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Manufactured Home Community Financing Handbook

Third Edition

Wells Fargo Bank

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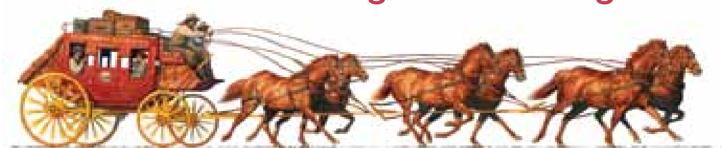

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MANUFACTURED HOME COMMUNITY

FINANCING HANDBOOK

(For Land-Lease Communities)

THIRD EDITION

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Wells Fargo Bank

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Manufactured Home Community Financing Handbook

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Glossary of Lending Terms

Preface

As we began discussing revisions to this handbook for its third edition, it did not take us long to realize that the world of commercial real estate finance (and the financial markets in general, for that matter) is far different today from what it had been during the publication of our earlier editions. As such, our third edition needed quite a makeover. While some rules of thumb still remain the same (preparing a property for financing, mistakes that should be avoided during the financing process, etc.), absent from this edition are our prior descriptions of the creative (albeit aggressive) underwriting approaches and loan terms offered by conduit lenders. Instead, we have attempted to describe what is realistically available in today's market. We have also attempted to touch on related issues for owners and investors to be aware of as they forge their way through today's financial environment.

So why have things changed so much? Is there any precedent for working through our current crisis? Let us take a quick look back.

We first saw the intersection of real estate loans and capital markets with securitized debt in the residential loan market. Prior to the emergence of securitized debt, banks made home and commercial loans on a portfolio basis, meaning the loans were kept on their balance sheets. Lending meant living long term with every credit decision made. After World War II, however, banks could not keep pace with the rising demand for home loans. Sensing a market need and opportunity, banks and government officials sought ways to increase lending volume and affordability of residential loans. To attract capital, bankers, with the assistance of government-sponsored entities, created a security that could be sold to investors as rated bonds. These mortgage pools structured the cash flows from underlying loans, which were then paid to the bondholders in priority – hence, the process of securitization. Although it would take several years to develop efficient mortgage securitization structures, residential loans were first pooled and securitized in the 1970's.[1]

In the late 1980's the nation experienced the "Savings and Loan Crisis," due in part to undisciplined lending practices, but also as a result of a major change in the tax code in 1986 that dramatically changed the economics (i.e. permitted write offs) of commercial real estate. This resulted in a prolonged period of bank defaults, declining property values, tight capital, and chaotic markets characterized by a high volume of loan defaults, property write-downs and little available financing. Sound familiar?

In reaction to the S&L crisis, the Resolution Trust Corporation ("RTC") was formed by statute in 1989. The RTC's mandate was to liquidate real estate assets, including mortgage loans, which had been declared insolvent assets of S&L's. This liquidation was facilitated by the first large scale securitization of commercial loans, ultimately leading to

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[1] "Asset Securitization Comptroller's Handbook", Comptroller of the Currency Administrator of National Banks, 1997.

the formation of lending vehicles known as Commercial Mortgage Backed Securities ("CMBS") loans, often referred to as "conduit loans." An entire financial services industry grew around conduit lending, and a much needed source of financing became available to commercial property owners.

Investments banks, traditional banks and even insurance companies embraced conduit lending as a way to generate lending profits while, in theory, shifting the risk of defaults to bondholders who purchased these loan pools. Furthermore, because conduit loans were being sold, or securitized, within short time frames, conduit lenders were fee driven, and appetites to originate new loans were insatiable as they did not have to worry about credit or default exposure since the loans were not held on their balance sheets. In the latter years of this era, conduit financing accounted for over half of all commercial real estate financing. By choosing conduit loans, borrowers were able to obtain non-recourse debt with high loan-to-value ratios and attractive long-term fixed interest rates. While conduit loans had less flexibility than traditional balance sheet loans, a lot of borrowers were willing to accept the trade-offs due to the high leverage levels and low fixed interest rates conduit loans provided.

Competition among lenders over time resulted in thinner profit margins, which drove the need for volume, leading to more aggressive underwriting structures, such as full term interest only. The capital markets and securitized lending structures also became increasingly complex as participants utilized financial derivatives such as Credit Default Swaps ("CDS"). In theory, a CDS could be used to hedge against default risk, but instead they became trading instruments in a largely unregulated market. By some accounts the CDS market has grown to be as large as $50 trillion dollars, dwarfing the U.S. stock market in size. The interconnecting web of parties and counterparties created by these swap contracts has created a new concern regarding "systemic" risk based on fear that the collapse of key participants and guarantors behind these contracts could cause the entire financial system to collapse. All things "bailout" dominate the headlines and public debate.

It is open to debate as to whether the financial system has collapsed, but certainly areas such as private market securitized lending have essentially ceased functioning. The inability of the market to value complex financial derivatives and assess the risk associated with market downturns is an underlying reason. Rating agencies, for example, are key participants in the capital markets when they assign risk ratings to bonds. In hindsight, many believe rating agencies were caught by surprise when residential loan defaults started to rise. To many it was not a surprise that residential loans soured when one considers that 100% financing was available with little to no verification of the borrower's income. When home prices started to fall, defaults increased, and lending dried up. Financial "contagion" ensued as concern spread to the commercial real estate sector, and new lending in general was significantly curtailed.

In early 2007, in an attempt to get ahead of the downward curve, the rating agencies issued warnings about underwriting standards related to commercial real estate conduit loans. As a result, spreads on CMBS bonds started to increase dramatically. Many

lenders found themselves with loans on their books that could not be securitized profitably. Then the dominoes began falling. Lenders holding these loans and bonds for sale suddenly had to write down ("mark to market") these assets, or sell them at a loss in a declining market. Spreads on CMBS bonds ballooned - AAA bonds that traded at spreads as tight as 22 basis points over treasuries increased to spreads over 1,000 basis points. New conduit loan originations stopped (conduit loans would have interest rates between 15 and 20 percent based on these high CMBS spreads), and in less than a year most conduit lending operations had shut down.

We have also experienced a dramatic contraction in lending activities on the part of all commercial real estate lenders due to the inability to raise new capital needed to offset rising defaults and a concern over increasing vacancies due to our current economic downturn. For the foreseeable future, one can expect that there will there be fewer lending options available. Underwriting guidelines will be conservative, personal recourse will be increasingly required and spreads will remain high until private capital returns to lending

So where do we go from here? One ray of sunshine is that manufactured home communities ("MHCs") remain a favored property type among lenders, as historically this asset class has experienced low default rates. Attractive financing for some manufactured home communities is still available through Fannie Mae DUS programs discussed in this handbook. However, the continuation, let alone the expansion, of this government-sponsored lending program is not guaranteed, as it must compete with all of the increased demands for government support. An important step, in our opinion, would be for the Federal Housing Finance Authority, which regulates Fannie Mae and Freddie Mac, to include MHC lending as counting toward affordable housing goals. These goals are set annually by Housing and Urban Development - apartment (multifamily) lending does count toward these housing goals, but MHC lending currently does not. Consequently, providing financing for MHCs is presently a low priority, and has not provided motivation for Freddie Mac to enter the sector. While manufactured housing is identified as one of three "underserved' markets in the latest Housing Act (H.R. 3221), manufactured home communities were not addressed in the Act.

