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Inside this issue:

"CHART #58"

Marty's News & Notes

Featuring news about the Factory-Built Housing Industry
And all the news that's fun to read…

The Paris Las Vegas Hotel saw over 1,500 attendees for the April 18-20 National Congress and Expo for Manufactured and Modular Housing. I attended, and niched around a number of appointments, spoke with as many participants in as many industry segments as I could. I'll weave some of my meetings into my remarks so you can get a flavor of the comments flowing there.

This meeting is undoubtedly the largest conference in the industry, featuring a large display area, numerous educational seminars, and luncheon meetings with presentations. Highlights this year for the meeting were the presentation by Tom Halford of Whirlpool Corp. and Sam Zell, the Chicago REIT King and multi-billionaire.

Awards

Eagerly awaited by the industry were the annual awards presentation for industry excellence sponsored by the **Propane Education and Research Council** (PERC), which has sponsored this luncheon for many years. PERC's generosity during these lean times is to be appreciated, as is the generosity of all the event sponsors, large and small.

Rita Pecilunas, the PERC representative introduced the awards with a concise recap of how propane fuel has advantages for factory-built housing and revealing future initiatives to advance their growing penetration in FBH, especially HUDCode.

With the popular **"Propane Guy"** campaign, we've seen the wide popularization of a pretty mundane product into the consciousness of many. With the witty, but educational ads, on T.V., and other media, they have exposed the benefits of propane to many.

Geez, I wonder if there is any lesson in the example propane has set with its campaign and my continual call (and that of others) for an MH industry image campaign to educate the public on the important role FBH plays in our country's housing. This all to blunt the obvious bias against our homes, which is growing, not lessening. Think it's time?

Image

Apparently **Chris Stinebert, MHI President** does, as his industry speech at the awards luncheon revealed. He is thinking about how it should be done. MHI will be interweaving the **J. D. Powers Consumer Satisfaction Index**, about

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to be conducted on the satisfaction of our homes to home buyers, to be followed by an image campaign. In my July, 2003 newsletter I advocated "A complete (image) campaign, professionally done, building this industry's image must be the cornerstone of changing public perceptions for the better." I advocated originally that we correct our many industry flaws first. But many public misperceptions are untrue and can only be corrected by educating the public. We have no real method to do that now except an ad hoc response. Insufficient.

Start now

So I've amended my belief. By the time we get our business model fixed, years could go by before we start. We don't have years to spare. The image campaign is so vital that we need to commence it immediately. Yes, I want our industry defects corrected, but many of the current media and general public misperception are untrue now and those need to be addressed before more strangleholds are heaped on our already full plate of HUDCode restrictions brought about by misperception.

Stinebert spoke with me as I quickly accosted him about the image campaign shortly before the conference started. The sly fox never told me that he already had the image campaign as a keynote part of his general address the next day. Poor Chris must shudder when he sees Ole Marty Boy headed towards him with "suggestions" as to things the industry should be doing.

Winners

Oh, the awards? The usual cast of characters won them, although I thought there was significantly more balance this year throughout the winners. The two big ones went to **Kevin Clayton of Clayton Homes**, as **Industry Person of the Year** and **Palm Harbor Homes** as the **Builders.** Both well deserved. Every winner of every category is to be congratulated, including my faithful reader, Bob Wolfe of California, who won for his land lease community in Michigan.

Zell Speaks

Real estate industry legend, and colorful character, **Sam Zell** of Chicago, drew a huge crowd for his keynote speech on Thursday morning in front of what I estimated to be at least 1,000 people. There wasn't an empty seat there and many were standing, in a huge hall. Sam is the "managing partner" of **Equity Life Style Properties**, the huge RV-HUDCode park owners.

Mr. Zell showed himself to be widely traveled, extremely well versed in world trends in commerce, and in the existence, movement and cost of capital. The money, of course, being necessary for his business, you would expect him to be well versed. His views were carefully orchestrated, presented with wit, and understandable. Frankly, most I spoke with fully enjoyed the presentation, as did I.

