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**Inside this issue:**

Vol 1.	1
I’ve Been Wrong	
Vol 2.	2
Las Vegas Portends	
Let’s Meet	2
At the Congress	2
What about Gail?	2
Challenges?	3
Clayton Gets Ground	3
The meaning?	3
To the Top	3
Economics 101	4
Not that Easy	4
Las Vegas Redo	4
Gail and ARC	4
Big Yawn	5
Improvement Coming	5
Big Pickup	5
Are we back?	5
Sub Prime Thoughts	5
The disease	5
More to come	6
People and Places	6
The Test	7
Accountability	7
Parity	7
Considering It	8
MHL Shipments Contest	8
View It As a Company	8

# Marty’s News & Notes

Featuring news about the Factory-Built Housing Industry  
Contributing to the Industry Conversation...

## VOL 1. I’VE BEEN WRONG

April 1, 2007

For many years as I’ve written this newsletter, I’ve been categorized by some as “negative”. I have not been an industry “booster”. But I’ve seen the light and I now believe I have been wrong. I now see the following:

1. I think there is great promise for the industry and I expect very solid growth starting immediately, probably back to the 250-300,000 homes per year;
2. I believe very accommodative money will return and fuel #1, new lenders crowding the industry to provide ever-cheaper money, with ever-lower credit requirements;
3. Our builders and retailers have adopted posted home prices, MSRP, provide extended warranties, have an invoice database, and they all score very high on the annual publicly-announced J.D. Power report of Consumer Satisfaction;
4. The retailer/franchisee has become a high quality, financially capable and solidly experienced individual, with sparkling facilities, entirely customer focused and customer driven.

You have the rest of the year off and everything is O.K.



I woke up early still in rapture over the incredible industry transformation. Then as I looked around I started doubting the change. A quick look at the clock time and date showed it was April 1, 2007. And it suddenly dawned on me. . . . APRIL FOOL

“If you remain cool, calm and collected, while all those about you are losing their wits, you really are not grasping the magnitude of the problem.”

**VOL 2. LAS VEGAS PORTENDS CHANGE**

April 23, 2007

**Let's Meet**

It was during a conversation with **MHI Chairman, Barry McCabe**, that the invitation came. We were discussing some of the "fine points" of my March, 07 News and Notes, when Barry suggested that **Gail Cardwell, the new MHI President**, might profit from hearing some of my views personally. Gail had several meetings scheduled, my March newsletter spent a lot of time exploring prospectively some of the challenges Gail would have at her new position and, yes, I'm guilty, contained a lot of unsolicited advice for her from Ole Marty Boy.

McCabe is pretty engaged in his MHI role and has been everywhere in HUDville, setting the basis for a new MHI membership operational model, with large "research committees" to be populated by a tier of "doers" and a tier of "supporters", on the thought most in the industry are interested in our affairs, but not all have the time for deep involvement. One of the four annual meetings would be dropped to devote more time to the new routine, and the membership research meetings would be augmented by stepped-up phone conferences and emails, by each committee. Assuming the study is followed by some actual progress towards solution, I heartily approve. My only reservation, and I am not alone if I can believe the comments I get, is that innumerable committee research has been done in the past with no action to speak of. Many fear more of the same. It will be up to McCabe, Gail and the association leaders not to allow the study groups' work to be for naught.

So I agreed with Barry that if Gail and he were interested in my views on some of the items he and I had been discussing from my newsletters, I'd be delighted to offer any assistance I can to Gail and to him.

**At the Congress**

The Vegas MH Congress, which usually draws about 1,500 attendees annually from several countries, but was just over 1,200 this year, again was

held at the Paris Resort, which is beginning to feel like an old glove; it fits well and is familiar. If it's not Caesar's Palace, the scale of the facility and distance between your room and the conference rooms are more manageable. I see next year includes the same venue at Vegas. See you there.

The early part of the Congress included a welcoming speech by McCabe, setting forth an up, positive message of things he thought the industry could do and he also reviewed some of the new agenda for betterment. Especially well received by everyone was mention of the "image campaign" and the attempt to move it forward. The most ridiculous thing he mentioned was a quote from **some nut** who had speculated in writing that perhaps HUDCode housing faced e-x-t-i-n-c-t-i-o-n. How preposterous! Ah, it is preposterous, right?

I spent the rest of the morning working and renewing friendships. The noon luncheon saw **Gub Mix**, longtime industry state executive as the emcee of the annual awards, as only Gub can do them. Somewhere in there Gail addressed the crowd for a short time, being her "coming out" event as she was finally seen by most MHI-ers for the first time.