Securitization in a re-tooled form will play a major role in once again attracting private capital back to the lending markets. Freddie Mac and Fannie Mae are in different ways utilizing securitization as a way to generate additional capital. Private securitizations may also have some government support or involvement, but less complexity and improved transparency will be needed for private capital to justify new investments. The coming years likely portend many changes for lenders and property owners. Investments in commercial properties, including MHCs, will require more equity, and underwriters will be more selective. If you have a loan coming due, we recommend that you start the refinancing process early, and we hope that you find this handbook to be useful in that endeavor.

Tony and Nick

Section 1: The Basics

Preparing Your Manufactured Home Community for Financing

It may be that you have a loan coming due on your manufactured home community, have identified a property you want to purchase, or simply want to access some equity. Whichever the case, you may need a loan. Before contacting your lender, the first step you should take is to assess and prepare your property and yourself for financing. This assessment should take into account the physical condition, financial health, and market competitiveness of your community. Additionally, you should prepare various documents that will be needed to underwrite the loan, and consider the manner in which information should be presented, to ensure you receive timely and reliable loan quotes.

Take a step back and assess the overall asset quality, or "curb appeal", of your project. Is the landscaping adequate and well maintained? Do the homes reflect pride of ownership, and are community regulations being enforced? Is the average age of the homes, density of the community and amenities in line with competitive properties in the local housing market? These are all questions a lender will consider when pre-screening a property to determine not only whether the property qualifies for financing, but also loan-to-value ratio and pricing level (i.e. interest rate).

You should also have a good handle on market conditions where the property is located. Is it situated in an in-fill market with barriers to entry? Are rents at market when compared to nearby manufactured home communities? What is the general demographic profile of the local housing market and how successfully does the property compete for new residents?

While assessing the condition of the property and its market, it is likely that there will be some shortcomings. At the very least, you should have a plan for mitigating potential concerns, particularly if you are financing an acquisition. For example, perhaps the community being purchased has several older homes. Your business plan may be to upgrade or replace these homes over time. You should make the lender aware of this business plan and describe how you will implement it. If you have been successful in completing upgrades of homes in a community you currently own, draw the lender's attention to that fact.

The next step is to evaluate the financial condition of the property. Typically, a lender will ask for a current rent roll along with property operating statements (income and expenses) for the past three years. When examining the rent roll, the lender will be looking for rental, lender-owned, or investor-owned homes in the community. While property owners may be motivated to rent homes; from a lending perspective, the fewer rental homes, the better. In most cases, the lender will discount additional rental income derived from rental homes, and underwrite solely based on the home site rent. Keep in

mind you may be required to provide bank statements for the prior 6 to 12 months to confirm bank deposits are in line with rent rolls from the same time period.

In addition to the income stream from the home site rents, lenders will also examine the collection history of “other income” items. It is important that you are able to segregate “other” income items on the historical statements. On separate line items, you should be able to identify income from utility reimbursements, laundry facilities, late fees, etc. A loan underwriter will be trying to determine whether this “other” income is sustainable through the foreseeable future. Typically, as long as you can demonstrate a good history of collecting ancillary income, lenders will likely include this income in their underwriting.

In your evaluation of the property’s historical income and expense statements, identify any large fluctuations in the numbers, on either the income or expense side. For example, if there has been a significant increase in annual rental income in recent years, be able to explain why. Did the property experience a high vacancy rate during a recent year? If so, why? What has been the history of rent increases, and are rents competitive (in line with market)? The same kind of analysis and explanation should take place on the expense side, particularly with respect to expenses that may be unique to your ownership operations. If you allocate “home office” overhead to your property, in lieu of a management fee, be sure to identify that expense, as a lender will automatically input a management fee even if you do not charge one.

While it is common for property owners to expense (for tax purposes) as many items as possible on their operating statements, it benefits the property owner to identify and explain any expenses that are not directly related to the property’s on going operation. An underwriter only needs to include expenses that the lender would incur when operating the property; so, whenever possible, you should provide an itemized breakdown of any capital or non-recurring expense items that are embedded within the operating statements (such as paving or clubhouse improvements). If identified, the lender can remove these expenditures from the underwritten expenses. Because the lender will already be including a “replacement reserve” deduction to account for long-term improvements, you should make sure that capital expenditures are not being double-counted. The goal is to maximize the underwritten net operating income because this will typically translate into higher loan proceeds and/or a lower interest rate on the loan.

After providing the necessary information on the property, you should provide a general overview of yourself as borrower. What is your background and real estate experience, and how many other properties do you own? What is your financial strength in terms of net worth and liquidity? What is your business plan for the asset being refinanced or purchased? The lender will be looking at you not only as a borrower, but also as a business partner, so demonstrate why you are someone with whom the lender should be doing business.

The manner in which information is presented is an important factor that loan underwriters consider. Are your financial records computerized, or do you handle them

manually in a notebook? Computerized and consistent accounting records are always the preference as this gives the borrower the image of being an experienced, professional owner/manager. Your rent roll should be detailed and accurate, arranged by unit number, and no more than one month old. Operating statements should provide separate line items for various revenue sources as well as expense items. You should ideally have the ability to create a trailing operating statement for the most recent 12 months, as many lenders will want to receive this prior to loan closing. It is also helpful to provide recent, good quality color photos of the property. Loan underwriters prefer to receive information, including property photos, electronically via email.

If you take the time to prepare your investment property for financing, your lender should be able to provide deliverable loan quotes in less than a week. This also ensures obtaining the best terms available for the asset. Furthermore, by providing accurate and detailed information in the beginning, you will facilitate a much smoother loan approval and closing process.

Assessing Loan Alternatives

Once a property owner has prepared his or her property and financial records for financing, it is important to assess investment goals and the general business plan going forward. This provides a framework for analyzing different types of lending programs, and how related advantages and disadvantages fit into the property owner's stated priorities.

When determining investment goals, a community owner should contemplate the following questions: "What do I want to achieve over both 5 and 10-year horizons? What is my likelihood of selling the property during these time frames? Am I comfortable taking interest-rate risk with an adjustable rate loan, or would I prefer to lock in a long-term interest rate? How important is it to me to be able to obtain additional loan proceeds during this time?" The answers to these questions will assist in determining what type and structure of loan is appropriate.

Many lenders offer both floating rate (a.k.a. adjustable rate) and fixed rate loan programs. There is an inherent trade-off between floating and fixed rate programs. While some floating rate programs offer interest rate caps or are often fixed for a period of one to five years, there still exists the risk of an interest rate increase in the future. Also, many floating rate programs are designed to be bridge loans with shorter terms - five years or less. As recently experienced, there can be a risk in finding a lender to "take out" a bridge loan when it comes due if there has been a market contraction on lending in general. The major advantage of floating rate loans is that they often offer lower starting interest rates than fixed rate loans. Additionally, floating rate loans usually have the advantage of lower prepayment penalties when compared to fixed rate loans.

