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Fannie Mae: Mobile-Home Loan Program Leaves Evictions, Billionaire Profits in Wake

After the U.S. housing market collapsed a decade ago, Tim Sheahan thought mobile home residents like him might actually catch a break.

Fannie Mae (FNMA) and Freddie Mac (FMCC), the housing finance giants, had been rescued by taxpayers and the companies were supposed to lend to the mobile-home market like never before. That was the promise of the Housing and Economic Recovery Act of 2008, which said Fannie and Freddie had a 'duty to serve' mobile-home residents.

Sheahan, an activist for owners of mobile homes or 'manufactured housing', suggested that Fannie and Freddie use their financial heft to transform a stigmatized market.

The companies should only finance mobile-home parks where residents had a voice and were safe from sudden evictions, he wrote in a letter to the companies' regulator. Fannie and Freddie might even help residents, who are merely tenants on the land, buy the parks where they lived.

These were bold ideas, but not so crazy since Fannie and Freddie were about to put billions of taxpayer-backed dollars into the mobile-home industry. Fannie and Freddie had better move soon, Sheahan wrote from his doublewide near San Diego in 2010. Wealthy investors were circling, and without help from Fannie and Freddie "our underserved market will become even more oppressed," he told the companies' regulator.

Today, Sheahan said, "things have only gotten worse."

Rather than insisting on protections for residents, Fannie and Freddie have loaned more than $15 billion to mobile-home investors with virtually no strings attached.

That credit has helped investors expand their mobile-home park business and squeeze the sites for profits while—thanks to the government backing—saving investors money.

The role of Fannie and Freddie in the mobile-home park sector could come under scrutiny as lawmakers and the Trump administration consider whether to hand the companies back to investors.

Fannie and Freddie typically offer a one-fourth of a percentage point discount on loans over other lenders, said brokers who handle such deals. And that modest concession from taxpayers amounts to huge savings for investors who borrow billions of dollars.

Sam Zell's Equity Lifestyle Properties (ELS), for example, a leading operator of mobile-home communities, borrowed more than $250 million from Fannie and Freddie in the last 10 years, according to loan details from ELS and data from Yardi Matrix, which tracks such financing. Borrowing from the two stands to reduce loan costs by several million dollars.

Across the mobile-home park industry, Fannie and Freddie are due to save investors more than $200 million on the billions that have been loaned.

Leading private-equity firms including the Carlyle Group and Blackstone Group have also bought into the mobile-home market in recent years—a clue to the profits that Wall Street expects from the sector.

In many cases, mobile-home parks are bundled into real estate investment trusts (REIT) that are in favor on Wall Street. In the last three years, REITs tied to mobile-home parks have delivered higher returns than funds of hotels, health-care facilities, self-storage sites or any other real estate sector, according to Nareit, the industry's trade association.

"These guys know how to get the full potential out of their investment," said Drew Babin who analyzes the mobile home market for investment firm Robert W. Baird & Co.

As Fannie and Freddie have made it cheaper and easier for big funds to snap up parks, consumer advocates argue that tenants should see some direct benefits from the government-backed lenders' involvement.

Vulnerable tenants. Fannie and Freddie do set terms that protect their investment in the parks; communities cannot be too crowded with older model homes, for instance.

But the companies' regulator, the Federal Housing Finance Agency (FHFA), has allowed Fannie and Freddie to lend without extending any tenant protections.

Meanwhile, the FHFA has made it easier for Fannie and Freddie to make mortgage loans to wealthy investors.

The two companies, designed to help lower the costs of homeownership by buying home mortgages from banks, already finance roughly half the rental property market.

But those investments cannot exceed $70 billion each year—with one critical exception: Deals deemed to support the public interest are unrestricted. And in 2014, the FHFA designated mobile-home park loans as promoting the public interest. Since then, investment in parks has ballooned.

The FHFA declined to comment for this story. Fannie Mae and Freddie Mac also declined to comment but pointed to the companies' past statements that mobile-home communities are a viable option for low-income residents.

