value. An omission of management expense in processing could lead to a finding of feasibility for a project which, otherwise, would be infeasible. A failure to provide for a major item of expense may result in default and foreclosure of the project at a later date.

- (2) Janitorial payroll will include wages, as well as social security and other payroll taxes, for all services necessary for proper operation, including cutting grass, snow removal, cleanup of vacant spaces, and similar janitor work. Where such services are provided by the owner-operator, an amount for janitorial expense shall still be included in the operating expense estimate.
- (3) Taxes upon the realty are to be established on the basis of current taxes imposed on comparable projects with similar characteristics, any foreseeable increases in taxes in the community, and a knowledge of the methods used by the local assessor. Taxes on the mobile home shall not be included.
- (4) The total estimate of maintenance expense shall reflect the level of maintenance and repair costs which may be expected because of the intended occupants. It is important that adjustments for the project in question be applied to individual amounts of operating, maintenance and repair expenses, rather than to an expense ratio. This is true of all expense estimates.

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- (2-2) q. The Capitalization Rate. Reliance on conventional sales data for the extraction of an overall or band of investment capitalization rate will fail to consider the longer mortgage term provisions and minimum downpayment now available on insured projects. The cash flow method is the best means of arriving at a rate that most nearly reflects these considerations. See Reference (7) of the Foreword.
  - r. Estimated Market Price of Site. This will reflect prices currently paid, asked and offered for lands similarly situated and having similar present or potential utility. However, if it is apparent that the site is too costly for economical use for mobile home park purposes, a comment to that effect shall be recorded under "Remarks," or as an addendum. This may occur if high-grade commercial or industrial

use is imminent. The estimate of land value in such a case must be no more than that supported by the proposed use. This will also be considered in the analysis of location. See Reference (7) of the Foreword.

- s. Leasehold Estate. A mortgage on a leasehold estate shall be eligible for mortgage insurance only if the real estate is held (a) in the interest of the lessee under a lease for not less than 99 years which is renewable; or (b) under a lease having a period of not less than 75 years to run from the date the mortgage is executed. Processing shall be according to prescribed procedure for Section 207, Rental Housing. See Reference (7) of the Foreword.
- t. Start of Construction. A mobile home park submission may be accepted as proposed construction provided no work beyond site clearing and earth moving has taken place.
- u. Cooperative Associations. Valuation instructions for processing applications under Section 207, where the mortgagor is a cooperative association organized for ownership of a mobile home park, are provided in this subparagraph. Valuation processing in this case is accomplished in accordance with preceding instructions and Reference (7) of the Foreword with exceptions noted below:

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- (1) Using Form 2264, the value of the mobile home park is estimated as a rental project, and the maximum mortgage amount is determined. The mortgage limitations of Section 207 apply.
  - (2) To assist in reviewing the cooperative sales bulletin, Form 2264B is used to estimate operating expense for the mobile home park when operated as a management type cooperative. Carrying charges and personal benefit expenses for the various sizes of mobile home spaces are developed. Do not complete sections H, J, L, M, and O.
- 2-3. ARCHITECTURAL ANALYSIS. Instructions contained in Reference (8) of the Foreword will also pertain to projects insured under Section 207 Mobile Home Parks except as outlined below.
- a. To be Considered Acceptable, each mobile home park must:
    - (1) Have easily accessible spaces for 8 or more mobile homes.
    - (2) Comply with Reference (4) of the Foreword.

- (3) Provide water, sanitary, laundry and other facilities which are necessary to make the courts liveable and competitive.
  - (4) Provide a small amount of individual living space and some open community space for general and utilitarian purposes.
  - (5) Provide planting necessary to provide privacy and enhance the appearance of the project.
- b. Commercial Use. The Chief Underwriter shall determine the percentage of land area which can be devoted to commercial use. Any portion of such project which is devoted to commercial use will primarily be for the use of or service to the project occupants.

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- 2-4. COST ESTIMATION AND PROCESSING. Proposed Section 207 Mobile Home Park projects shall be estimated and processed in accordance with basic Section 207 procedures (see Reference (11) of the Foreword) except as modified herein.
- a. The Cost Analyst shall prepare the estimate using Forms 2325 (Report of Cost Estimation Feasibility Stage Work Sheet) and 2326-L1. (Land Improvement Cost Estimate). Form 2328-L1 (Contractor's and/or Mortgagor's Land Improvement Cost Estimate) shall be submitted by the Contractor and/or Mortgagor.
  - b. The Outstanding Rule (which precludes allowing general overhead and profit to a general contractor when any one subcontractor does 50% of the construction contract, or three or less subcontractors do 75% of the construction contract) is not applicable.
  - c. Estimates of "Cost Not Attributable to Dwelling Use" are not prepared.
  - d. Form 2329 (Property Insurance Schedule) is developed for all structures listed "Accessory Structures" as defined in the instructions for preparing the Form 2326-L1.
- 2-5. LAND PLANNING ANALYSIS. Land Planning principles and procedures for Section 207 Multifamily Rental Housing, Reference (9) of the Foreword, apply to mobile home parks, with the following modifications:

- a. Mobile Home Parks shall be designed to provide for a desirable residential environment for mobile homes. Innovative and imaginative design should be encouraged. Stylized patterns and monotony should be avoided. All site improvements should relate to the individual characteristics of the land. The site, including mobile home stands, patios, structures, streets, and other site improvements should be harmoniously, efficiently and conveniently arranged in relation to the topography and the shape of the property.
- b. Each Mobile Home should be fitted to the terrain with the least possible disturbance to the land. Existing trees, shrubs and ground cover should be preserved to the extent possible And used to enhance the site. Additional plantings

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should be provided to screen undesirable views, for shade and for visual appeal. All existing vegetation and proposed plantings shall be shown on the site plan or on a separate planting plan.

- c. Parking Spaces may be provided at each individual lot or in courts or bays with assigned space for each mobile home. The number of spaces should be adequate to meet the needs of residents and their guests without interference with normal traffic. Such facilities should be provided at the rate of at least one space for each four lots in order to have space for guest parking and service vehicles.
  - d. Private Outdoor Living Space should be designed for each mobile home. It should be walled, fenced or screened for reasonable privacy and partially paved for garden furniture. In addition, about eight percent of the grass site area should be improved as a common recreation area and major open space. Tot lots, equipped for small children's play, should be provided if it is anticipated that there will be children residing in the mobile home park.
- 2-6. MORTGAGE CREDIT ANALYSIS. Shall conform to the instructions for the Section 207 Rental Housing Program. See Reference (10) of the Foreword.
- 2-7. REGIONAL OFFICE REVIEW. A post review of all mobile home park applications processed shall be made by the Regional Office.

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