Fixed rate loans lock in an interest rate for an extended period of time, and have become increasingly attractive in recent years, due largely to favorable treasury rates. Treasury

rates, or yields, are the most common benchmark used to determine fixed term interest rates, and treasury yields have recently been at or near historic lows. Longer term fixed rate loans also enable an owner/investor to lock in his or her cost of capital for an extended period. To achieve the lowest fixed rate, however, lenders need to structure fixed rate loans with prepayment penalties that are usually more onerous than the prepayment provisions found on floating rate loans. Prepayment penalties are, in part, the result of the lender needing to fix, or "match fund," the cost of capital for the entire loan term. While some fixed rate loan programs offer a defined prepayment penalty, usually as a percentage of principal balance, the lowest fixed rates are achieved through a yield maintenance type of prepayment penalty.

The actual amount of a yield maintenance penalty is a function of the rate on the loan being paid off, treasury yields at the time the loan is prepaid as well as the remaining loan term and remaining loan balance at the time of prepayment. As a general statement, prepayment penalties are minimized if rates have increased since the time the loan was originated and are typically very large when a loan is paid off in the early years of the loan term unless treasury yields have increased substantially. It is important to note that most loans offer an assumption provision, and a low fixed rate loan can be attractive to a future buyer as long as the loan amount is relatively high in proportion to a property's value. Since a fixed rate loan typically has an open prepayment window near the end of the loan term, many borrowers also match the fixed loan term to the anticipated holding period for the property.

In addition to selecting between a floating or fixed rate, another important consideration in the past has been selecting the type of loan – a securitized (conduit) loan or a balance sheet (portfolio) loan. Over the past decade conduit loans accounted for 50% or more of the annual origination of all commercial loans. Conduit loans offered high leverage and attractive rates, but were generally less flexible than portfolio loans. Conduit loans, as discussed in the Preface, have fallen victim to the "credit crisis," and general flight of capital to treasuries, and cash, and away from alternative investments such as the commercial mortgage backed securities. For now, conduit loans are simply not an option.

A portfolio loan, by definition, is held by a lender on its balance sheet during the loan term. This provides the lender with the ability to modify certain aspects of a loan during the loan term should that need arise. However, there is no guarantee that a portfolio lender will agree to modify a loan in the future, and on fixed rate loans the lender may not be able to change the prepayment penalty for reasons discussed above.

In the past, a general disadvantage to portfolio loans is that interest rates were often higher, particularly on longer term fixed rate structures, and LTV's often lower due to the use of more conservative underwriting parameters. This would include parameters related to the borrower's experience as well as quality and location of the property, and types of properties portfolio lenders will finance. Many portfolio lenders still have a negative perception of manufactured home communities as "special purpose" properties, and consequently may only lend on them on a very conservative basis. Also, many

portfolio lenders will require a personal guarantee from key principals of the property's ownership group.

There is yet another type of loan that, with the departure of conduit lending, has become a very popular lending option for MHCs – the Fannie Mae DUS program. This program offers very attractive terms due primarily to the favorable cost of capital currently available to Fannie Mae.

Fannie Mae Lending for Manufactured Home Communities

The most attractive long-term, fixed rate, non-recourse financing currently available in the commercial real estate sector is reserved for qualifying multifamily properties, namely apartments and manufactured home communities ("MHCs"). Fannie Mae ("FNMA") and Freddie Mac, while in government conservatorship, continue to offer multifamily financing programs through their partner lenders, resulting in a clear financing advantage for multifamily properties when compared to current lending programs available to other commercial real estate asset types. Of these two government sponsored enterprises, only Fannie Mae offers financing programs for MHCs through a nationwide network of Delegated Underwriting and Servicing ("DUS") lenders.

Initiated in 1988, the DUS program provides approved lenders the ability to underwrite, close and sell loans on multifamily properties to FNMA without FNMA's prior review so long as the loan collateral and borrowers meet established underwriting and credit guidelines. MHCs were added as an eligible FNMA property type in 1999 when a pilot lending program was launched. In 2001, MHCs became eligible for the DUS lending program that is in place today. There are approximately 25 DUS lenders in total, but only a few of these lenders (including Wells Fargo) originate the majority of the DUS loans on MHCs.

DUS lenders typically service the loans they originate, and usually retain a risk position in the loans they sell to FNMA. In concept, a DUS loan can be closed with little if any interaction with FNMA if the guidelines are clearly met. However, FNMA has recently required that all MHC loan requests be submitted for their "pre-review" prior to starting the formal loan closing process. This pre-review requirement does not inherently need to result in an elongated closing process, particularly if a borrower is working with a DUS lender that is experienced in lending on MHCs.

In 2008, FNMA's multifamily loan volume through the DUS program was approximately $33 billion. Approximately $1 billion of that total volume was in MHCs. While MHCs accounted for a relatively small percentage of FNMA's total multifamily volume, it represented more than a three fold increase over the 2007 volume level. This increase has been driven by the exodus of other lenders including conduits. FNMA has indicated that they continue to have a favorable perception of MHCs, but want to evaluate the increase in volume, in part, by requiring the pre-review on new MHC loan originations.

Fannie Mae DUS loans offer an assortment of financing structures and attractive pricing for both age restricted and all age manufactured home communities. Borrowers have the ability to obtain a loan with a defined fixed term such as five, seven or 10 years, typically amortized over 25 to 30 years (interest only periods are available on a case-by-case basis). Self amortizing terms such as 15/15, 25/25 or 30/30 are also available. In addition to fixed rate terms, Fannie Mae also offers five, seven, and 10-year capped ARM structures, which are priced over Libor and come with a built-in ceiling (cap) on the interest rate during the loan term.

Interest rates on FNMA loans are very attractive and are derived from a tiered risk-based pricing structure, meaning interest rates are determined by such factors as loan-to-value and debt service coverage ratios. The most common prepayment penalty structure on fixed rate loans is yield maintenance. While this structure provides the lowest rate, a variety of other prepayment structures such as a declining stated percentage are also available. A capped ARM generally offers a more favorable prepayment structure versus a fixed rate term.

Could a Fannie Mae loan be the right product for your property, and will it qualify? To answer this question, it is important to understand FNMA's basic lending parameters and program features to see if they align with your property and overall business plan.

Fannie Mae provides a set of guidelines to its DUS lenders that determine whether or not a manufactured home community qualifies. These guidelines include the following:

- Paved roads
- Minimum of 50 sites
- 50% or greater of the total sites able to accommodate a doublewide home
- All homes properly skirted
- Occupancy of 90% or greater
- Park-owned homes occupy less than 5% of total sites
- RV rental income no greater than 10% of total rental income
- Maximum density of 10 homes per acre

If a property does not meet all of the standard FNMA guidelines, it does not necessarily preclude the property from qualifying for a FNMA loan, but it does require the DUS lender to obtain a "waiver" from Fannie Mae.

In addition to the property guidelines, eligible borrowers must meet standard requirements regarding credit checks, financial strength and experience - at least one key principal having prior experience operating manufactured home communities. The net worth of the "key principal" (primary borrowing principal) is usually required to be equal

to or greater than the loan amount with liquidity equal to or greater than 6 months of debt service on the loan being requested.