"How long do you think you'll live?" The low upfront costs of mobile homes can mask the long-term costs and vulnerability of being a tenant in a mobile home park, said Paul Bradley, the president of ROC USA, a New Hampshire-based organization that advocates for mobile-home residents across the country.

"We're talking about the lowest rung of home ownership. The homeowner holds the keys but everything else is controlled by the landlord."

The impact of new institutional landlords and their drive to boost profits becomes vivid in places like Colony Cove outside Sarasota, Florida—the largest mobile-home community owned by ELS. Corporate landlords are quicker to evict tenants than mom-and-pop operations, the Federal Reserve Bank of Atlanta concluded in a recent study of that city.

Three times as many residents were evicted from Colony Cove in the six years after ELS bought the property in 2011 than in the six years prior, according to a *Capitol Forum* review of county court records.

In Colony Cove, more than 250 residents have been tossed from the sprawling, senior-living community of over 2000 mobile home lots since ELS bought the site, according to eviction records.

Many Colony Cove residents said they are desperate to keep up with the rent to avoid an eviction.

Sue Shields moved to Colony Cove nine years ago with plans to retire but now she and her husband are agents selling neighboring homes to make ends meet.

When prospective buyers ask how they should budget for rents that can climb faster than fixed-income benefits, Shields responds with a question: "How long do you think you'll live?"

Some residents peddle crafts online or hawk personal belongings at curbside sales. Widows bunk with friends or take in boarders. Neighbors in their 70s seek work at Wal-Mart or odd jobs around the community.

"A person has to do something on the side," said Bill Hartley, a 96-year-old Army veteran who sells tuned-up golf carts from his front yard. "They don't think nothing about evicting you, a big organization like this."

Residents do have a right to move their mobile home, but for most it's an impractical option. Instead, most residents try to sell in a hurry and take what they can get.

Before Zell bought Colony Cove, those residents had a third option—to walk away. The landlord would accept the keys to the mobile home and forget about the rent owed.

In recent years, residents who have tried to bail out of Colony Cove have been hounded by lawyers for back rent, legal fees and the cost of tearing down their home—even if the home is left standing, according to residents and county court records.

More than 10 former residents who resisted eviction said they did not have the wherewithal to fight Zell in court for long and felt sure the company would get its way in the end.

Richard Reed learned that lesson when he tried to leave Colony Cove in 2013 after 11 years in the community.

In interviews, Reed said he got fed up with rising rent when it hit $500—too much, he thought, for water, sewer and lawn-cutting.

So Reed put his home up for sale with Colony Cove's listing service, but after several months without a buyer, he dropped his title at the front office, hoping that forfeiting his home would allow him to walk away from the property.

Colony Cove took Reed's home. Then it sued him for back rent and legal fees. He eventually settled for $2,000, he said. Later, Colony Cove resold Reed's mobile home.

"They stole my house and my money," said Reed, an army veteran now living in Tennessee. "A snake couldn't stoop any lower."

Reed was evicted only because he fell behind on his rent, according to Jennifer Ludovice, a spokesperson for Equity Lifestyle Properties. She said forcing people from the community is a costly last resort. "Evictions generate a net loss to our company," she said.

Financing from Fannie and Freddie "is an important element to supporting a real estate sector that makes home ownership possible for millions of Americans," Ludovice said in a prepared statement.

Lost chances. For-profit landlords dominate the mobile home park market but there are alternatives. In resident-owned communities (ROC), families own their homes and the land underneath them as well.

The rents are generally lower in these cooperatives and residents control the life of the park. Every now and again, a mobile home park operator is ready to sell and Paul Bradley, the president of ROC USA, sees a chance to convert the property into a cooperative.

But that moment passes quickly, Bradley said, because Fannie and Freddie stand behind wealthy investors who can easily outbid Bradley and keep the site a money-making machine.

In the last decade, Bradley's group has helped residents in roughly 150 mobile home communities buy their properties from the landlord.

If Fannie and Freddie had been at his side with financing, Bradley says, that number could have been 10 times as high.

Tens of thousands of mobile home residents could be living in a community they own if Fannie and Freddie had done things different ten years ago, said Bradley.

"What a waste," he said.