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“ P R O G R E S S ”

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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...

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PROGRESS

On February 12-14, manufactured housing industry leaders met in beautiful Newport Beach, California, for the MHI Winter Meeting. Although a powerful nor’easter hit the east coast, attendance was not strongly disrupted, the areas hit hardest by the snow hardly being MH strongholds. (Although we wish they were!)

My immediate practice after a meeting is to try to determine the impression I had of the tenor of the meeting. Clearly, this meeting impressed me with real “progress” in addressing some of the numerous problems we have as an industry. Those of you who read this letter have been regaled for the last five years with things Marty thinks could be better handled. (Some might say, bored by these musings.)

Progress

At this meeting, I perceived progress in three separate areas, each of them being extremely important. ***The first*** is the industry acceptance that the events occurring since the end of 1998 are a watershed industry change. If at one time many believed (or hoped) that this was a cyclical retreat, almost all now seem disabused of that notion. The length and depth of the current episode is one clue. The sustained housing industry advance in site-built housing is the other irrefutable clue. While the big site-built move now seems over, and they could even be in a cyclical decline (or some fear even worse), MH still declined from about 20% + of all single family resident housing starts in 1998 to the present 8% today. They roared as we faltered. Strong clues indeed.

More Progress

The second area of progress I’ve observed recently and especially at this meeting, is that subjects formerly *verboten* to discuss, are part of the industry conversation, as we try to triangulate to a better place. The industry discusses MLS, resales markets, increasing Lender’s Best Practices (LBP) participation, MSRP, posted prices, building consumer value, consumer satisfaction index (CSI), Community Attributes System (CAS), etc, etc. Clearly, few were proposing much of this in the early 2000’s. Now the conversations are omnipresent and frequent. The general session at Newport Beach at Tuesday saw a presentation on The Resale Marketplace and improving it, by **Dan Rinzema, Datacomp Appraisal’s** information guru, was littered

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with many still controversial subjects, but still possible now in "polite company", in the open, without body armor. Not too long ago many would have asked what a resale was.

I made it a point to attend many division and council presentations, and everywhere there was talk which not too long ago would have been considered heretical, the cross, faggots and fire, waiting for the utterer. Today, while division over some of the issues is still deep, it is OK to discuss them civilly. That, my friends is big progress.

Still More

The final and third thing I observed at the meeting was specific and concrete evidence of some controversial proposals being advanced towards adoption and others still a work in progress. On some of these I can barely contain my water with delight.

I'll start with my current hot button, helping the resales marketplace. I have written on this subject ad nauseam in the past, but its importance cannot be overstated. Any industry, like plastic drinking cups, that builds a "throw away" product, better make sure its use, life cycle, and cost are consistent with each other. HUDCode housing now averaging about $63,000 per home to buy in 2006, is too expensive an item to withstand the rapid and drastic "value erosion" many now suffer immediately upon first placement, and often continuing with little abatement. Our housing is not a throw-away product. Since it has an expected life of 60 years, or even more, the entire industry dynamic which turns $63,000 homes into $42,000 homes quickly, has severe consequences for us all. You know how that tale goes, so let's just leave it that the "value erosion" ain't good for the consumer, builders, lenders, and most everyone else. The results are lowered expectations in our customers of our product value, with decreased demand by financeable portions of the consumers we need. Final result: A seemingly permanently reduced industry size, baring the return of "naïve" retail lending money, or substantial industry model changes. (I'd rather see the latter.)

Changes?

Changes like what, Marty? As simplistic as this sounds, rescuing resales needs to start with the proper identification of the home. Come now, we can't do that now? Ah, not really. Yes, we can identify many, but far too often the real model and real home construction elements leading to that value are unknown by easy reference by the homeowner, selling broker, lender, insurer and others. We build so many houses, so many models, having such different values.

What is the result? A conservative loan value, often not accommodating the sales price negotiated between the seller and buyer for a resale MH. Too often the lender refrain is that "we can't loan on that deal because the value is not there". In all likelihood, were we able to identify the *true model* and its construction elements, the value could well be there. Failure to advance the loan to its proper level because of improper home identification, and the cost involved in the effort, which often includes a non-productive call to the factory, is a disturbing current element in resales, with an easy cure. Talk about creating home value depreciation?!