The awards went on with lots of excellence noted and applauded. And then they were capped by the presentation by **Tracy Burleson of the Propane Council (PERC)** of the **Industry Person of the Year to Kevin Clayton of Clayton Homes**. It's now several years in a row for Kevin and I suggest they make a bulk purchase of that trophy with his name on it. I'm not sure who will knock him off that pedestal in the foreseeable future, but I struggle to find one. Get those trophies ready.

Oh, and again this year the awards luncheon was paid for by the Propane Council, which has been a good friend of the industry without asking too much from it. Based upon the smooth delivery by Burleson, I think she must be well practiced speaking in front of large crowds. It came off without a hitch. And Kevin's resume is long enough so you could fumble. Not Tracy.

### What about Gail?

After the awards luncheon, my turn came. I was to meet with Gail and Barry. All I had seen of Gail was a few glances. A slight woman who could be a college professor or business executive is the fleeting impression I got. We were introduced, then I waited until **Rick Rand of Great Value Homes in Wisconsin**, finished his audience with her, and she, McCabe and I went off for an hour and a half of industry discussion, with a special emphasis on lending, the current situation and future prospects for MH lending. The time went quickly and we delved into numerous concerns and potential improvements that could help the current situation.

O.K. the question everyone asked me after my meeting: what did I think of Gail? My first impression is that she is extremely at ease with people and makes them feel at ease with her. She's darn good with people and keeps an effortless conversation going. The second impression is that she is very bright and has substantial knowledge of lending. It is not necessarily about MH lending because that has not been her field, but real estate lending, to which the industry is evermore moving toward. Her appreciation of lending concerns was evident.

She also is enthusiastic and industrious. She wants to attack things, get them done, make things better. And finally she is tough. I didn't get any SAM's sent my way, but in another meeting with her I saw some launched. If you had any delusion about having hired a milquetoast, forget them. If she's no pugilist, she will more than adequately defend her space and that of the industry, but in a manner that conveys the message clearly, but avoids rancor. Very smooth lady.

### Challenges?

Toward the end of the conference, she chatted briefly with my wife, Pat, and allowed that she had pursued the MHI position because she wanted a challenge. Well, Gail, welcome to "Challengeville". Marty's candid assessment: Substantially more than adequate. Assuming the "senior brothers" of the MHI fraternity, who have all the "black balls" don't cast them at every

chance for industry change, then she can lead us out of the wilderness. But if every initiative is met with NO's from the "big boys". . . well, she can always change the agenda to windmill tilting, endlessly pursuing Washington bureaucrats to make changes for us they don't want to make. In the industry that is considered good form, and "give 'em hell" excellence.

We need to support Gail and McCabe in the very difficult roles they have. This industry is off by 68% since 1998, now running at 91,400 homes per year. If the best industry move is to wait around, doing nothing, for "Conseco type" money to return, God help us.

### CLAYTON GETS GROUND

#### The meaning?

I don't get the **Crittenden Newsletter**, as I can't afford the \$799 price of the annual subscription. But a few weeks back John Diffendal, the ace B, B & T stock analyst called regarding a story in late March about **Clayton Homes**. I think his comments to me indicated some puzzlement over the tenor of the story. I procured a copy. A first reading left me puzzled. What did the story mean? Why was it written?

If you are in HUDville and don't know the powerhouse Clayton Homes has become once the **Berkshire-Hathaway** money was grafted on to the otherwise most successful industry platform already at Clayton Homes, you need to have your mom get you back into swaddling clothes. You are too young to be out and about on your own.

#### To the Top

And while Clayton was not the powerhouse pre-2002 it has since become with the grafted Berkshire money, I wrote back at the time of the Clayton acquisition by **Warren Buffett** that he was getting "the pick of the industry litter". Had the industry continued as in the previous 50 years, enduring a waning and waxing business clime, it would have taken Clayton far longer to get to the top, but always the signs of pre-eminence were visible. Given time, I think they would have gotten there anyway.

In 2000-2001 the ABS market shutdown really endangered the entire "vertically integrated" model Clayton had used so successfully, and suddenly, it no longer seemed like such a slam-dunk to remain suc-

cessful. To the rescue came Warren and the enormous liquidity he wrought. It's what the Clayton business model needed to fuel all the rest, and away they went. Today, of course, they are the 900# industry gorilla and fears exist they may weigh 1,800 pounds soon. And so they might.

### Economics 101

Back to Crittenden. Here is a curious statement, from their article:

**"Now with effectively limitless financing and complete operational freedom, it is important to look at how much Clayton is aiding an MH recovery and how much it is self-serving."**

I don't know where to begin, but let's start with Clayton's inferred duty to aid the MH recovery. Clayton is a private, publicly held corporation. It is not the Public Broadcasting System. As we all learned in **Economics 101**, the first duty of a corporation is to **"build shareholder value"**. I don't remember the professor speaking of any "duty to aid the recovery" or any other altruistic duty. Yes, they do have a duty to comply with the laws, but when Clayton encountered serious problems in 2000-2001, who went to their rescue? None from the industry that I know of. They were on their own.