Unhappy

There was one uncomfortable moment as Zell was blindsided by an individual who wanted to impute he had an obligation to take financial care of a resident in one of his communities. That obligation arose from the fact the financially troubled resident just happened to be one of his residents. Having encountered the same question at times in my rental properties, I fully understood. Most attendees were aghast that this type of self-serving question would be asked of Zell in an evident attempt to embarrass him in front of a large group. The effort failed.

Oh!

A humorous side note was a betting pool to guess how many times Zell would use the "F" word during his speech. Not being a Zell watcher, I did not know he is famous for it. The average pool bet was for four uses of the word, but I counted only two. Oh, f _ _ k!

Concurrence

My most enduring impression and biggest surprise: if you got a copy of his speech and compared his remarks against the same subject matter in my five and one-half years of newsletters and 33 major articles, you'd be hard pressed to find clearly conflicting views. I didn't expect that. At least if I'm wrong, I'm in good company. (Ah, you won't get a copy of his speech, written or visual, as Mr. Zell does not allow it. I did see and have some good contemporaneous notes, courtesy of **Rick Rand**.)

CHART #58

I moderated a seminar on chattel lending with a stellar array of chattel lending experts. The **chattel superstars** joining me on the stage were **Jed Gleim, Senior Vice President of Triad Financial**, the MHI 2006, and multi-year winner of **Regional Lender of the Year Award** (Jed was substituting for Triad President Don Glisson, Jr. who had a last minute conflict); **Andy Griggs, COO of CU Factory Built Lending**, Andy being a long-time industry lender; **Ron Klein, Origen Financial CEO and Mr. ABS** on Wall Street; and **Tim Williams**, the recent **Totaro Award** recipient for lifetime lending achievement, and **President of 21st Mortgage**, the **2006 National Lender of the Year**.

In appreciation of the on-stage talent, an extremely large and attentive crowd attended and joined in with questions at the end. Though I held the meeting over for at least 15 minutes, not enough time existed to answer all questions, most of which were resolved one-on-one after the meeting. **Ann Parman of MHI** who worked hard to draw this all together, was very pleased with the big crowd attending.

The Essence

If I can quickly quote the essence of the general seminar, I'll synthesis.

1. Expect few chattel financing changes over the next few years. There is nothing on the horizon to change the present conditions.

2. While MH ABS bonds constituted about one tenth of one percent of all ABS bonds over the last 10 years, they represent at least *70% of all bond downgrades in quality*. (Read investor losses here.) Our bonds even performed worse than those secured by Sub-prime Condom sales. Yikes!

3. Lenders are staying up nights trying to structure more accommodative chattel financing and find a way to still keep their brains in their skull caps. While each of the participants wants and needs more volume, only on the margins have advances been made to be more accommodative. Lenders have prophylactically protected themselves against losses with high FICOs and/or myriads of other relevant factors and requirements. Baring substantial industry model change, chattel lending is unlikely to have any "breakthrough" measures creating loan safety and security coupled with greatly increased volume.

4. And finally, Chart #58 (the former chart #42). What's this? The slide presentation accompanying the chattel lending panel's remarks contained a graph presented by Tim Williams, who has his numbers guy, **Rich Ray**, follow the defaults by site placements and FICO tiers. You can easily see that in our "big demand" credit segments (450-650 FICO), without uniquely geared underwriting guidelines to reduce exposure, lending to the under 700 FICO tier, especially in LLC's, is lethal. We suffer a very high default frequency, and when the home comes back, a substantial loss severity of the loan amount, often approaching a 70% loss (and even more), although the reduced repos have increased recovering somewhat recently. (See chart #58 on page 5 herein.)