The Database

On Sunday at MHI, Chairman **David Rand (Origen Financial)** of the Financial Services Division (FSD) imposed upon MHI Chairman, **Dennis Jones of R-Anell Housing** at the Executive Committee Meeting to allow FSD reps to address the Retailers Council and Manufacturers Division meetings to ask for their concurrence to approve an Invoice Database to create a cradle to grave information base on each HUD home constructed henceforth, to detail proper home identification and its relevant construction details, for access by approved viewers of the data. This involves the manufacturers sending a factory invoice copy to the database, to be controlled by MHI.

Into the Lion's Den

Lender's Best Practices (LBP) chairman **Don Glisson, Jr. of Triad Financial** and I drew the short straws and we were asked to go into the "lions den" at the Retailers Council, where Chairman **Jim McGee** and our many friends there made some significant concessions on their part, allowing us the gratifying result to get everything we asked for. Don and I could not have been better treated.

Yes, many there were not initially predisposed to our proposal, but their internal ruminations, as later reported out, saw the retailers really step up to the plate to agree to an industry need which many feared was inimical to their personal interest. Bravo. We will face this quandary repeatedly in the future. The retailers did the right thing.

The Big Boys Division

Later, when Don and I addressed the Manufacturers Division, Chairman **B. J. Williams of Champion Homes**, and the other members were especially attentive to the Financial Services Division's request. They were heartened by the retailers concurrence. (I'm not sure **MHI president Chris Stinebert** believed the retailers had approved the initiative.) With few reservations B. J. proceeded to committee an effort to clearly define what information we need to include in the invoice going into the invoice database. Yes, it makes sense to proceed like this. Glisson and I are well aware of the need for the database, but both of us are short of practical knowledge on the exact elements we need submitted to the database. This effort will identify the information needed. We will now marshal some of the industry savants on this very point, leading to a truly worthwhile accomplishment.

Wall Street

I've already told you one of the reasons we need it; proper identification on valuation of the home. But there is another. Those of us in lending are often on Wall Street, hat in hand, to seek industry lending money for retail loans. Yes, of course, Wall Street is more impressed with loan portfolio performance, than anything else. But as an industry, we have too often been severely criticized by them, for lacking transparency and providing sketchy industry data and information. As good as LBP has been and continues to be, we've ridden the LBP horse, the last really big industry lending move, about as far as we can. We need fresh inducements of a persuasive nature, an invoice database of all the homes we build in the future, with the potential to go back to homes built over the previous 25 years, available to approved parties via the internet, would be an industry accomplishment of galactic proportions. Coupled with the Community Attributes System, and an organized resale marketplace, including an MLS, we now have the basis for a revolution in resales.

While I cannot say the invoice database alone will salvage resales of our homes, I can say that without it, there is scant hope. This is big, my friends. And as Don and I did in person, we thank in writing our many collaborators who unselfishly assisted us in this blockbuster development. Well done!

The Consumer Satisfaction Index

But that was not all. J. D. Powers, best known for their consumer polling about consumer sentiments regarding specific products, especially autos and site-built housing, addressed the manufacturers about the consumer data they are about to compile with polls to be conducted of our home buyers. This is a follow up to the Roper Survey results of last year, and creates an industry opportunity of cosmic proportions. I fully expect that over time, the enormous consumer benefit that arose out of the J. D. Powers auto surveys, will result in our industry. And after all, it's not really about us, is it? No, it is about our consumers. Roper showed us opportunity and perhaps Powers results will allow us to capitalize on it.

I expect, assuming we continue this surveying work, that internal competitive pressures will force this industry to produce quality and innovation transforming us from the default product to a choice product. It can happen and the Powers survey and reacting to it is one big spur.

John Grissim Strikes

Let me tell you quickly how consumer polling sentiment can work. The day of my return from MHI, I found a copy of John Grissim's book, "The Grissim Rating Guide to Manufactured Homes" sitting on my desk. I quickly delved into it and was fascinated by the book. John made quite a name for himself in the last few years as a booster and critic of manufactured and modular housing. He is known to take the consumer's view of our product and industry. There is tremendous information in the book, some very laudatory, some less than that. I emailed about 20 of my industry friends who build homes to see if they wanted a copy faxed of their portion of the ratings. Most did.

Many reported back quickly that

they found the information accurate, and more interesting, remarked on immediate plans to deal with specific weaknesses cited by Grissim. What a great result. I think J. D. Powers survey, to be conducted with up to 30,000 home buyers, will prove invaluable. Grissim's book already seems like a winner to me.

