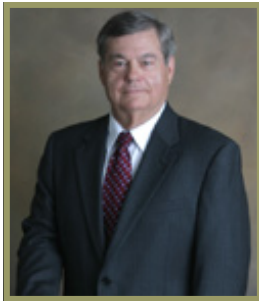


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Martin V. Lavin

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Marty’s News & Notes

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

KNOCK ME OVER

I was exchanging some emails with **John Grissim** (no, no, not Grisham), the consumer advocate and author of the “**Buyer’s Guide to Manufactured Homes & Land**” and “**Rating Guide to Manufactured Homes**”, and he sent an extremely interesting blurb. (360-683-1458, john@grissimguides.com, www.grissimguides.com)

Here’s what it said:

“Warren Buffett CEO: Kevin Clayton with Robert Miles

57 min 30 sec – Oct 7, 2006 Video

Average rating: ***** (44 ratings)

Description: Up close and personal interview with Kevin Clayton, CEO of Clayton Homes, the largest factory built homebuilder in the United States and a wholly owned subsidiary of Warren Buffett’s Berkshire Hathaway. For nearly one hour, author Robert Miles interviews Kevin Clayton and covers all aspects of the business from getting started, to taking over from his father, and to selling to Warren Buffett. This video may help the viewer understand the qualitative aspects that Warren Buffett may consider when making an investment.

This interview **may also showcase one of the eventual successors** to Warren Buffett.” (Emphasis mine.)

<http://video.google.com/videoplay?docid=-6298731715532653073>



Whoa, this had special meaning for me. In the first place, I am a big fan and admirer of **Warren Buffett**. While not an expert, I have read the manner in which he reviews investment opportunities and can’t understand why everyone doesn’t use the same matrix. Not only has it been a winner for him, but even barring his obvious super-human acumen and experience, it should work for other rational people with patience. That I firmly believe.

But the other person known to me in that paragraph, **Kevin Clayton**, is a long-time industry friend. We have transacted business in the past, agreeably so, and still get to trade information and thoughts, many of a highly confidential nature which we have both respected.

I first knew Kevin in the mid-1990’s when he was a bright young man, single, friendly, reporting to his fabled father, Jim Clayton, the colorful and highly successful \$\$\$ founder

of **Clayton Homes**. Dad had him winding his ways through the maze of the labyrinth at Clayton Homes, Kevin being in charge then of their lending subsidiary, **Vanderbilt Mortgage and Finance**. And he was learning rapidly from **Paul Nichols** and **Tim Williams**, both savvy lenders still at Berkshire/Clayton in financing today.

Kevin has always been smart enough to leave people alone whom he respected and were doing a good job for the company. I've written before about the terrific loyalty the "Clayton Team" has demonstrated for years. Much of this comes from the Clayton's leadership, charm and success, their associates and management feeding off each other. Success breeds success.

Kevin is the best listener I've ever dealt with. He "listens" to what you are saying, taking it all intently. He may say something or he may ask a quick question, but he listens, absorbed, all the while sizing you up. In a world where talking seems to be more popular than listening, this is a rare trait today.

In the interim, since my above recollections of the mid 1990's, much has happened at **Clayton Homes** (865-380-3000, www.claytonhomes.com). Before their sale of the company to Berkshire/Hathaway, Jim had appointed Kevin as President/CEO and it was Kevin who had to orchestrate that highly contentious sale of the company. You may remember some Clayton shareholders had such confidence in the Claytons that they refused to see that after 1998 the MH lending world changed dramatically, like a door opening and closing, and the careful Clayton/Vanderbilt sales and financing strategy, so successful before, was seriously endangered once the Wall Street ABS markets virtually closed the money window.

Today, getting \$1.5 billion or more in the ABS markets for MH receivables would be a significant challenge. Ask the boys at **Origen Financial** (800-492-1874, www.origenfinancial.com) or **CountryPlace Mortgage** (972-764-9200, www.palmharbor.com/our-services/) how comfortable those Wall Street hallways are. In spite of their success at working funds loose for their needs at those two lenders, it is a challenge for

them, and borders on the impossible for less worthy applicants. It is a tough way to get money for an MH lender.

As 2007 heads for fewer than 120,000 home shipments, you have to wonder how successful the Clayton model would be today without the "Berkshire Bank" to call when lending funds are needed. In retrospect, the sale to Berkshire was, as the Claytons stated at the time, "in the best interests of the company, its associates and shareholders". Hindsight clearly reveals that.

