

JANUARY 2006



Martin V. Lavin

Marty's News & Notes

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

The Big Show

The Impression of the Louisville Show

Every year, at the end of my Louisville Show attendance, I strive to clearly articulate my own feelings, and how they compared to others I spoke with. I think this year's impression is easy: BIG.

The Freedom Hall convention center is a gigantic hall, and was so even before they increased the size recently to make it even higher and bigger. This has allowed more and better space for the home displays, and to scatter the smaller exhibit booths in hallways along travel paths, or in convenient aggregations, usually with an attractant, such as food service. This all makes people pass by the

smaller exhibitions giving them more exposure, and decreased the size of the display rooms, making for greater visibility and choice of locale for the display booths. The rooms where the homes were displayed were consolidated into one huge room.

Anyone who could see many of the booths, tour the homes, do some networking, eat some food and spend less than half a day there was running. If your blood type is HUDCode positive, Louisville will enrich it. A whole day in Louisville would be exhausting, but you still couldn't do much more than walk by many exhibits and houses. If you stopped and chatted with everyone, you'd be there yet.

The mood? I'm not sure. I didn't see anyone slashing their wrists or with an exhaust pipe in their running car, but the mood was reserved. I think it's settled the current industry state is not a cyclical retreat, it is a watershed event. More industry consolidation is expected. Consolidations to create critical mass and lower costs are in vogue, with many betting that more will occur. Perhaps many more.

The House Tours

What would the Louisville show be without house tours? The huge number of homes there must rival or exceed most every show, at least, so it seemed. This is the MH equivalent of the Detroit Auto Show

Inside this issue:

The Big Show	1
The House Tours	1
LLC lament	2
Bumped into in the Hall	2
Parties, everywhere	4
I Met the Secretary	4
Pat on back, slap ass	5
ARC	5
Chorus of concern	6
Conflict of dates	6
MHL Contest Progress	6
Exit Strategy	7

**“IF YOUR BLOOD TYPE IS HUDCODE POSITIVE,
LOUISVILLE WILL ENRICH IT.”**

or the homebuilders annual show. Many of the "new" home models are there. The previously omnipresent, bikini-clad models of the old days seem to have disappeared in the last 10 years, so now the homes are the stars.

And who goes to the Louisville show without poking their heads in and around the seemingly endless homes? I attended the exposition with **Margaret Liu**, the new Vice-president in charge of MH at FannieMae and her MH assistant, **Michael Plater**.

Margaret being a lawyer and a new appointee to the position, isn't, by her own admission, real knowledgeable about the industry. But she is a very bright and inquisitive lady. I don't expect her to take long to get up to speed.

One of her missions at Louisville was to become far more knowledgeable about our product and the people and companies that build them. And she got the royal treatment from our tour guides.

Chris Stinebert and **Michael O'Brien** of MHI had arranged for some of the superstars of HUDCodedom to tour guide Margaret and Michael through the numerous home displays, ranging from modest, but nice homes, to multi-section, multi-story HUDs and mods. One would have to be highly jaundiced not to be impressed by the range and value of homes we saw.

Oh, our tour guides? Well in no particular order, **Austin Baidas**, **CEO and President of Four Seasons**, **Barry Shein**, **President and CEO of Commodore**, **John Riddle**, **Na-**

tional Director of Marketing & Sales for Fleetwood, **Woody Bell**, **President of Manufacturing of Palm Harbor**, **Sam Weidner, Sr.**, **CEO and President of Patriot Homes** and **Tom Rushing**, **VP of Sales/Mid-West**, of **Champion Homes** gave us the Grand Tour. In one of the Fleetwood Homes we ran into **Elden Smith**, **President and CEO** and **Charlie Lott**, **Executive Vice President of Fleetwood**, who were otherwise engaged, but chatted briefly with us.

Each and everyone of these folks made an effort to detail for Margaret and Michael the nuances of home construction and the elements of value built into to factory-built housing. It was a very good performance by industry leaders for an important industry partner.

We ran into **Danny Ghorbani** of **MHARR** who offered a tour through the homes of two of his association stalwarts, **Liberty Homes** and **Fairmont Homes**, but time ran out and we had to pass. Next time. We did run into **Ed Hussey, Jr.**, **CEO of Liberty** at their nice reception and he graciously hosted us as we chatted about industry matters.