As soon as the industry couples Powers with an Industry Image Campaign, funded by a stiff charge on each floor produced ($200.00) to carry it out, watch out. The image campaign will tout the substantial advantages of factory-built housing and focus on our improving consumer satisfaction, changing both the perception and the reality of a less than desirable MH perception in the hinterlands. Writing about it gives me thrills of possibilities. At least we'll know! Can it work? You tell me. It just seems compelling! Could we finally be coming of age?

Freddie Presents Survey Results, and buys the cheese, crackers, wine and roses

Our friends at Freddie Mac, the GSE, brought to the Financial Services Division meeting the results of a study they had conducted on the beliefs and actions of defaulting home buyers. While not specific to MH homeowners, the information was related. After all, we are in the housing industry, right?

The survey showed that contacting defaulting homeowners with information on alternatives on how to keep their homes, was very effective. It found that the borrowers often held very erroneous beliefs about their options as to how to keep their homes after default. Once presented with alternatives, many kept their homes, avoiding the financial damage that causes to the borrower, lender and industry at large. I know some of our industry lenders already do some of the suggested actions, but all took heed.

Freddie also sponsored in *generous fashion* the Opening Reception Sunday night, with **Kirk Willison**, Freddie's MH liaison struggling to beat the Washington snowstorm, arriving just before the party ended. The food and drink were top drawer and much appreciated in these slim times of belt tightening at MHI.

Other Developments

At the NCC, the progress continued as major community owners refined a 10 year long term lease (LTL), for land lease community lending (LLC), calculated to create a better value proposition for the consumer/homeowner, thereby protecting the lender by decreasing the rate of defaults and losses thereon, in LLC's. Defaults in LLC's are at the highest rate of all MH placements, so need special attention.

The dual purpose of the lease is to "handcuff" the LLC's ability to indiscriminately raise rents and other charges to the resident and to create promised LLC assistance for the lender for home protection and disposition upon default. All very good stuff, indeed. I spoke with **Peter Scherer, Origen Financial President** and he thought it had the potential to revolutionize lending in LLC's.

I was pleasantly surprised at the substantial movement by the LLC's in limiting their ability to pass on rent increases. This has materially changed to the homeowner's benefit over the last six months, coming far closer to where I think they need to be than when I left the LTL negotiations six months ago. While I do not think they are there yet, they get ever-closer. Again, an extremely significant move to build consumer value and reduce lender losses, leading to the potential for increased lender activity in LLC's and lower lending interest rates for consumers. Again, all extremely good stuff.

The Totaro Award

Tim Williams of 21st Mortgage (which is now a subsidiary of Clayton Homes), was the 2006 recipient of the Richard Totaro Award, the highest award the Financial Services Division can give for lifetime achievement to the MH lending industry. I am very proud to say I was last year's recipient. Tim received it in front of a packed hall in Newport Beach.

Jim and Kevin Clayton, the **Clayton Homes** father and son, have often remarked to me that the success of Vanderbilt Mortgage, the other Clayton lending subsidiary, and later 21st Mortgage, were both highly influenced by Tim. I'd say that's a pretty good testimonial.

As chairman of the Totaro Award Committee, I can tell you that all of this year's candidates were extremely qualified. Turning down any seemed unfair. But, this was Tim's year, his selection being unanimous. FSD chairman, David Rand presented the Award in gracious fashion and you'd have to have been blind not to see the fact that Tim was deeply and emotionally honored to be selected. It was a good moment.

Tim, who is now a wealthy man after the sale of his interest in 21st Mortgage to Clayton, flew his new plane to the event, accompanied by his wife, Amy, who was also gratified at Tim's recognition of excellence. If the industry sometimes seems less than it should, having the Tim's around, who have ethically and tirelessly worked for a better industry, is another hopeful sign for the future. My heartfelt congratulations to Tim, and that of the entire MH lending community.

HEARD IN THE HALLS, WHISPERED IN THE CORNERS, AND BUMPED INTO

Where are we?

The most frequently asked question of ole Marty Boy these days, is "Where are we and what can be expect next?" Again, my opinion is that I do not yet see the catalyst for *significant* increases in industry activity in the short range. I did, however, at this meeting, sense the possibilities of positive change heralding a far better future. I will continue to monitor this new mood and report my findings and opinions to you. There is a sense of momentum for industry change occurring. Let's watch if we maintain it.

The Big Bank

I had breakfast with **Jody Erickson, the MH man at Wells Fargo Bank** and sensed a positive attitude there to continue their industry involvement in conforming mortgage lending. This is very good news for factory-built housing as Wells Fargo is considered a leader in that activity and savvy on how to accomplish it profitably. Jody is ex-GreenTree (where he worked with my old buddy, Frank Davis), where he got to know about factory-built housing, the good, the bad, and the ugly. Experience like that can stand you in good stead.