5. Dig through chart #s 27 and 28, presented by Andy Griggs, and you see increased interest rates may not save you financially. Remember, even if repos don't take your financial capital, they take your employee's emotion capital. How many bleeping repos can you walk into before a waiter's job looks tempting? (Repos, Repos? I don't need no stinking repos!) By the way, if Grigg's chart confuses you and you need help, Andy's real patient. (phone #210-258-1631). (I'll be back to Chart #58 later.) (See **#27 and #28 on my web site here**) http://www.martylavin.com/presentations/personalproperty/Personal%20Property%20Final%204-19-06-1_files/frame.htm

Side Note

Oh, your reporter can at times be pretty thick. Like most, I know well that the late 1990's had seen a substantial new home inventory built-up. I don't know that anyone knows the full extent. I had conversations with **Jim Clifton**, former MHI economist and **John Diffendal**, the **B B and T** analyst, who followed these things, and they don't question that perhaps up to 100,000 homes per year built up in inventory in 1997, 1998 and 1999. In other words far more homes were being built and shipped than sold in the same period. (Yah, Marty, that's what inventory build-up is.)

Here is the point Ole Marty had missed, and the bulb went off as I prepared for the chattel lending seminar: *During a period of the most accommodative MH chattel financing I have seen in 34 years, we still weren't "selling" (as opposed to shipping), more than 250,000 homes in a year and based upon chart #58 performance, about 50% of the figure actually sold, should arguably never have been financed and were repossessed, leaving 125-135,000 homes as the real sales figure for those golden years of 1997-98-99. The shutdown came long before any of us woke up to it…*

Poppycock, you say! Well, the MHL Corp Annual Shipments contest had a 2006 consensus of 132,299 non-FEMA home shipments, and 2003-04 and 05 were at or around 125-130,000 actual non-FEMA home shipments. Sound familiar. It almost seems in retrospect the real '00, '01, and '02 sales were there too. Even then, still during a period of accommodative financing and the blow-out of over-inventory, real sales volume was still far less than the shipments figures. This really means that we have been Blinded by the Light of Shipments Figures, but repos don't lie.

Confirming, I speak with a broad tier of industry participants. I met and chatted with many of the readers of this newsletter in Vegas, many when I did not know prior to their introduction. Having been at MHI for many years, I know a wide spectrum of its long-time members. Discussion with many on the subject of shipments is a constant occurrence, as everyone is interested.

I can tell you that the general informal shipments estimate for this year confirms these of the MHL Corp shipments contest, ranging from 125,000 to 130,000 not more than 140,000. Shipments, like baseball games are not over till they are over for 2006, but.... It may be yet that the Great Interest Rate Hope will come raring out of the challenger's HUDCode corner and wallop site built housing. I don't think it will, but plenty of smart people think it will (or at least it could).

I can find no other catalyst, at least none I know, which could dramatically jump-start our volume of home sales, and most I speak with can't either, (except the prompt return of stupid chattel lending money by those who can't interpret Chart #58). Almost without exception, a year pushing into 140,000 non-FEMA HUDs would be considered a spectacular industry achievement for 2006, and I concur.

But more tellingly, when discussing our hope of returning to the 240-250,000, long term industry trend line of the pre-1994 years. I've yet to meet anyone who sees that happening soon.

None of this necessarily means that everyone out there is on the balls of his ass. Frankly, even though challenged, *many are doing OK*, having found a way to persist and succeed, adapting to a "permanently downsized industry".

(Oh Warren, Warren.)

THE TWO CAMPS

If AOL charged by the volume of emails, the last month would have been a lucrative period in HUD-ville for them. The volume and extent of industry emails, broken down into two camps, emerged with a vengeance, with charges of failure to "boost" the industry, lender collusion, and other perceived "conspiracies". Serious crap.

The two camps break neatly into those who believe an industry return to the "good ole days" are imminent and will correct all the seeming industry problems. These "Traditionalists" believe the reason we haven't returned yet is that lenders and others are conspiring to stop it. (To what end?)

The second camp feels that what you presently see is what you get, barring substantial changes in the industry model. These "Reformers" believe that our industry model is ill and could use some cures, and that we are unlikely to regain greater home sales volume without changes.