The Land Lease Community (LLC) lament

I did visit with a number of community owners at the show. They were quick to remark that they continue to feel like the forgotten segment of the industry regarding the homes being produced.

All too often, and certainly at the show, they claim the models being produced simply are too large and too expensive for their needs in many communities. I've been hearing this lament for at least 20 years, so it is not new, but each year finds the problem seemingly worse, with the increasing size and cost of homes. It does create problems for the LLC folks.

Still, I entirely understand the builder's concern. The financing and profit opportunities seem greater at the upper end of the market, both in HUDs and for the many buyers moving to modulars. There is little industry belief the LLC segment is likely to grow, for a variety of reasons, not the least of which is the highly constrained chattel-financing environment presently. Perhaps things will change in the future, but at present these are the conditions.

Bumped into in the Hall

Keith Holdbrooks **CEO of Southern Energy Homes** (256-747-8589) appeared calm and tanned after bringing the family-operated **Giles Industry** into the Southern Energy fold. Along with the Giles company came **Alan Neely** (423-626-7243), its President, whom I missed seeing, but is a very likeable man.

Paul Nichols, the Guiding Hand at **Vanderbilt Mortgage and Finance** (865-380-3000) held court on MH lending with a few of us. Expect considered, experienced and blunt answers from Paul when it comes to MH lending. He is one of the very good ones. You also might listen to what he says because he knows. Industry repo levels are still on his mind.

One pleasant surprise was seeing **Joe Corona**, formerly of CIT Group, Dynex Financial, Home-One Credit and now a **Senior Vice President at American Modern Insurance Company** (513-947-6090). This is one fine young man, formerly **LBP Chairman** and now with a good industry company surrounded by many of my friends there. I expect to see Joe's fingerprints over many of the safeguard initiatives the lenders continue to champion at MHI.

Jeff Wick, Numero Uno at Wick Building Systems (608-795-1411) chatted with me about our constant mutual pursuit: where is the industry now and where are we likely headed. From a lending perspective, can't say I see it any easier going forward.

That Danny Ghorbani (202-783-4087), of MHARR! What a beauty. If you are on his distribution list you know Danny is now on the subject of changing the HUDCode to allow home construction without the chassis, in some instances. There are competing considerations, as with most things. Contact Danny at **MHARRDG@aol.com** for his position on this chassis matter and to get on his information distribution list. The man is knowledgeable and enthusiastic, of that there can be no doubt.

I introduced **Jenny Hodge, Vice President of American Modular Insurance Co.** (513-947-5643) to Margaret Liu of Fannie. In a "this is a small world" moment, turns out they attended the same high school in Louisville a year apart. Though both married, both kept their maiden

names for business, so their names were familiar to each other. Cute moment. American Mod has loaned Jenny to MHI for innumerable conferences where she acts extremely well as a "facilitator". She has great skills at herding cats.

Andy Griggs, COO (210-258-1631) and John Har-cher, Sales Manager (216-533-4797) were manning the CU Factory Built Lending booth and we visited. Both men worked at Chemical Bank together for years and are now in positions of importance at CU. I've worked with Harcher for years at Chemical/Chase, and always enjoyed him. Harcher is an American Original.

Dan Baxter, Vice President of Banco Popular's Popular Housing Services (866-398-4583) was at their booth with my old friend **Tom Piszczor**, who runs one of their offices. As a lending upstart, Popular has aggressive plans to expand nationwide. They are well funded by a big bank, have low money cost, and could be a big industry addition. Nice to see them involved.

Tim DeWitt, Director of the Michigan Association (517-349-3300) and **Bob Thieman, Director of the Illinois group** (217-528-3423) are always engaging when holding conversations about their states and activity there. I visited the Thieman group a couple of years back for a speech and hope to join them again this year. There is much to discuss these days as to where we are and where we are going. There

is an industry thirst to trash out the possibilities and probabilities.

Steve Like, Executive Vice President of Patriot Homes (574-524-8602) chatted about their experiences with the orders for FEMA homes, and I found that very interesting. It seems, as we might have expected, FEMA production did give the industry a boost, at least it did at Patriot. I suspect they weren't alone in that regard.