A standard Fannie Mae MHC loan program has no established minimum or maximum loan amount, but typically loans are $2 million and above. The maximum loan-to-value ("LTV") ratio is up to 75% in most markets and a minimum debt coverage ratio ("DCR") of 1.25 times is required. Other loan program requirements include property tax, insurance and replacement reserve impounds (replacement reserve impounds can be waived on a case by case basis), and third party reports (appraisal, Phase I Environmental Assessment, etc.) are ordered as part of due diligence.

Fannie Mae loans are non-recourse with standard carveouts (see Glossary of Lending Terms). Loans are typically assumable (multiple times), subject to Fannie Mae's review and approval of the new borrower's credit and experience and an assumption fee. Secondary or "supplemental financing," which many borrowers find to be a very attractive feature of the program, is available for consideration after the first year of the loan term. This feature of the program provides an opportunity for borrowers to obtain additional proceeds for communities in the final stages of lease-up, communities that have expansion phases, and communities that have experienced increased cash flow. When a FNMA supplemental loan is obtained, the interest rate on the additional supplemental loan is based upon the then prevailing FNMA rates for supplemental loans. Historically, this has ranged from 35 to 75 basis points higher than comparable term first mortgages.

In addition to providing secondary financing in the future, the Fannie Mae program also allows for forward rate locks for as long as 12 months in advance. While the standard FNMA loan typically takes approximately 60 days to process and close, a longer rate lock period may be of particular interest to a borrower who is refinancing an existing loan with a prepayment penalty that does not expire until later in the year. Alternatively, a forward rate lock could also benefit a borrower purchasing a property when the closing time frame is extended for whatever reason (timing of a 1031 exchange, for example).

Regardless of the particular type or structure of Fannie Mae loan that is best for your property, work with a DUS lender that has prior experience and a good track record lending on manufactured home communities.

Avoiding Common Mistakes During The Financing Process

Ever wonder why some deals go smoothly and others have bumps along the way? Certain mistakes that can easily be avoided tend to be repeated during the financing process. Most of these mistakes can distract away from the overall financing goal, and cause unnecessary delays in the closing of the loan.

Mistake #1: Not knowing if the lender can close.

Can the lender close on the same terms quoted? This is the million dollar (literally) question, particularly in the present lending environment. While there are no guarantees at the start that the lender will close (due to unforeseen issues that may arise during the due diligence process, for example), the odds for success are much higher if you are working with a lender with a proven track record closing similar loans on similar properties. If unsure of a lender's ability to close on your loan, ask for several references, or examples of recent comparable transactions the lender has closed.

Mistake #2: Failing to negotiate deal points in the lender's application letter.

It is common for a lender to request an expense deposit before processing a loan to cover actual costs such as third party reports. However, after determining you are working with a dependable lender, ensure agreement relative to important loan terms in the application letter before executing the application and sending in the required expense deposit. Important deal points should be addressed prior to executing a loan application because they will be much more difficult to negotiate once the loan has been approved. It is important to know that most lenders will not acquiesce to all requested changes to the loan application, but at a minimum you should understand all of the terms and conditions outlined in the application and address any major concerns or clarifications up front.

Mistake #3: Not engaging an experienced attorney.

Think you can close a deal on your own without the services of an attorney, or that any real estate attorney will do? Think again. At a minimum, attorneys are typically needed to provide the lender with certain opinion letters, and also to ensure that the final loan documents reflect the terms that have been approved. You will often end up not only saving money, but also negotiating fair and favorable terms if you hire a seasoned professional. Inexperience at any point often increases the lender's legal review time and, in turn, related legal bills. Furthermore, it can cause a delay closing the loan, requiring extensions to the application timeline, which may subsequently result in additional fees and penalties.

Mistake #4: Not providing required checklist items in a timely manner.

Having begun the financing process, it will benefit everyone if you submit as many closing checklist items (rent rolls, operating statements, personal financial statements, etc.) as quickly as possible. By doing this, the lender can be assembling the package needed for committee approval while waiting for completion of third party reports. Waiting until the last minute to submit checklist items will cause delays in getting the loan approved, or delay the closing once the loan is approved. More than once, we have experienced the expiration of a loan approval due to information not being provided in a timely manner. With this in mind it is also important to plan for checklist items that require lead time. For example, check your files to see if there is an existing "as-built" or ALTA (American Land Title Association) survey, which many lenders will require as a

condition of loan funding (see chapter "The Importance of an As-Built Survey" for additional details). If there is an existing survey, submit it to the lender for review at the beginning of the process. Many times, the lender can utilize an existing survey with limited updates. If there is not an existing survey, order a new one immediately, as it may take the surveyor three weeks or longer to complete it.

Mistake #5: Waiting to lock rate.

With a fixed interest rate loan it is common to have the ability to lock the rate prior to closing. We suggest defining a range of acceptable interest rates when starting the financing process. Since locking a rate early often involves posting an additional early rate lock deposit, the lender and borrower will want to ensure any major underwriting issues have been resolved before locking the rate. Once the lender has approved a loan for early rate lock, and assuming you are comfortable with any potential costs from having to unwind the rate lock if the loan does not close, we suggest you lock the rate if it is within the defined interest rate range. No one can perfectly time the market or know when it has hit bottom as hindsight is 20/20. Should you choose to play rates, they could quickly move against you, in which case you would end up losing the favorable interest rate your targeted.

Mistake #6: Not knowing the terms of your current loan.

If refinancing an existing loan on a property, be sure to understand any payoff conditions or restrictions. The first item to check is whether or not the current loan has a prepayment penalty. If so, it may be wise to delay refinancing the existing debt until the prepayment penalty period expires or consider an early, forward rate lock. Also, check with your existing lender to see if there is a notice provision, or if the existing loan must be paid off on a certain day of the month (some loans, for example, can only be paid off on the first day of the month). The current loan may also have a provision requiring interest to be paid through the end of a given month even if the loan is paid off early in the month, in which case loan funding and closing should be targeted toward month's end.

Section 2: The Challenges

Your Loan is Coming Due: What Now?

As the credit crunch continues, lending options for commercial real estate, including manufactured home communities, have become increasingly scarce. Conduit loans are not being originated; life companies are lending on a highly selective basis; traditional banks are experiencing financial challenges, causing them to pursue new loans only at lower leverage levels, if at all; and the agencies (Fannie Mae and Freddie Mac) have many demands for their capital. Adding to this challenge of lack of available capital is one sobering fact: a lot of commercial real estate loans will be maturing in the coming years.

Over the past decade commercial real estate owners enjoyed some of the most favorable lending programs ever known. Aggressive underwriting parameters, low interest rates, and a bounty of lenders hungry for volume enabled borrowers to obtain attractive loans on their properties. In today's credit market, many of these lenders and loan structures simply don't exist, and some borrowers will face difficulties refinancing their properties in coming years. Examples of properties that will face financing challenges are those located in secondary and tertiary markets; properties that have experienced flat or declining occupancy and cash flow streams in recent years; and properties financed at high leverage levels with minimal amortization and loan terms of five years or less. Does your property have any of the characteristics described above? The answer may bring you to another question: "What happens if I can't refinance or pay off my loan when it comes due?"