Since those trying days during the sale and the highly contentious recriminations floating about, calm is now restored in Maryville, TN, home of Clayton Homes. Kevin now married, with a child, has risen to be the absolutely single most powerful man in HUD-codeville, and his presence in Modultown is growing. Some of his acquisitions of other homebuilders in the past have brought good modular home franchises and he is paying ever-greater attention to this segment.

So, is Kevin in line to succeed Warren Buffett? Since I do not know Warren I have no idea if that is possible. I do know Buffett is well surrounded by extraordinary talent and there are many who could ultimately succeed him. The only thing I can say in conclusion is that if I have no idea whether Kevin could ever be the successor, I also am not convinced he couldn't do it. He is an extraordinary man with enormous capacity for growth. That has been and will continue to be demonstrated.

Now, if I can get him cracking the whip at MHI ...

WHERE TO IN 2007?

As the sun set deep in the horizon on year 2006, the state of the industry continues to be a most troubling concern. The reduction in home sales back to 1960's levels has caused an industry contraction which continues apace. Many industry players are endangered, their very economic viability at issue. That is likely to be a major issue in 2007.

The late 1990's thought that the "upward escape" to modular homes could save the industry from falling chattel home sales, turned out to be an empty hope. While available mortgage financing for modulars is the equal of site-built housing, the various limitations

of this type of factory-built housing has created a glass ceiling for the present, at less than 45,000 homes annually. Even as the industry scrambles to gain far greater modular sales than are now happening, we are seeing a 2006 decline of about 7% in their shipments. Not good.

The limitations of chattel financing for our modest HUDCode homes has endangered retailers, builders, lenders, suppliers, and community owners. No industry segment has escaped the damage, although some of the strong have taken advantage to acquire assets cheaply and to gain market share. All very normal and quite according to the economic script of Adam Smith.

That said, however, one of these days, even those fattening up on the weakness of others will need a growing factory-built housing industry least they ultimately be threatened as well. What goes around, comes around and business does not do well in a decreasing or static environment.

What will 2007 bring?

I have no crystal ball anymore than anyone else. I do, however, have eyes and ears: Here is what I see and hear:

1. Business activity in the industry is extremely muted
2. Demand for our housing from financeable buyers is very low
3. Competition from site-built housing based on price and financing is very keen
4. The industry continues to suffer a poor perception in the eyes of the public
5. The industry response to the entire problem has been disjointed, unrealistic, and a complete failure till now.

Evermore, the question of recovery is not "when", but rather "if" it will happen.

What do you see for 2007?

EMAILS, EMAILS, I GET EMAILS

My November newsletter about former **MHI**

President, Chris Stinebert's parting advice to the industry (on my web site) got me a lot of response. If my letter was seen as somewhat cynical in tone, it was matched in tone by most of the messages I got back. There is an exasperation out there that we all know the problems and that we are either unable to cope with them, or worse, are content to live with them. No other conclusion seems plausible. In an industry composed of self-starters and people of action, this seems inappropriate. But so far, that's the way it has been.

What it demonstrates to me is that seeking consensus of thought will never trump action by the powerful and intrepid. I'm not aware that Admiral Nelson, or General Grant called in too many foot soldiers to convince them if the pending course of action was the right one. We continue as an industry to lack that powerful leader or coterie of leaders, who will act, and damned the torpedo and consensus. I'm hoping Chicago harbors one.

Here are some of the remarks I got after my November "**Marty's News and Notes**": (You'll love some of these!)

From a Non-MHI Lender:

"Kudos to Stinebert. Finally in item #4, this is addressed. Too much of the bank losses are dealer/park profits and it is getting worse every year as lot rents increase. Thank you, Mr. Stinebert."

Marty's response: Almost seems like another lender is getting ready to exit stage left. Who can blame them?

From an Industry "Superstar":

"Marty, all the excuses are gone ... the industry continues to fall! No repos, chattel financing at low FICO's ... and still our pricing to consumers make the choice easy ... to site-built homes!! All segments ... mfg., retail, and financing ... have to address Chris' #8. Pogo had it right, 'we have met the enemy and it is us!'"

Marty's response: Where the freak is Pogo when you need the little rascal?



From a Longtime Lender:

“Marty, somehow I knew the gist of our conversation would wind up in print. Kudos to you for stating the obvious. Look over your shoulder for the gang with the muzzle!”

Marty’s response: Muzzle, what muzzle? I don’t need no stinking muzzle. (Thank you Alfonso Bedoya and Bruno Traven.) I’ve got a sore neck from looking over my shoulder



“Muzzle, what muzzle?