I didn't speak with **Ed Hicks, the LLC Consultant** (813-661-5901) and broker, but he was there. I was reminded of his very good article in the December issue of **The Journal**. There is far more importance to the article than merely the difficulty community-owned rental homes can present in a community sale and financing of the purchase, which is the ostensible subject matter. Read the article as to what the difficulty of financing of community-owned rental homes says about that activity, and its desirability, if it is something you are considering doing.

Tom Franco, President, the knowledgeable guy in charge at **GT Servicing** (480-333-5366), told me about their plans going forward. I always welcome another knowledgeable lender to the table as they try to expand their offerings for financing our product. Tom and GT Servicing certainly want to be at the table in far greater fashion than their present limited position. Welcome.

Jerry and Anthony Di-Marco of Security Mortgage (585-423-0230) in Rochester, New York were in attendance. I spent some time with these two proficient young men. They had a great year

in 2005, helping many with mortgages for their income-producing real estate. I know some of their originations last year presented "challenges", which they worked hard to overcome.

Parties, Parties, everywhere

Tuesday night, usually at the Executive Inns, East and West, just outside the exposition grounds, there are numerous parties given by industry companies. They start at 5:30 just after the show closes and last a couple of hours or more.

By my quick count there were four at the West and a biggie at East. I went to all of the four at West, attending the receptions put on by the **Kentucky MH Association, Patriot Homes, Blevins Supply and Liberty Homes**. With so many at West, I never did get over to East where **Fleetwood Homes** was entertaining.

I thought the Kentucky group was fun, seeing a lot of my friends there, but in order to get past **Nathan Smith**, mein welcoming host, proud Kentuckian and MHI NCC chairman, you had to say "no" to his requests for PAC money. Nathan is not easy to say "no" to. Then again, that is why he is a leading PAC money fundraiser.

The best party of the ones I at-

tended? I thought the most lavish affair I saw was hosted by **Sam Weidner, Sr. and Jr.** and **Steve Like of Patriot Homes**. Extremely nice affair with a first class ship's round of roast beef. At all of them, the receptions had large crowds eating, drinking and visiting, all enjoying themselves at generous affairs.

Oh, the best setting? **Brad Blevins of Blevins Supply** had secured the "poolside" setting and that was a nice touch. With a blustery, rainy-snow outside, it wasn't Miami, but still nice.

I met the Secretary

Tuesday evening at Vincenzo's restaurant in downtown Louisville, I had the pleasure of sitting beside **Gary Cunningham, a Deputy Assistant Secretary of HUD**. Gary is responsible for the MH section at HUD. Being about the same age, and both of us lawyers, we had many interests in common. He is a sensible and intelligent man, and within the administrative, bureaucratic, and legal constraints that guide him, I sensed an open-minded approach to MH.

I also know from his questions as we spoke, that he wants to know more about MH. He would like to see MH serve a

greater role in filling the affordable housing need and is in pursuit of that goal internally. Amongst the many things the industry would like to see corrected is an enhanced FHA Title One, chattel loan-financing program. At present, because of various program guidelines, Title One is virtually unused, at a time when better chattel lending is a serious industry impediment.

There has been some concern whether Title One could be structured in a rational way to assure portfolio performance. If its sister program, Title Two, is any indication, it is not impossible. Title Two loan performance recently has been good, the only present HUD complaint is a desire for greater volume. I assume they wouldn't want more if it isn't working.

This is contra to the concern by some, that often these types of programs can be spoiled by the unscrupulous. But one thing about the FHA programs, pointed out by **Dan Rolfes, former MHI chairman** (and still "**Dan, Dan, The Red Tag Man**"), the red-suited TV character selling HUD-Code homes in Cincinnati, for Holiday Homes), is that HUD tracks the portfolio performance of every loan producer. The performance of each is published quarterly by HUD. Once the loan losses of any producer exceed 200% of the average losses within its assigned region,

"Title Two loan performance recently has been good, the only present HUD complaint is a desire for greater volume."

that producer is terminated. They lose their access to the HUD financing and in Dan's opinion that is a great incentive for most to keep their noses clean, feeding good loans to this conduit. He feels this accounts in large part for the good performance.

In fact, Dan wonders why all industry lenders do not do this. The short answer is that most do and have for some time. The further answer is that absent grievous and persistent problems, some lenders (but not all) have been hesitant to take cancellation retribution against offenders. HUD, apparently, is not so restrained. You play wrong there, even if naively or mistakenly done, you can and will be gone. Bravo.