Even if you are current on your loan payments, you will be in "monetary default" if you cannot pay off your loan balance when the loan matures. As a first step, we recommend that you dust off and review the loan documents (particularly the promissory note, deed of trust/mortgage and guaranty) from your current loan. At the outset, you should at a minimum have a clear understanding of the following topics:

1. Is Your Loan a Conduit Loan? This is a vital fact that must be determined at the outset. Conduit loans have typical features, and are much more difficult to modify. Balance sheet (non-conduit) loans potentially present greater flexibility as your loan approaches maturity.

2. Maturity and Default. Is there a specific "balloon" maturity date, versus a fully amortizing loan term that may have periodic interest rate adjustments? If the loan was a conduit loan, it is possible that it has "hyperamortizing" features that essentially provide an automatic "workout" once the "anticipated repayment date" (essentially what would have been the maturity date if this feature was not added)

has passed. In any event, if the loan has matured, it is likely to be accelerated unless something can be worked out with the lender.

3. What is the "Default Interest Rate"? Most commonly, when a loan goes into default, the current interest rate will adjust to the “default” interest rate. This is typically the lesser of the current interest rate plus an additional margin (often 4%-5%) or the maximum interest rate allowable by law. The bottom line is that the interest rate charged when a loan is in default will be substantially higher than what the rate had been throughout the loan term. To put this in perspective, imagine that five years ago you obtained a $5 million conduit loan at 80% loan-to-value amortized over 30 years with a 6% fixed interest rate. During those five years, the cash flow of your property was flat. You try to refinance your property at loan maturity, but because underwriting parameters are now more conservative and because your property has not increased in value, you are unable to obtain a new loan for the property, and the loan goes into monetary default. The interest rate would then adjust to 11%. If the lender doesn't accelerate the loan balance, and you are permitted to continue monthly payments, in this particular circumstance the default rate alone would increase your monthly loan payment by more than $17,000. As you can see, the purpose of implementing the default interest rate is to motivate the property owner to refinance or pay off the loan.

4. Personal Liability. This issue may strongly shape your course of action. Was the loan made on a recourse or non-recourse basis? Are you a carveout guarantor, or fully or partially responsible for repayment of the loan indebtedness? These are extremely important facts to ascertain. Recourse loans (for which the guarantors are fully liable for repayment of the entire loan) are typically non-conduit and made by banks when the loan is to be held on its balance sheet. Non-recourse loans are made with limited and specific "carveouts", and virtually all conduit loans follow this pattern. For a nonrecourse loan, the lender agrees to look only to your property for repayment, *except*: (i) for *losses* it may sustain for certain "bad boy" acts, such as fraud, diversion of rents or insurance proceeds, waste and environmental contamination; and (ii) *for your full liability for the entire loan* in the event of bankruptcy, an unpermitted transfer of the property or equity interests in the borrower, or violations of loan covenants that assure the lender that your borrowing entity will remain a "single purpose, bankruptcy remote entity". If you are a "carveout" guarantor on a non-recourse loan, be absolutely certain that you don't do anything (unless you determine that to be the best course of action, on balance) that will trigger that full (springing) personal liability and be aware of what the scope of your "carveout" liability will be for losses and damages as well.

5. Is There a Prepayment Penalty/Premium? Payment of a loan prior to maturity almost always carries with it a prepayment penalty or premium (there is no practical difference in the term used). For conduit loans, this typically takes the form of "defeasance" or "yield maintenance.” Defeasance is a complicated and costly process that involves assembly of a basket of U.S. Treasury securities to replace your property as security, and for which you will require an expert to put

the pieces together. Yield maintenance premiums (measuring the loss of yield over a U.S. Treasury security, as if your prepayment proceeds were to only be invested in such a security, but typically never less than 1% of your prepayment) are determined by your lender, are far less complicated, and don't require outside experts and their related fees. Other loans (most often bank balance sheet loans) may require a "stepped prepayment premium" or a fixed percentage of the prepaid amount. In short, know what is required, and determine the impact against your available capital and refinancing proceeds.

6. Is There an Open Prepayment Window? If deciding to pay off an existing loan prior to its maturity date, check the loan documents in further detail to determine whether there is an open prepay window, as well as whether there are any restrictions pertaining to what day of the month the loan will need to be paid off. For conduit loans, as well as many bank balance sheet loans, the "window" is the last 3 months (some longer, some shorter) prior to maturity when the loan can be prepaid without a prepayment penalty. In addition, some loan documents may require that the loan be paid off on the first or last day of the month, or the full month of interest will be charged for the month in which the loan is paid off. If processing a new loan, make the new lender aware of this so that you avoid paying double interest during that month. Additionally, the existing loan documents may require giving the existing lender written notice of at least 30-60 days prior to paying off the loan. Again, this is a point to be aware of if processing a refinance or selling a property.

Even if the existing loan does not mature for another 12-24 months, it is only prudent, and strongly recommended, to start exploring options for refinancing now. Remember, lenders hate surprises; so manage the expectations of the current lender. If the loan is a balance sheet (not a conduit) loan, there may be greater flexibility in working directly with that lender to extend the term of the loan prior to hitting the wall at maturity, although this will most likely require full personal liability if that is not already the case. With a conduit loan, be aware that loan modifications cannot typically be made unless the loan is in default. This presents material issues to working something out and virtually assures that you'll have to be on the "brink" in order to do so. Thus, for a conduit loan in this environment, begin looking soon for refinancing alternatives and setting realistic goals in that regard.

If an extension is offered to an existing loan, request a written outline of any additional items the lender may require to grant the loan extension. Depending on the loan, the lender may require a partial pay down, shorter amortization, full recourse, an extension fee and/or re-setting of the interest rate as part of the loan extension.

In this economic environment it is critical to understand your specific loan terms, and any default risks they may pose, so you can plan accordingly. The “friendly banker” you knew five years ago may not be the one you will be dealing with tomorrow.

Financing “Challenged” Properties

In many circumstances, the properties that present the most attractive investment opportunities to investors also have major challenges relative to financing. These properties are even more difficult than usual to finance given the current lending environment. Pursuing these opportunities (or properties) may require rethinking the original business plan. More equity and/or a personal guarantee from a financially strong partner may be required.

Many investors are now asking questions with regard to how lenders will approach these “upside opportunity” or “turnaround” property acquisitions from an underwriting perspective. These topics may also be relevant to a borrower seeking to refinance a property. Listed below are some common questions, along with responses.

Q: I want to purchase a property that is currently 25% vacant. Will anyone lend on a property with that much vacancy?

A: In today’s market, most lenders require that a manufactured home community be 90% occupied or higher before considering it for permanent financing. If you are looking at acquiring a property with a high vacancy level, you will likely have to do so with a shorter term construction or bridge loan. Because higher vacancy properties are inherently riskier than seasoned, stabilized properties, these loans will typically require a personal guarantee from the borrower versus a guarantee limited to “bad boy” carveouts, which you will often receive on permanent loans with lenders such as Fannie Mae.