I don’t need no stinking muzzle.”

From a Large Community Owner from the Midwest:

“Of all the letters you’ve penned over the years, this one goes down as the most humorous, entertaining and sarcastic in history. The fact that all your points are accurate and on target lends a bit of sadness to this real life Apocalypse.”

Marty’s response: The Four Horsemen of the

Apocalypse are riding through the manufactured housing industry spreading Conquest, War, Famine and Death.



From a Member of the Stinebert Replacement Committee:

“The search committee is a great group that is passionate about the industry as well as finding the right person to replace Chris. We have done a ton of homework and pre-work (such as getting down to really who and what we are looking for) and are ready to embark on the active search. I’m sure we will have a major update in Austin”, (late January).

Marty’s response: I be on pins and needles.

From an Industry Leader:

News flash:

“A Searcy, Arkansas business woman and her sister have been found guilty of mortgage loan fraud in federal court. They used out-of-state financing institutions to finance (manufactured) home sales. They made higher risk customers appear more qualified for loans. More than \$800,000 in loans were obtained fraudulently. Sentencing is pending.”

Marty’s response: Have fun girls.

From a Consultant:

“I totally agree with you that Jesus Christ would be the best choice for MHI president, but he personally told me that one crucifixion was enough.”

Marty’s response: It would be for me.

From an Industry “Big Shot”:

“Chris (Stinebert) didn’t say anything in that arti-

cle that he hadn't said in the past. The problem is not transparency or an inability to speak out; it's a failure to listen and respond proactively."

Marty's response: Don't ask me, I don't hear well.

From a Wall Streeter:

"When the MHI president can't call them as he sees them until he leaves.... transparency is clearly an issue and no real improvement is coming."

Marty's response: Just shows Wall Streeters are poor losers. Just because they lost \$40-60 Billion on MH loans in the last few years, what's the big beef?

From a Wise-Old Head:

"Doubt if anybody as incoming president can get it done unless the big boys in the industry are ready this time. I preached an image campaign back in 1996 and nobody listened. The industry will continue its downward spiral unless the major players make something happen. Too bad It was once a great industry with limitless opportunities."

Marty's response: I missed the "great" period.

Disgruntled Former "Big Shot":

"The stiffs at MHI must be grinding their teeth ... Nice work, Marty."

Marty's response: I know nooth-ing.

Industry Plain-Speaker:

"We have similar views on the whys and wherefores of Chris Stinebert not calling a spade a spade while still on the MHI payroll. While I understand this sort of employee self-preservation mentality, it convinces me once again that I'd never make it as an association executive."

Marty's response: Gee, I wonder if I would qualify? (And they pay me to do this?!!)

Wanna feel better?

Home Equity Deep Dive: Into the Eye of the Storm.

On November 28, 2006, **Credit Suisse** published a report looking at sub prime **home equity ABS bonds**. They concluded, in part:

"Over 60% of bonds in this vintage (2003) are experiencing OC (over collateralization) deficiencies and excess spread is insufficient to cover losses for 64% of the deals. We expect well over 50% of the BBB stack to be downgraded, with the most severe downgrades/defaults expected on the Baa3 bonds. Further, we expect defaults to range from 9% to 30% for the Baa3 bonds,...." (www.credit-suisse.com, rod.dubitsky@credit-suisse.com)

Marty's response. The Baa bonds do not refer to sheep. I also think I've attended this play before, although the collateral was different.

The MHL Corporation Annual Shipments Contest for 2006

Locked on iron rails, the 2006 shipments truck hurtles down the track towards home shipments territory not traveled since 1962.

At the controls and in full charge of the contest is **Chuck Ladd**, of **Roadmaster Transport, LLC**, whose prediction of **123,700** total homes, and **113,760** homes without FEMA lurches closer to a jarring stop. With an actual annual shipments rate of **117,500** total homes through November's report and **114,000** non-FEMA homes, no one else is on board the shipments predictions truck, running on empty, except for Chuck at the wheel.

It will take a miracle to finish above **120,000** home shipments for 2006, in an industry short of miracles. (I think I said that before.)

Parting Thought

Yes, we do deal in affordable housing and I believe that it is an attribute of a segment of our housing which we forget at our peril. However, within reason, "affordable" needs to mean "good value for the product delivered." It is a serious error to believe "**price**" as the sole sales driver will deliver us from the wilderness. And as I chat with industry participants it is obvious that keeping price down is the main and sometimes the only focus, and that has its limitations.

Yah, I know, I'm tired, too. Have a better 2007.