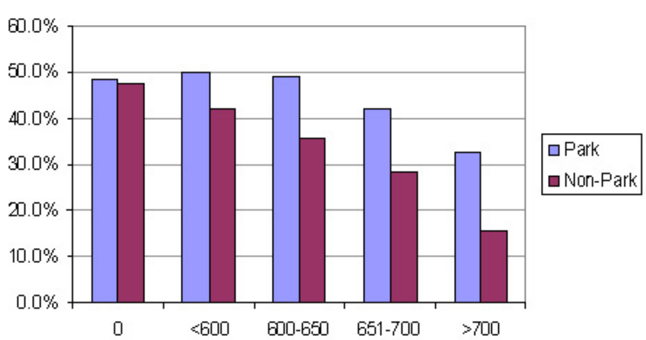
Clearly stated, the Traditionalists believe that HUDCode housing has provided affordable housing **without government subsidy** for fifty years. And the reason it can't provide it anymore is because people are standing in its way. Let's go back to the old ways!

I would be very much in favor of that except part of my eighth grade education included graph and chart reading and interpretation. Thus I know what Chart #58 means.

When I sent this chart out to several prominent industry members, one very intelligent individual retorted, "This is nothing new Marty. We all know this!" Really? And you still think lenders should engage in lending to tiers that are terminal? And lenders are criticized for not getting suckered in, once again? I see.

Government subsidy? No, there has been little industry subsidy from there. Work on them for more, we deserve and need it. But to impute there has been no industry subsidy neglects the untold billions of dollars pouring out of the eyes of lenders and bond investors, transferred from them to other industry segments. And for the time being, that is the reality. That is what Charter #58 means.

Cumulative Repossession rate,
Park vs. Non-Park, 95% LTV (1996-2005)



INDUSTRY CHATTER

The Don

Don Scarmuzzi, formerly of Origen Financial's Special Mortgage Projects, has exited the industry to return to conforming mortgages, where he spent 38 years working with Chemical Bank and Chase Manhattan. At Chemical/Chase he was last Sr. Vice President of MH Lending, very active in industry affairs, and the father of Lender's Best Practices (LBP). Don has rejoined Chase to originate mortgages in northern Ohio, again with the bank where he spent almost 40 years. Don is a gentleman of great ability and we could use more like him in the industry, not fewer.

A Famous Name

You have to hand it to **Myles Standish**, former head of the star-crossed Oakwood Homes Corporation, he is an intelligent and colorful man. Myles ascended to the top of Oakwood just 16 months before the bankruptcy guillotine fell. Hearing the inside story on what happened there was interesting and educational. It also confirmed many of my loan/lender observations above.

Myles is now the owner at **KIT HomeBuilders West**, up Caldwell, ID way. At KIT, Myles has gone up-market, with success occurring quickly. Looks like a good story brewing there. **www.kitwest.com** 208-454-5000 (sales).

Barry McCabe, of Hometown American, incoming MHI Chairman, revealed that he and his management team have agreed with their investors to diversify their property investments into property types other than LLC's, with Barry slated to head that effort. As he will continue with substantial MH responsibilities, he'll be fully current on industry affairs as he ascends the MHI throne, broadsword in hand, wearing chain linked armor, exhorting his MHI vassals to battle with our site-built competition. He might even find he may have to quell some "civil wars" as well. I predict his term will not be rocking chair easy.

Full Plate

He will see the start of the **J. D. Powers/CSI**, encounter the increasing clamor for an image campaign, inherit a chattel lending blow down, and suffer finding the Shining Path to Industry Salvation by candlelight. I expect an activist reign, with Barry urging such measures as he deems important, He is not a sit-still kind of guy.

Barry said "My new responsibilities will encompass alternate forms of real estate investment as well as new MH community development and potential liaisons within all segments of the MH industry."

Small lots, small homes

Phil Surles, ex-Big Shot at Champion Homes and now the owner of **Athens Park Homes** strode by early one morning, suitcase behind, off to LAS. Phil's always interesting and we chatted. Now, you LLC owners with older communities, listen up. For years I've heard the lament that no one builds a home sized to fit older community's home sites. Phil heard that too, and is building a pretty deluxe 16' x 48' HUDCode home, with good acceptance so far. While most have so far gone into retiree placements, Phil says he can down-market the fitments to create a far more affordable home for the working class folks. 903-677-0108 **psurles@athensparkhomes.com**.