Furthermore, because high vacancy properties are typically low on cash flow, redevelopment and bridge loans will often require a debt service reserve. A debt service reserve is a fund in which moneys are set aside by a borrower to make entire or partial loan payments when the cash flow generated by operations is insufficient to satisfy the debt service payments. The debt service reserve fund is usually funded at the close of the loan or it can be structured as an accrual that increases the loan balance.

An alternative approach to a debt service reserve fund that is generally accepted by lenders is to have the borrower post a letter of credit for the shortfall in loan amount. The letter of credit burns off or is removed as the property’s cash flow increases. The challenge of this approach is that obtaining a letter of credit typically requires that an equivalent amount of liquid collateral is pledged while the letter of credit is outstanding.

If a borrower cannot find a lender willing to make the loan under any circumstances, a fall back option could be seller financing, in which the seller of the property acts as a lender to the purchaser. This approach has become more common as of late as the pool of lenders willing to finance challenged properties has thinned out.

Q: I am considering buying a community with 50% park-owned rental homes. How would a lender underwrite these homes? Can I offer them as collateral to obtain a higher loan amount?

A: Lenders prefer communities with resident-owned homes. When residents own their homes they have a vested interest in the home, and the community typically reflects "pride of ownership." Furthermore, park-owned rental homes are personal property and, as such, real estate lenders typically do not want them as collateral for a loan they are making on a community, and prefer (sometimes require) that the park-owned homes be held in an ownership entity separate from that which owns the community. Another reason that real estate lenders are reluctant to take park-owned homes as collateral is because they would come along with various loan servicing obligations (taxes, insurance, release from collateral when a home is sold, etc.). All that being said, a high concentration of park-owned rental homes within a community does not necessarily mean that the property will not qualify for financing. However, there are some underwriting guidelines or adjustments to take into consideration.

Because lenders do not take homes as collateral, when underwriting cash flow from a manufactured home community, they will usually give credit for site rent only and will not include extra income derived from the park-owned rental homes. Obviously, this will have a negative impact on the resulting cash flow available for underwriting a loan. But all is not lost. On the expense side, for instance, underwriters will remove any expenses related to the operations of the park-owned rental homes. This adjustment helps offset some of the cash flow lost for loan underwriting as a result of removing the excess income from the park-owned rental homes. To make this adjustment a simple one, it is helpful if the owner can separate the expenses related to the rental homes on the operating statements. Such expenses can include repairs and maintenance, supplies, personal property taxes, and even payroll for personnel working on the homes. After removing both income and expenses related to the park-owned homes, the resulting cash flow number is what the lender will use to determine what loan amount the community can support. Often times the specific income and expenses related to the park-owned homes are about even. Again, by owning and operating the park-owned rental homes in a separate entity, it is easier to identify the income and expenses related to the homes.

Q: Can I finance a property on a ground lease (leasehold interest) and what issues affect financing?

A: Generally, lenders prefer leases that provide certainty as to what the future lease payments will be. For example, a stated percentage increase is preferred to an increase based on future reappraisal. Loan terms such as the amortization period are also a function of the length of the ground lease, as the loan needs to fully amortize prior to lease termination. Lease provisions such as lender notification on default and right to cure provision are also critical to loan underwriters. Early in the due diligence process, you should have an experienced attorney or lender review the ground lease for "lender provisions." Leasehold interests can be financed and typically trade at a higher capitalization rate versus a fee interest so a shorter amortization may still be feasible. Since it is usually difficult to obtain changes in the ground lease from the ground lessor, we recommend an early review of the entire ground lease.

Q: When acquiring a community with both existing improvements and expansion sites, what financing options are available?

A: Ideally the property will be separated into at least two parcels: a parcel consisting of the existing sites and separate expansion parcel(s) consisting of the to-be-developed sites. This enables the borrower to obtain attractive, non-recourse permanent financing on current improvements while not encumbering the expansion parcel. This way the permanent loan is underwritten based on cash flow from existing sites. There is little benefit gained by including the expansion parcel in the permanent loan collateral since unimproved land does not generate cash flow. If the value of the existing "operating" property supports the loan request, there is simply no reason to include the expansion property. Actually, there is every reason to *exclude* the expansion parcel since it is "trapped" by the lien of the mortgage, and at best is subject to release requirements. There may also be prepayment penalty considerations. By putting in place cross-easements and reciprocal use agreements (should there be any common amenities or facilities that benefit both parcels), the owner can finance the expansion parcel later with a separate construction or bridge loan and, thereafter, its own permanent loan.

Q: What are my financing options for loan amounts below $1 million?

A: For loans of this size, a borrower will likely need to work with a small local bank on a refinance, or obtain seller financing on an acquisition. The larger institutional lenders are typically not willing to do smaller loans due to economy of scale issues unless, perhaps, the borrower has a substantial existing relationship with the lender or is simultaneously financing another larger property.

A borrower pursuing a transaction with a local bank will typically have a higher interest rate along with the requirement of a personal guarantee, but the total transaction costs (third party reports, legal, etc.) are typically much less than what would be the case with an institutional lender.

Q: Can I finance an RV resort or an MHC that has an RV section?

A: RV resorts that are 100% transient (no annual tenants) are very challenging to finance in today's environment. Conduit lenders had been willing to financing some of these properties in the past, but as we discussed earlier, conduit lenders are now a thing of the past. If a portfolio lender is willing to finance a property with this profile, a large bank relationship will most likely be a requirement along with a personal guarantee on the loan.

RV resorts with minimal transient occupancy and a high level of annual tenancy with park model units may find a few more lending options available, although still not a lot. Annual tenants and park model units at the very least provide lenders with a perception of a more stable cash flow that what is found on 100% transient RV resorts. Nonetheless, a full or partial guarantee of the loan would most likely be required by a lender.

Manufactured home communities that have a limited RV section will be accepted by most MHC lenders, but the loan terms may not be as attractive as what a borrower would find on a property that is 100% MHC. Fannie Mae, for example, is willing to lend on MHCs with an RV section, however, they will limit the amount of rental income from the RV section to no more than 10% of total income for underwriting purposes.

Q: My property is located in a 100-year flood plain. How will this affect my financing options?

A: First, a distinction needs to be made as to what part of the property is situated within the flood plain. Is it vacant land, a small lake, or the retention pond that is within the flood plain? If so, then these alone would not cause an issue from a financing perspective.

Are any structures (i.e., clubhouse, maintenance building) located in the flood plain? If so, then you will almost certainly need flood insurance for these structures. However, since these structures are typically a small percentage of the total value of a manufactured home community, it is usually not too expensive to have the necessary flood coverage added to the existing insurance policy.

Are any home sites located in the flood plain? If so, then the issue can become more significant. Some lenders, such as Fannie Mae, make a distinction between the home site being in the flood plain versus the actual floor of the home being below the flood plain. In some states, such as Florida, a registered surveyor must supply an affidavit that the floor of a home is above the flood plain in order for a home dealer or a home owner to obtain a certificate of occupancy. If the home site is in a designated flood plain, but the surveyor can show that the floor of the home itself is above the flood plain, then often times the lender will not require anything further. The worst case scenario is when the floor of the home is below the flood plain. In this instance, the lender may exclude that home site from underwriting – that is, no income will be attributed to the home site – or apply a higher vacancy factor. This can have serious repercussions on the financeability of a property when more than just a handful of the homes are located below the flood plain.