Whispered in the Hall

Two major builders told me individually that on their own volition they were deep in MSRP internal discussions. This is in a response to so many external industry sources, like AARP, urging us for "posted prices" so that our consumers start at the same price point when buying the same home. I was heartened by the talk of MSRP and/or posted prices, very much believing in the concept. It is the right thing to do for the consumer, especially in chattel sales.

Affordable Housing

Nathan Smith, SSK Properties and Chairman of the National Communities Counsel (NCC) continues to be one of the leading voices for the industry not to forget or neglect our affordable housing roots, especially for LLC's. As an admitted "man at the point of sale" dealing up close and personal with many of the folks at the housing sale, he lives the affordable need but sees little new product to accommodate it. He targets the combined home payment and lot rent in his communities to be $200.00 *under* the competing apartment rents in the area. This to him spells "competitive".

The Water Lady

I own a leasehold community where I've just gone from a flat-rate monthly water charge from the water district, to actual metered usage. The large increase in water charges (ouch!) has disturbed my retirement plans. Hoping to be able to live elsewhere than in my community in a 1973 single-section home, I'm looking for answers to the heavy water charges.

It turns out that **Kim Trounce, of Edison Micro Utilities, Inc.** in Phoenix, AZ, is the resident MHI expert on the subject. She told me they were the 2005 MHI Supplier of the Year, and she helped me understand expected daily water usage, how to meter it, and how to bill it back. Her company does that. (Oh, I like that!)

Whether I farm it out to her, or live on-site and do it myself, I feel better educated on the subject. Kim was very helpful in this regard, coming at a time when the whole issue of water and its cost is a personal and industry-wide problem. It was good to find someone who knows her way around this issue, (Remember, MHI spent around $200,000 battling EPA on a water issue and its ramifications. Ah, we are still squabbling.)

In Front of the Elevator

I'd seen the young lady in the halls and meetings recently, but hadn't really known about her or her reason for MHI attendance. I did know **Amy Hartman** was from the **MH Homeowners Association** and that it is a non-profit.

Having dealt with non-profits in MH, I know that in some places, such as Vermont, New Hampshire, Washington and Florida, the move by residents to acquire their LLC's, usually through a fronting non-profit, is a lively movement. Having sold several communities to them, I very much favor the move. It is good for them and the industry as well. It preserves affordable housing in MH, and unlike private ownership of the community, unlikely to ever close. That preserves the sales business for us.

But I am always hesitant, because some non-profits can be very antagonistic to the industry. Amy turned out to be a true fan of factory-built housing (FBH), has strong beliefs in its use in affordable housing, and is seeking ways to deal with FBH to meet some of the housing needs organizations like Habitat for Humanity are struggling to create, because of increasing costs. I found my conversation with her extremely interesting, as she is bright and knowledgeable. If she spoke with me to pick my brain, I think I learned as much from her as she did from me. Please take the time to speak with Amy, because she represents a housing creator that could be very dependent on us and could gain us access to home placements which at present are foreclosed to us, but not to the non-profits. It's far easier to say no to us than to them!

The coming out Party

Vince Pulsipher, editor of the omnipresent orange-covered **NADA MH Valuation Guide** has decided after many years at the guide (30?) to retire. He has been grooming **Ms. Sherrie Weller** to take over his role as editor of the publication. They hosted a very nice party Monday evening so daddy Vince could introduce Sherrie to the industry, a short of "coming-out" party for Sherrie.

While many of us had long ago met Sherrie and have dealt with her for years, there were still many in the industry who hadn't. The party was well attended, was very nice and a good platform for her introduction. The general consensus I heard was that no one knew if Sherrie was any more knowledgeable than Vince, but she sure is prettier. May you have a long and successful career, Sherrie.

New Terms As **Dan Rinzema** made the aforementioned Resale presentation we learned a few new terms. A "data rich environment" means more industry info and "home value erosion" means value depreciation. I gather Dan wants more of the first and less of the second.

The Safeguards Group Without question, one of the most contentious joint committees formed recently is the Joint Retailer/Financial Services effort on Improving Lender Safeguards. Of course, one man's safeguard is another's prohibition. A good example of this has been the effort by the lenders to "escrow" customer deposits, which means third party holding of funds, to be disposed of by the contractual provisions entered into between the buyer and the retailer in the purchase and sale agreement.

