

Mobile Home Park Financing

Frequently Asked Questions

Q: Can I get financing for a mobile home park these days?

A: Maybe. It's much more difficult than it used to be but banks still need to lend money to make a profit. Commercial loans are actually less risky to lenders because the mortgage is paid from the collateralized cash flow of the asset rather than just an individual. In general, the more the park meets these criteria the better your chances:

- Low Loan-To-Value, often 65-70% max
- Strong Cash Flow - always very important, 1:25+ DCR
- Good looking, well maintained park, paved, amenities, some double-wides & newer homes a plus (apartments and rental units are OK)
- Borrowers – experienced, good credit, other sources of income, cash reserves, live near park
- No Park Owned Homes – or the less the better
- No RVs – or the less the better
- Loan Size - \$500k to \$3Mil works best

Parks that don't have the above qualities can still get financing on a case-by-case basis. Many successful parks don't meet all of these requirements but the more they do, the easier it is to procure a new loan.

Q: What Loan-To-Value can I expect?

A: Usually 65-70% max. Many banks are going with 60-65% for parks now and in peripheral areas (outside cities) capping it at 55%. An 80% LTV is possible but rare and the park would need extremely strong cash flow, occupancy and overall quality with loan size of \$1Mil+ to qualify.

Q: What loan programs are available now?

A: Usually 5 Year Fixed Rate ARMs. Most parks don't qualify for longer term fixed rate terms. Keep in mind that the lenders can usually only borrow at 5 year periods from their lenders like the Federal Home Loan Bank so they will only lend at fixed rates for that amount of time. Amortization periods run from 15-30 years. Higher quality parks that qualify can be for up to 10, 15 or even 30 year fixed periods. Some loans become adjustable or balloon after the fixed period.

Q: What are rates like these days?

A: Very Good. Another way to ask is what are the payment amounts going to be? (The shorter the amortization period, the better the rates, but the higher the payments). Typical Rates:

5 Year Fixed	15 Year Amortized	5.50-6.00%
5 Year Fixed	20 Year Amortized	6.25-6.50%
5 Year Fixed	25 Year Amortized	6.50-7.50%
10 Year Fixed	30 Year Amortized	6.00-7.00%

Q: What size loans are available?

A: The minimum is usually \$500k. It's possible to borrow less but it costs more in rate and fees and there are fewer lenders available, but if you don't need a larger loan it can be done. Also, larger loans of \$3Mil+ are harder to find now if there is anything undesirable about the park like more than 10% park owned homes, more than 5 % RVs or more than 10 or 15 % vacancy. National lenders can't finance such parks and local and regional banks that sometimes can are often restricted from making very large loans.

For parks that meet the highest quality standards there is no maximum loan size.

Q: Why don't the banks like park owned homes (POHs)?

A: A big question that comes up frequently. The maximum amount of POHs lenders accept is 10% (some will go up to 25%). Mobile homes in parks are not considered to be real estate. They are classified as personal property (are licensed by DMV) and usually cannot be used as collateral in making the loan. Therefore, the banks do not count the additional income they generate and will only give credit for the pad rents. This disparity creates conflicts in valuation in many cases...the owner, seller or buyer may need the additional income to be factored in for the purpose of a refinance or a sales transaction, yet the banks are sometimes unable to include it in their income and valuation basis. The best thing to do for the purpose of getting a loan is to consider what the park's income would be without the park owned homes, based on the pad rents only because some lenders will accept the pad rents if they support the loan's debt coverage without the additional income. Also, it's believed that owner occupant residents tend to take better care of their homes and surroundings. There is an additional concern that any individual owner of more than 10% of the homes could remove the homes or otherwise have too much control over the income of the park. Some lenders will accept the additional income from park owned homes under certain conditions and structure the loan accordingly.

Q: Why don't the banks like RVs?

A: Because RVs are by design a hybrid between a home and a vehicle. Maximum amount of income from RVs is capped at 5-10%. RV income is considered to be inherently less predictable than mobile homes. They are usually not on permanent foundations and can more easily be moved and the tenants are seen as more transient than home owners. The income is often seasonal and intermittent. Proof of long term rental history of tenants and park model RVs can be basis for exceptions. A few lenders do accept RV income.

Q: What information will be needed to see if I qualify for a loan?

A: The Short List: Current Rent Roll, Year-To-Date Income Statement, last two full year's Operating Statements (Schedule E of tax returns are OK), some pictures. Additional info: a description of the park (paved, sewer or septic, the mix of spaces or units (POHs, Apts., RVs), how many double-wides and age of homes, etc. Also, some info on the financial position of the borrowers (personal income, debt, credit score, cash reserves and experience) will be needed.

Summary

This information is provided as a guide to help you understand some of the issues that come up often and are best to be aware beforehand when seeking mobile home park financing in today's lending market.

Please call me at (877) 552-8700 or email: DavidHarley1@comcast.net for a customized analysis and loan quote. Every situation is different and I would welcome a chance to find the best financing available for your park.

David Harley