I offered my services and expertise to Secretary Cunningham in any way I can contribute to the considerations at HUD. I had a positive feeling about Gary and his desire to work with the industry. I'm sure Chris Stinebert, who was also at dinner with us, and his comparable at MHARR, Danny Ghorbani, are already engaged with Gary in the many things the industry needs from our regulator and advocate, the Department of Housing and Urban Development. Let's git it done.

Pat on the back, slap on the ass

As I wandered the halls, many of the readers of this Newsletter thanked me for what they find is an interesting and often whimsical industry view. I'm fortunate to count amongst my readers many truly admirable people.

Of course, no one can be right all the time, and ole Marty Boy is not immune. Admittedly, he is often strident, repetitive, and viewed as wrong by some. Nonetheless, I wanted to contribute to the industry conversation, and that I think I've accomplished in the five years of putting this letter out.

Some take the time to write me well-considered objections or responses. I read each carefully and if an answer is in order, I attempt to respond.

Recently, as an example, **Randy Rowe, the Main Driver at GreenCourt Partners** (847-582-9409), the LLC investor, took issue with my remarks and in his usual fashion, clearly and bluntly told me why I was wrong. I read it with the due respect a man of his acumen and accomplishment deserves, and mentally filed his thoughts to crosscheck my remarks. This is what the industry conversation all about, give, take, consider and conclude.

Then, at Louisville, **Dick Moore**, the sage at Millington, Tennessee, and well known for the "**Prospectives**" *Newsletter* he writes, and a man of no mean accomplishment, came down hard on me. He is particularly upset with me on a number of issues, not the least of which are some of my remarks on the "High Gross Margin" model MH retailers often follow. He laments, and rightfully so, that most retailers are hardly growing rich.

Now, with my oft-stated fact that the average HUD retailer

sells 3 new homes per month, the wealth can hardly grow rapidly, (or at all). As the retailer faces the task of covering the \$35-55,000 per month overhead, and trying to make a profit on top, he must through necessity, set up a series of events which are unlikely to save him, nor bring much value to the entire chain of participants in the transaction. Don't know of what I speak. Go to my web site and print out the March '04 newsletter, "**Failed Model, Warren? What Failed Model?**" My thoughts on the subject are all there, for better or worse.

Affordable Residential Communities - ARC

Ever since the management turnover at the top at **Affordable Residential Communities of Denver, Co.**, recently, and their subsequent auctions of communities in bulk quantities, the unfolding facts there have engaged much of the industry in speculation especially the community owners. If you have an interest in this subject, **George F. Allen** (317-888-7156), the savant of LLC's, has written an "insider" report he has released in the highly exclusive "insider" newsletter he distributes to the high and mighty of the industry. See if you can prevail upon him to release a copy to you. I'm not sure what the ending of this highly interesting industry chapter will be, all I know is time will reveal all.

The first chapter written was the prodigious effort ARC expended in putting together this huge accumulation of LLC home

sites. It was followed by the present chapter in trying to make the accumulation work up to investor expectations, a daunting task in view of the industry conditions since 1998. We are nearing the end of that move. What next?

Chorus of Concern

Lamentations were the order over the state of chattel financing at the show. There is far more buzz about the potential and the manner in which to do better executions in true real estate-secured placement. I spent some time with the very engaging **Carolyn Rolfes**, she of **Potter Hills Homes** of Cincinnati (and daughter of the "Red Tag Man"), and couldn't help but be impressed with her desire and enthusiasm to make upscale HUDs on in-fill, suburban, and rural locations work, in spite of the challenges.

Many of these challenges can be avoided through the use of the very similar modular product, and she does do that, but can't help but seek a way to pass on to her customers the tremendous quality and cost efficiencies the HUD-Code bestows. My compliments to Carolyn for excellent, turnkey product offerings with both mods and HUDs. I was very impressed as I toured it.

Conflict of Dates

Several people I wanted to see in Louisville told me prior to the show they would not be in attendance. Instead, they were slated to be attending, and in some cases addressing, **Greg Harmon's Industry Summit**, hosted by

his **Commonwealth Real Estate Services**, in Portland Oregon.