### Not that easy

Secondarily, while they have "effectively limitless financing", the truth is the Vanderbilt Finance subsidiary and 21<sup>st</sup> Mortgage, their other lender, have not in the last three years originated in excess of \$1.5 billion annually, combined. In a world where Conseco originated more than \$6 billion alone in 2001, that hardly speaks to "limitless financing" with "complete operational freedom". The truth is that Kevin Clayton is said to like his job and industry constraints are such that there are severe limits on what you can do with "limitless financing" in MH today. Having the money and putting it out effectively are two entirely different concepts. Kevin is well aware of that.

Again, I'm puzzled by the intent and tenor of the article. If it is a "Clayton Anti-Trust" caution,

I accept that. If it is some sort of "Clayton has it good and has an obligation to come to the aid of the industry" screed, that I reject. It is contra to the free-enterprise system we all operate under, one of whose main tenets is that one of our most compelling economic features is the freedom to fail. It keeps businesses sharply competitive to survive. I assume Crittenden believes in that. Clayton may well aid the industry, and I think it does, but it has no duty to do so.

### LAS VEGAS REDO

As I bumped into innumerable friends, acquaintances and newsletter readers, I again spoke with a very broad segment of industry participants from builders to suppliers, and all in between. The two

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most common subjects were **Gail Cardwell** and the announcement that **Farallon Capital of San Francisco** apparently sought to buy all of the communities owned by **Affordable Residential Communities (ARC)**

### Gail and ARC

**As to Gail**, the question was how she'd do and could she guide us out of the wilderness. **The ARC question** on everyone's mind seemed to be what the goal of the buyers might be with the purchase. It was

the subject of much speculation. Everyone loves this kind of mystery, especially when about \$1.794 billion is being paid.

The other subject of endless discussion was the "Unpleasantness at the HUDCode Club". At first, in 1999-2001 the overwhelming consensus was that the industry decrease was merely one more industry episode that seemed to feature 3-5 good years, followed by a decrease of 30-50%. Big yawn. Even though that scale decrease is not garden variety in any other industry I know, in Hudville we expected it regularly. Strange.

### Big Yawn

But as the home shipments decreased in 2002 below the 170,000 low mark of 1991, there appeared some deeper concern. Since then, every new shipments decrease is met with a groan, but with a general feeling it ain't over yet. I find little difference in the prevailing industry attitude at 130,000 homes as that at the current under 100,000 homes pace. No one is happy, but few are surprised, or jumping out windows. I'm hoping that as the 50,000 home pace is reached, if it is, that there is a little more alarm than when we first decreased to 150,000, and then 100,000 shipments. We are beginning to use all the runway up. Are you listening Gail and Barry? And Kevin, B.J., Charley, Keith, Joe, Terry, Woody and the rest?

## IMPROVEMENT COMING?

### Big Pickup

What does it mean? Unless your hearing aid battery expired, you've heard of the big reports of pick-up at some industry players. Several of the lenders are well ahead of previous activity in '07, as are some retailers and others. There are scattered reports of improved activity from various sources. Not everyone mind you, but enough to cause some buzz. The aforementioned John Diffendal, puts out an influential monthly report that is widely distributed to investors, investment houses, and industry players, along with frequent special bulletins. He's been fueling much of this new feeling that something is up. And no doubt it is. Certainly in our own small lending operation we've seen better '07 activity. Nothing phenome-

nal, but still better.

John's drumbeat has stirred the questions as to whether the long awaited "bounceback" hasn't already begun. So he, and I, and others wait to gain confirmation of the increase by a show of better backlogs at the factories, and best of all, the long awaited increase in home shipments. So far, neither of those has really shown up and both are still MIA.

### Are we back?

John's comments have, however, stirred investor interest that the "Big HUD" is back, nail guns in hand, with homes built in America for Americans, and everyone else. Yes, yes a noble thought and worthy of happening.

I do not know whether a shipments bounce is about to occur. I am on record that '07 should not be worse than '06, but that is an educated guess only. I find I'm expert on reporting what occurred 30 days ago but far less prescient on 30 days hence. Still, there is investor buzz, and I have answered a number of calls on the subject from investors and analysts outside the industry. But, only a shipments increase will confirm better action.

## SUB PRIME THOUGHTS

### The disease

The sub prime disease, apparently caught by Wall Street investors from the same strain of **greed virus** afflicting this industry in 1995-2001, is now fully formed and is about to erupt from sub prime's chest, leaving a ruptured carcass where untold billions in originations of sub prime loans originated in 2006. It won't be pretty, being a fatal disease for many lenders.