Other factors that lenders will take into consideration include the source of potential flooding (a pond or lake is of less concern than running water from a river), any history of flooding at the property, and the borrower's financial strength.

The situations described previously are just a few of a myriad of potential obstacles that may arise with "challenged" properties. With some analysis, however, you may find financing structures that, though they may be different from your initial goal, may end up fulfilling your ultimate financing objective.

Section 3: Food for Thought

Revitalizing Your Property Via Financing

Is your manufactured home community in need of a makeover? If so, consider tapping into the equity built up in the property during the ownership tenure. Refinancing a manufactured home community can be a great way to access this equity, which can then be used to revitalize and/or reposition the property. By putting money back into the property, the property's value can be enhanced through a combination of increased cash flow and market appeal.

Why should a community owner consider revitalizing his or her property? The reasons are varied and may include some of the following:

Preventing physical obsolescence

To maintain occupancy and achieve higher rental rates, community owners need to make sure that their properties are well-positioned within the market. One of the improvements an owner may consider making to his or her property is combining smaller sites to create larger lots capable of accommodating today's more modern homes. The owner can then replace older homes within the community in order to attract a higher quality resident base as well as justify charging higher lot rents.

Improving curb appeal

If a community owner is looking to attract new residents or implement a lot rent increase, he or she may want to consider making upgrades to the property's infrastructure (roads, utilities, landscaping, etc.) as well as renovating or adding various property amenities (clubhouse, laundry facilities, pool, playground, etc.). Both of these actions may ultimately lead to higher rents and/or occupancy rates for the property owner. Furthermore, making such improvements to a property is a proactive defense against "failure to maintain" lawsuits. Lastly, a higher quality property will ultimately be sold at a lower capitalization rate.

Reduce operating expenses

Raising rents is not the only way a property owner can improve his or her property's cash flow. Another strategy may be to lower overall expenses. If a community owner spends the necessary money to upgrade the property's utility systems, for example, this may result in a lower ongoing utility expense at the property for years to come. Examples include repairing water leaks and upgrading electrical systems, which can reduce on-going maintenance expense and lower utility bills. Sub-metering utilities can also result in a lower net expense for the property owner. Similarly, if a community owner resurfaces roads within the property, this may result in a lower ongoing repair expense as patching would not need to be done as frequently.

Curing Deferred Maintenance

If a borrower is purchasing a "turnaround" property, the lender may want assurance that certain capital improvements are completed. If your goal is to minimize the amount of equity invested, it may be possible to get the lender to agree to increase the loan amount to cover a pro-rata portion of the to-be-completed improvements. In turn, the lender may require that the improvement funds be held in an escrow account at closing until such improvements are completed. The typical approach is that the property owner pays the contractor upon completion of the improvements, and then submits to the lender evidence of completion and payment of the improvements *before* being reimbursed by the funds held in escrow. In some circumstances, however, the lender may agree to accept an invoice for work completed and disburse the escrowed funds directly to the contractor. This can be an advantageous structure because the borrower would not have to raise additional capital to pay the contractor first and then wait for a reimbursement from escrow.

It is important to note that a capital improvement plan needs to be incorporated as part of a financing or business plan. Capital improvements can help a borrower get a better interest rate, improved amortization or interest-only periods, and can help a marginal asset qualify for a particular loan program where asset quality is a major part of the underwriting requirement. As discussed above, it may be possible in the purchase transaction to finance capital improvements as part of the loan proceeds so long as the appraisal supports purchase price plus costs. Taking advantage of this opportunity may help improve the quality and value of the asset shortly after the financing transaction.

Revitalizing your manufactured home community can create value by increasing cash flow and lowering the cap rate a prospective buyer is willing to pay. If you are interested in refinancing your community for revitalization, you should consult an experienced manufactured home community lender to identify which loan programs may work best for you and/or answer any questions you may have regarding your property.

The Importance of an As-Built Survey

An as-built survey is a document that verifies, to a regulatory agency, a constructed project has indeed been built by the contractor the way the engineer's design specified it to be built. It shows all of the improvements in their constructed locations, and is often required when obtaining a loan on a property.

An as-built survey is important for several reasons. A survey not only locates the physical features that were built, but also the property corners, which allows the depiction of the boundary lines on a certified map. A survey can also function as emergency construction plans to repair damaged improvements caused by natural or man-made disasters. Finally, and probably most importantly, a survey can help a Title Company insure the correct property.

Title insurers will often issue a loan policy without a survey. Title insurers search the records only for the property description provided by the customer. If this description is incomplete, title to a portion of the property may not be searched. The following two examples will help illustrate this point:

In one instance, a purchase transaction, a property owner initially provided an old metes and bounds legal description. An as-built survey was then ordered and when the survey arrived, it was discovered that the supplied metes and bounds legal description described only a parking lot and not the building being sold.

In another transaction, the owner of a number of contiguous lots being developed conveyed one of the parcels to a third party, but mistakenly used a legal description from before the final site plan was approved. As a result, the retained property was about 10 feet less on the common boundary than approved under the final site plan. When built, the building encroached into the required setback by that amount. The title work appeared clean until the surveyor performed the as-built survey.

While it may appear that you are saving money initially by not having an as-built survey performed, the cost may be a lot more down the road. It is typically in the property owner's best interest to know everything about his or her property and how it relates to any adjoining properties.

Appendix

MANUFACTURED HOME COMMUNITY QUESTIONNAIRE

Property Name:____

Address (include zip code):____

Prepared For: Wells Fargo Bank

Prepared By:____

Age of Property:__________ Number of Sites:__________ Acreage:__________

Tenant Profile: _____% Family_____% Adult (Age restricted? Y/N)

Occupancy: ______% Current ______% Last Year______% Year Before Last

Is this property in lease-up or expanding:________ (If yes, please explain):

Nearest Town/City (include closest city in excess of 100,000): ____________

Is your property under rent control: ____ If yes, please explain:

Is any of the property on a ground lease: ______

How many of the homes are owned by the property: ___________

Approximate number or percentage of homes currently for sale: __________

What is the average age of the homes: __________

How many are multi-section: _______ How many are single-section: _______

How many sites can <u>accommodate</u> multi-section homes: ________

Do tenants sign leases: ________   Term of Lease: ________

When are rents expected to increase next: ________   How much: ________

Do all rents increase in same month or anniversary date: ________

Are there any rent concessions: ________   If so, please explain:

Amount of historical rent increases for the last 3 years:

Do the rent increases go into effect on the lease anniversary dates or at a specific time:

What are the amenities:

Are the water and sewer connected to a municipal system: _______ If not, please explain:

What utilities are included in the rent: ___________________________

How many cars can park off the street at each home: _____

Is the property in a flood plain: ________

Please list on a separate schedule any capital improvements made to the property in the previous 3 years (year, improvement description, dollar amount):

BORROWER:

Name of the Borrowing Entity: __________________________

Type of Entity: LLC_______ Individual_________Other___________

Is this a single asset entity: _____

Who are the principals (managing members or partners with 20% or more ownership):

Do you have any negative credit information (i.e. bankruptcy, foreclosure etc.)? ________

If so, please explain with an attachment.