Wall Street Types

I met with a prominent "Wall Street" analyst who follows some of our public MH enterprises. These guys (and girls) are all bright and comprehend enough of the industry to understand their segment's model. They are always eager to discuss industry trends. His complaint: too many industry-provided figures and data tend to be sketchy and unreliable. What? Noooo?!

Googling Marty Google

I was Googling myself, (no, it 's not done in the bathroom.) and up popped a quote of mine from the April 1, 2006 Houston Chronicle. I hadn't seen it. I was an expert witness on the case. The article is an interesting read on what happened in Houston, events there leading to the withdrawal from industry lending by a very large bank with formerly a strong MH presence and the affair heavily contributory to GSE changes in underwriting guidelines. (Tougher.)

What was the most interesting revelation in the article? That 67% of all homes had repossessed before the case was settled by the litigants. Think of the broken dreams of home ownership, families put into turmoil, children dropping out of schools and all the other ills caused by a loss of your home.

Defaults

Regardless of fault, and I know the arguments on both sides, in my opinion, close to 100% of these homes would have repossessed had the matter run its course. Even if there is enough blame to go around, when was the last time you heard of 1,400+ site-built homes, all sold within the span of about two year's time, located in a few close-by developments, defaulting at this rate? And yet, these real estate-secured conforming mortgage HUDCode homes defaulted with frightening regularity. Read it and weep. (Connect to my web site for the story at **www.martylavin.com**) An interesting side light to this story was it was to have appeared in the Chronicle the Sunday next after Katrina. This story was blown away by Katrina as was everything else.

Those Readers!

One of my loyal readers with a puckish attitude wrote me recently. He said, "Lavin, even though I find that newsletter rag of yours occasionally amusing, I don't believe it has anywhere near the power some claim it has. The thought you and it brought this industry to its knees because 225,000 potential new home retail customers annually got their hands on this mess, read it, and decided not to buy HUD-Code, is preposterous. No matter the claim of some, I don't put the loss of sales at over five homes annually, ten tops. And it may be less!"

"So don't think you are anywhere near as powerful as you pretend." Jeepers, I'm crushed. I thought I caused it.

The MHL Corp Annual Shipments Contest

I have nothing to report in this edition. With a seeming reduction occurring in the scope and speed of the flow of industry information, the shipments figures will not be available until the first week in May (May, already!), coming too late for this letter. I'll report progress in the next letter and sync my newsletter with the new reporting cycle.

Speaking of industry data, my work often includes dealing with industry data to determine planning and marketing data. To say the least, our industry data is pretty rudimentary. What little data is available is produced by MHI, IBTS and the bulk by the Census Bureau. The Census Bureau data sure ain't the best, but it beats nothing by a sizeable margin.

I was, therefore, highly disappointed when in my conversations with the Census Bureau folks at Vegas I found that funding for the Census Bureau to provide MH figures could be off the table for 2007, dooming the special MH reporting.

For those individuals happy with full ignorance of all relevant MH data, this would be good news. This would make those happy with 1950's industry conditions feel right at home. Those who actually like to know what is happening and like to engage in at least back-of-the-napkin planning, the loss of this data would be very damaging.

Again, our major competition, site built, is awash in data, a "data rich environment", as they say. Meanwhile Hudville is riding around in Fred Flintstone's square stoned push carts, cuneiform tablets in hand, again relegated to the oblivion of the back corner of a 1950's U.S. Route 1, trailer park in the shady part of West Palm Beach. It's enough to piss one off, and if it happens, another marginalization of the industry.

Where's my abacus?

I've asked Chris Stinebert and MHI to please get involved to save the data and will do so with Danny Ghorbani and his group as well.

And that's the way it seemed in Vegas to me, which brought some good and some bad, as with everything else in life.

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