This is all in an effort by the lenders to increase buyer protections of deposit monies, and meant to protect floorplan lender's inventory payoff as well.

While loss of consumer deposits is not a truly common occurrence, even a few episodes are given wide media exposure and results in a truly black eye to the industry. Any attempt to stem it should be applauded.

Yet, the retailers feel that the exposure for costs incurred by them to place and complete the home for the buyer could strangle them financially if things went awry and the escrowed funds got tied up. Fair enough, that is a real potential problem, although best handled through good contractual understandings between the parties, strongly reducing the concern.

Leo Poggione, **President of Craftsman Homes**, the retailer from Reno, Nevada and **Brad Waite, of Land/Home Financial**, are the co-chairs. I have not envied their task as the parties' alignment of interests has not always merged gracefully.

Finally, in a concession to all, the "E" word (escrow) was prohibited and rapid progress made in Newport Beach on working towards a "trust" account arrangement for the funds. I believe this came about because leading retailers like **Tom Hagar of Mid-America Homes Center, Inc., Doug Gorman of Home-Mart, Inc., Billy Woodard, of Park Avenue Homes, Inc., and Brenda Westfall of Westfall Mobile Homes** were prepared to make concessions in the spirit of giving up some personal advantage to them, in trying to forge new cooperation.

The knowledge that nationwide, many jurisdictions are considering the implementation of trust accounts for deposits allows the industry to get out in front of this move. The joint task force will attempt to create a model trust agreement to be presented in suitable circumstances for state adoption. The trust vehicle is to be a strictly voluntary effort, but still, again, signals a new industry openness to accept long-rejected measures. Again, real progress.

Always a Pleasure

Old friend, **Gub Mix** was at the opening reception. Gub represents most of what is good about the HUDCode industry and lives the term, "educated gentleman". His stewardship as director of the Idaho, Nevada and Utah Associations has been a long-term success and his Las Vegas Congress is the King of industry shows. I was saddened to learn from Gub that the time has come to step down and slow down his work pace. I suppose I should pass along that he is searching for applications to replace himself, so contact Gub if interested. I'm not sure "replace him" is possible. Let's hope he doesn't entirely recede from industry presence. He has so much to contribute.

The MHL Contest

I still haven't gotten **Tom Beers, MHI economist** to call the final HUDCode 2005 Shipments, but it isn't going to be far from 146,800 homes. This includes FEMA homes.

Without the FEMA homes, it appears, the 2005 shipments totaled around 130,600 homes, an increase over 2004 total (non-FEMA) by a few thousand homes, and almost identical to 2003 shipments. I guess that is a "U" shaped bottom of the market. Is recovery around the corner? You can balance that question by asking whether 2006 could be another leg down.

Omitting FEMA homes, the home replacement market in the southeast is likely to be busy as rebuilding advances. I would be amongst those who would believe a modest rebound up to 135-137,000 non-FEMA homes could occur. The momentum in many ways is positive. But do not bet your IRA on my call as I am notoriously wrong.

In regards to FEMA, I have this nagging suspicion that many of the homes we already sold them will never be sited, will soon be resold in the market, and the industry will be painted in the negative light cast on us by FEMA's reputed incompetence.

I personally cut FEMA some slack because I comprehend the enormity of the undertaking of the task, and how little help they received from state and local authorities in allowing large scale siting of the homes. I think they forgot things are reputedly better accomplished in Louisiana by bribes than persuasion. (Ah, just a joke, son.)

As the homes sit in those holding yards, closed up, getting humid, hammered daily by the elements, I see them becoming very unappealing. Plus, the scrutiny of the media and public, with unexplainably exaggerated expectations for miracles from entities little known for miracles (FEMA), seems destined to want to make it go away. Make the homes go away and you will receive a vicious but short-lived rebuke. Leave them in the holding areas and a Chinese water torture of criticism will continue, the photos of Abu Garib replaced daily in the press with the rows of roofs of homes. Not good.

So while I still cannot call the

final count, after a brief discussion with **Felix**, my Rules Committee Chairman, its looking more than ever like **Peter Scherer, Origen Financial's President** is the contest winner, and about to get the prestigious designation "Grand Imperial Annual Shipments Predictor of HUDCode Housing for 2005". I'll issue a final call shortly, as soon as Beers makes the call.

I recently announced the 2006 contest and predictions are beginning to arrive. Don't be left out, enter soon, but before midnight March 3rd, in any event. Don't know about the contest rules? They are on my web site, **www.martylavin.com**.

Call Today!

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