What is the current debt on the property: ___________ Do you have a prepayment penalty? _______ If yes, approximately how much? ____________

What is the current note due date, and who is the lender: ________________

Loan Quote Checklist

Please provide the following items in order for us to provide you with loan quotes:

1. **A current rent roll**
2. **Income & Expense Statement for each of the last three years and the current year-to-date**
3. **Resume (brief outline of commercial real estate experience) and personal financial statement(s) of main Principal(s)**
4. **Property photos**

Complete and return this questionnaire and related information to:

Wells Fargo Bank
Attn: Tony Petosa and Nick Bertino
5938 Priestly Drive, Suite 102
Carlsbad, CA 92008
Phone: (760) 438-2153
Fax: (760) 438-8710
Email: tpetosa@wellsfargo.com or nick.bertino@wellsfargo.com

HISTORICAL MHC LENDING VOLUME

Numbers shown in millions of $

Lenders	2000	2001	2002	2003	2004	2005	2006	2007	2008	Totals
Wells Fargo Bank	231	182	125	376	679	207	869	629	418	4,016
GE Real Estate	225	260	200	295	220	544	515	535	495	3,289
Capmark	0	0	300	300	500	762	335	207	79	2,483
Onyx (AIG)	210	225	225	212	225	325	285	265	185	2,157
Grandbridge	264	200	164	336	87	148	114	93.5	109	1,516
Union Capital	46	26	75	285	215	200	222	251	0	1,320
Tremont Realty	24	63	74	132	127	227	236	197	163	1,243
LaSalle Bank	0	0	0	0	250	350	450	0	0	1,050
Northwestern Mutual	48	86	13	132	197	197	51	95.6	40	860
PNC/ARCS	0	0	0	18	423	138	120	71	89	859
Dillon Reed	0	0	100	54	133	97	125	0	0	509
Bankers Mutual	0	0	0	0	0	0	39	43	30	112
Green Park Financial	0	0	0	18	35	4	22	0	0	79
Great Northern	0	0	0	0	0	0	0	60	0	60
National Apartment Finance	0	0	0	0	0	0	19	23.5	0	43
Bond Street Capital	0	0	0	0	0	0	20	0	0	20
First Bank of Illinois	0	0	0	0	0	0	0	5.3	13	18
Total Lenders	1,048	1,042	1,276	2,158	3,091	3,499	3,422	2,476	1,621	19,633

Source: George Allen, National Registry of Land Lease Community Lenders

Glossary of Lending Terms

All-in Rate: The interest rate charged to a borrower on a loan. The all-in rate includes the benchmark rate used to set the loan, such as the 10-year Treasury rate, plus the spread charged by the lender.

Amortization: The reduction of debt by installments over a given period of time. Amortization is the calculation of equal monthly payments that pay off the debt and interest charged on a loan, and is usually expressed in years.

Assumability: A loan that is capable of being transferred to a new borrower with no change in rate or terms of the loan. It also allows a borrower to sell a property and avoid paying a prepayment penalty because the loan is being transferred, and not paid off. An assumption fee typically applies.

Basis Point (BP): A basis point is 1/100th of 1%. Example: 25 basis points are equal to 0.25%.

Capitalization Rate: a capitalization or cap rate is the yield on an investment if paid for all cash. The cap rate is calculated by dividing the net operating income by the purchase price of the property.

Carve-outs: These are exceptions to non-recourse provisions – where the loan is non-recourse except for lender losses caused by certain acts of the borrower. Examples of triggering events would be unlawful use of insurance proceeds (the property burns down and the borrower does not rebuild) and misappropriation of funds (rents collected by the borrower after they have already lost title to the property). These are sometimes referred to as the “bad boy” carve-outs as the borrower usually has to actively do something to impair the collateral and trigger recourse

Debt Service Coverage Ratio (DSCR): An underwriting formula that is a parameter used to determine loan size and spread based on cash flow. The calculation is net operating income divided by loan payment. For lenders, the higher the DSCR, the less risk it is taking on the loan.

Government-sponsored Enterprises (GSEs): GSEs are financial institutions that were created by the U.S. Congress to provide liquidity in a given market segment. Fannie Mae, Freddie Mac and HUD are examples of GSEs.

Holdback: A portion of the loan that is not released to the borrower until an additional requirement is met. A common example would be a holdback for a physical improvement related to deferred maintenance.

Loan to Value (LTV): An underwriting calculation that measures the amount of a loan as a percentage of the property’s appraised value.

Net Operating Income (NOI): The NOI of a property is used to determine the calculation of the DSCR of a property. NOI is typically calculated using in place income being collected less stabilized operating expenses, but not including debt service, amortization or depreciation. Expense deductions would also include a management fee (even if not charged) and replacement reserve allowance.

Non-Recourse Debt: A type of debt wherein the principal(s) does not have personal liability for the loan. If the borrower defaults, the lender can seize the collateral (the property), but cannot seek further compensation, regardless of whether that collateral covers the full value of the defaulted amount, except in the event of violation of a carveout.

Recourse Debt: Repayment of the loan is guaranteed by personal assets of any principal guaranteeing a recourse loan. This provides additional collateral and source of repayment beyond the property.

Replacement Reserve: An allowance for long term improvements at a property that is a deduction (expense) included by lender in underwriting (NOI calculation). Funds may be collected into an account to be disbursed for these defined improvements, or it may only be a deduction made for underwriting. MHCs typically have annual replacement reserves of between $25 and $65 per site per year.

Single Purpose Entity: Lenders often require each property to be owned by a separate single purpose entity (SPE). This entity would not own other (material) assets or conduct other business. That way, if any of the borrower's other assets should have a problem and be forced into bankruptcy, then the subject property could not be consolidated with the distressed property and used as collateral to pay off that debt. Such entities are known as "bankruptcy remote."

Spread: The amount charged by a lender over a defined benchmark. The spread is one component of the all-in interest rate.

Subordinate Debt: A form of debt that ranks below other loans in terms of repayment priority. If a borrower defaults, subordinate debt providers would typically receive payment only after the senior debt is paid off in full.

Third Party Reports: Usually ordered by the lender during the closing process, these would include appraisal, environmental and property condition (engineering assessment) reports.

Yield Maintenance: A prepayment calculated on the basis that the lender will receive early payoff of the funds and re-invest those funds for the balance of the loan term in U.S. Treasuries. The borrower is required to pay the difference between the interest rate and the treasury yield at the time of prepayment (the "yield maintenance") for the balance of the loan term. This is a common prepayment penalty used with fixed rate term loans.

Wells Fargo Bank specializes in financing manufactured home communities ("MHC"), offering Fannie Mae and portfolio lending programs. Since 2000, Wells Fargo has originated in excess of $4.0 billion in financing within the MHC sector. Wells Fargo was named Community Lender of the Year, three years in a row, by the Manufactured Housing Institute; and since 2000, has been #1 in total loan volume origination according to George Allen's annual National Registry of Land-Lease Community Lenders.

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