



## **Economic Impact Analysis Virginia Department of Planning and Budget**

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### **13 VAC 6-20 – Manufactured Housing Licensing and transaction Recovery Fund Regulations Department of Housing and Community Development September 26, 2005**

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The Department of Planning and Budget (DPB) has analyzed the economic impact of this proposed regulation in accordance with Section 2.2-4007.H of the Administrative Process Act and Executive Order Number 21 (02). Section 2.2-4007.H requires that such economic impact analyses include, but need not be limited to, the projected number of businesses or other entities to whom the regulation would apply, the identity of any localities and types of businesses or other entities particularly affected, the projected number of persons and employment positions to be affected, the projected costs to affected businesses or entities to implement or comply with the regulation, and the impact on the use and value of private property. The analysis presented below represents DPB's best estimate of these economic impacts.

### **Summary of the Proposed Regulation**

The Virginia Manufactured Housing Board (board) proposes to amend the regulatory definition of "new manufactured home" to incorporate a change made in the Code of Virginia during the last legislative session. Additionally, the board proposes to change this regulation to eliminate references to another, now repealed, regulation (Industrialized Building and Manufactured Home Safety Regulations) and insert references to the appropriate replacement regulation number and title (13 VAC 5-95: Manufactured Home Safety Regulations).

### **Estimated Economic Impact**

During the last few years, the manufactured home industry has been in a downward spiral. Wholesale shipments of manufactured homes fell about 65% nationwide from 1998 to

2004, from 372,000 to 130,802.<sup>1</sup> This reduction in wholesale home shipments has mirrored a corresponding decline in retail manufactured home sales. Several sources<sup>2</sup> attribute the decline in manufactured home sales to customer base demographics; elderly people on fixed incomes and younger people with low incomes and/or spotty credit records are the most likely purchasers of manufactured homes. During the last economic downturn, these groups had increased home loan default rates even though the housing market in general was a particularly robust bright spot in an otherwise sluggish economy. These increased default rates led to tightening credit requirements in the sector of the lending industry that handles manufactured home loans.

Because of these prevailing dynamics in the manufactured home market, some retail sellers of manufactured homes have gone out of business and had their sales stock resold at wholesale auction to other retail sellers. This sales stock was typically at least several years old. Other retail sellers moved stock that sat unsold for years by wholesale reselling to retail sellers in other states that had less weak manufactured home markets.

Under current regulation and old statute, all these manufactured homes could be sold as new, with all mandatory new home warranties from the manufacturer, so long as they had not been previously sold at the retail level. This has been true for all homes no matter how long the span between the time the home is manufactured and the time it is sold to the end homeowner, and no matter how many times the home has been moved and subjected to wear and tear because of resale at the wholesale level.

Pursuant to Legislation passed during the 2005 General Assembly session (Code of Virginia section 36-85.16), the board proposes to place a cap of two years on the time in which a manufactured home can be sold as a new manufactured home at the retail level.

This means that retail purchasers of manufactured homes that are more than two years old will receive more complete information, in the form of written notice of the home's used status and lack of general warranty, from the retail seller. Although purchasers of homes more than two years old will lose the benefit of a mandatory one year warranty, they will gain the ability to make informed decisions about their purchase. Consumers can use this information, for instance,

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<sup>1</sup>These numbers were obtained from the Virginia Manufactured and Modular Housing Association and represent total domestic shipments of manufactured homes.

<sup>2</sup> Larry Barrett of *Baseline* Magazine and the 10-K annual report for Cavalier Homes Incorporated, released on March 31, 2005, are two of those sources.

to negotiate a purchase price that is more appropriate for a used home rather than paying full retail price. They also will be more alert for problems with the home that arise from more frequent movement and use. The proposed regulation is likely to provide a net benefit for retail purchasers of manufactured homes.

The proposed regulatory change is likely to benefit manufacturers of these homes as well. They will not have to cover the repairs of manufactured homes as if they were new when, in reality, they had been subject to wear and tear at the wholesale level for as many as 4 or 5 years.

Retail sellers of manufactured homes will likely lose revenue in the short run because they will have to sell as used homes that they currently market as new. This loss is likely to only be accrued in the short run. In the long run, retail sellers will be motivated to more tightly control their inventory so that homes can be sold in a more timely fashion. This regulatory change is likely to provide a net benefit to the citizens of Virginia.

## **Businesses and Entities Affected**

There are 3 factories that produce manufactured homes and operate in the Commonwealth. An additional 50 manufacturers are licensed to sell their homes to retail dealers in Virginia. There are 266 licensed retail sellers of manufactured homes in the Commonwealth. All of these businesses and all retail purchasers of manufactured homes will be affected by this regulatory change.

## **Localities Particularly Affected**

All localities in the Commonwealth will be affected by the proposed regulation.

## **Projected Impact on Employment**

The proposed regulation's impact on employment is likely to be slightly negative, at least in the short run. Revenues for retail dealers of manufactured homes are likely to fall in the short run which may lead to fewer employment opportunities in this field. As retail dealers tighten inventories in response to the proposed regulation, wholesale orders are likely to fall which may lead to fewer employment opportunities in factories that produce manufactured homes. This loss will be at least partially offset by decreased costs associated with mandatory warranties that will no longer have to be provided for manufactured homes more than two years old.

## **Effects on the Use and Value of Private Property**

Revenues for retail dealers of manufactured homes are likely to fall in the short run. As retail dealers tighten inventories in response to the proposed regulation, wholesale orders are likely to fall which will decrease revenues for the manufacturers of these homes. This loss will be at least partially offset by decreased costs associated with mandatory warranties that will no longer have to be provided for manufactured homes more than two years old.

## **Small Businesses: Costs and Other Effects**

There are 3 factories that produce manufactured homes and operate in the Commonwealth. An additional 50 manufacturers are licensed to sell their homes to retail dealers in Virginia. There are 266 licensed retail sellers of manufactured homes in the Commonwealth. All of these are small businesses with less than 500 employees. Since the date of manufacture is easily accessible in the paperwork that is already required for a manufactured home sale, there should be no reporting or recordkeeping costs. Retail sellers of manufactured homes will incur minor administrative costs in generating the required notice of used status for the purchaser.

## **Small Businesses: Alternative Method that Minimizes Adverse Impact**

The proposed regulatory change is mandated by legislative code change and is not subject to alteration by the board.