Greg invites prominent LLC owners and operators to discuss topics of interest to them. I believe **Barry McCabe, President of Hometown America** was their keynote speaker. I was hoping to catch up with Barry, but it will have to wait. He is always a good resource for industry news.

Don Glisson, Jr., CEO of Triad Financial also was on the podium, updating the attendees on the status of MH lending. He told me the conference was well organized with good attendance. He found his visit to the summit valuable.

The MHL Contest Progress Report

The final 2005 HUDCode Shipments figure is murky right now, although the winner is probably known at this point. Let me explain.

In my dealings with **John Diffendal, the crack B B & T analyst** (615-340-8284), and **Tom Beers** (aka Tomas Cervezas), **MHI economist** (703-558-0400 X649), my shipments experts, the train seems headed to the mid-140's [in thousands] station. I think John would say 147-149,000 and Tom 143-145,000.

Why the divergence? Well, frankly Tom has access to better and earlier figures than John. What Tom is saying is that for a variety of factors, several thousand invoices for homes built, or about to be built, but not yet

shipped are presently included in the figures reported by IBTS to Tom.

Tom feels, and I concur, that counting homes not actually shipped by January 1, 2006 runs the risk of overstating '05 figures. Since '05, with the real FEMA homes shipped count included, will show a substantial increase over '04. Why rob from '06, when the number might be needed to maintain the shipments industry increase going forward? I just don't think we should risk 2006 being a down year if the hurricanes screw up.

Let me address the conundrum that we might already know the winner, even though the numbers vary so widely. A few months back, **Peter Scherer, President of Origen Financial** using his Hurricane Prediction Machine vaulted into the contest lead with his prediction of **145,678** homes shipped for 2005. Unless we slip below that number, which is possible, but appears unlikely right now, Scherer is our man. Since no one predicted higher, he cannot lose on the upside.

Should it slip slightly below that number, **Chris Barrett of Bennett Transport** is waiting to claim victory, at **145,241**. OK, hold onto your seats for this one. Next in line is **Cam Lavin**, boy lawyer in Riverside, CA, who worked for Fleetwood at the time of the contest entry period, at **143,500**. Yes, he is my son. If he wins, I'll face concerns about nepotism then. No sense getting excited till that happens. I frankly paid no attention to his entry when it came as it was so ridiculously high. Unfortunately I didn't have a Hurricane Prediction

Machine and missed counting 20,000 homes tossed by hurricanes.

It could go into March this year to come up with the final number. As usual, I'll put out a special bulletin with some color on the results.

Exit Strategy

One of my readers emailed me recently, that I needed to be more open-minded, that I seemed to be closed to new considerations. I thought about that for awhile and I am sure that he is very right; I do need to stay open-minded. Don't we all.

I then pressed hard to ascertain my reluctance to be open and pure to new thoughts and finally settled on my problem. Age. I've now been around the corridors of HUDCodeville for almost thirty-five years.

In my experience, when con-

fronted with similar fact situations, the results have not varied dramatically, the end usually reaching the same or similar results.

My task now has to be, as I've resolved to be more open-minded in 2006, to believe the twenty-first time I've seen the same or similar situations, that the results will be different than the first twenty times. I swear, I'm going to try. Even though the first twenty times, the result was the same.

Finally, a good friend said recently that while I frequently write with ideas, that they are usually "Half Baked". I promise to get a far better oven and try hard to be sure the ideas are "well-done" going forward, rather than half-baked.

And so we start 2006 and I sign off this month.

Looking at buying or refinancing a land lease community, other multi-family property or commercial real estate?

I have good contacts with access to mortgage money. Give Marty a call for a no-charge review of possibilities.

Call Marty.

802-862-1313

Call Today!

802-862-1313

"DON'T THINK MHI MLS SYSTEM IS VALUABLE?"

THE REALTORS FOUND THAT IN 2005, 77% OF ALL HOME BUYERS USED THE INTERNET TO SEARCH FOR A HOME."

Martin V. Lavin
350 Main Street
Burlington, VT 05401
Mhlmvl@aol.com
802-862-1313

Looking for Access to Factory-Built Housing Leaders & Businesses?

Marty Lavin has excellent contacts throughout the industry to facilitate your business or your industry studies.

Call him to discuss it. 802-862-1313 mhlmvl@aol.com