So you understand what gnats we are in MH, here is the scale of sub prime. Last year, 13.5 percent of mortgages originated in the U.S. were sub prime, according to the Mortgage Bankers Association, compared to 2.6 percent in 2000. Overall, the sub prime market was **\$600 billion in 2006**, 20 percent of the **\$3 trillion mortgage market**, according to Inside Mortgage Finance. In 2001, sub prime loans made up just 5.6 percent of mortgage dollars.<sup>1</sup> Our total MH market is about \$26-\$27 billion annually.

<sup>1</sup> From CNNMoney.com

## More to come

From the discord at sub prime will arise many new possible HUDville prospects, or so the thinking goes by many. This will be a big "positive" they say with certainty. We even saw charts presented at Vegas that showed a startling correlation in the past that as site-built declined, we took off. Their good clients came to us. I can hardly wait.

Others balance this off by saying that the sub prime disease is so big that the competitive oversupply of site-built homes coming into the marketplace, most with very attractive pricing and terms will continue to siphon the very customers we covet, past our sales lots and on to the developer's model homes. It has a certain ring.

Ole Marty Boy? He's on record that in his view the sub prime mess will have a nominal benefit for the industry, but getting back over 200,000 homes, even 150,000 seems a stretch. He hopes deeply that he is full of crap, as many suspect, and some say.

## PEOPLE AND PLACES

**Four Seasons Homes CEO and President**, and bright young man, **Austin Baidas**, will have run in the Boston Marathon by the time you read this. The home he displayed in Louisville, a "Katrina Cottage" type, which caught my fancy in Louisville, was rewarded with an award of merit in Vegas.

**Brenda Westfall**, the Commerce, OK retailer was awarded the "Retailer of the Year Award", pretty heady stuff. You could see Brenda was overjoyed as she went to gather her award in a resplendent red jack and mingled with her admirers afterward.

**Jeff Wick, the Wick Building Systems** majordomo is really engaged in a serious investigation of what negatively affects HUDCode housing shipments. He is focusing on the industry model and its impact on chattel loans. I hope when he is done Jeff will publish his findings which could guide some remedies. Send them to Gail and Barry, Jeff.

**MHI Financial Services Division** chairman **Mike Bowen of American Modern Insurance** is deeply involved in crafting an extended home warranty for use in special lending programs. Extended warranties have recently gathered fresh momentum of industry interest.

**Len McGill, of Fleetwood Homes**, their **General Counsel**, has been named associate chairman of the Lending Task Force and was already engaged in research and discussion. Len's a serious guy and will enhance the effort. I spent some time with him in Vegas.

**Nathan Smith and Kurt Kenny, the S & K of SSK Communities** have found that communities were in fact built to sell homes into and their present sales pace is pretty impressive. They weathered this downturn by good analysis of the problems and absolute hands-on daily work, in the field, at the site of the action. For young men, their response has been laudable, and mature.

**Sherry Weller**, the bright young lady from **NADA MH Guides**, announced she is close to her wedding day. I wonder if her mentor, **Vince Pulsipher formerly of NADA** and now retired will give her away.

**Chris Belt of Santiago Financial** is not only a bright young man, but an attentive one at that. I left Pat to wrestle with the suitcases at the carousel as I got the vehicle, then both suitcases came together, and only Chris's quick response kept Pat off the carousel.

**Ron Klein of Origen Financial** has a vision of how the industry can create a better lending environment. Like an evangelist, he works hard to spread the gospel of what this industry can be and has virtually single-handedly kept Wall Street in the MH money loop. Congratulations to him and the whole Origen team for winning the **Retail Lender of the Year Award**, and their lending increases lately, without in any way "dropping their lending drawers". Oh, and Ron's analysis, probably better than anyone else's, on the sub prime mess and whether it will help us; "it's the collateral, stupid." Meaning that our collateral is what dooms us with investors and Wall Street. The ABS MH meltdown after-taste hasn't passed yet and still plagues us.

**Merger, merger everywhere, but not a merge to see.** Being in Vegas, as I walked past this guy, he whispered me over. "Hey Mack, are you in Trailerville?", he said.

I quickly corrected him that the "T" word is verboten and you have to use "manufactured house". "Whatever", he said. What a churlish bore, I thought.

"Listen", he said, "you want some action?" I responded I was with my wife and it would be inappropriate. "No, no, you dumb s--t, I mean some gambling action", he went on. "I'm taking 5 to 3 odds that the MHI-MHARR merger ain't going to happen.

Well, I didn't spend much, but I did place a bet.

## THE TEST

### Accountability

This letter has harped on industry accountability for years. Lenders keep bringing ideas to the industry, but almost uniformly they are rejected. I'm not sure the industry understands the seriousness of the need for some of these measures. The things lenders have been trying to get, especially builder accountability, when it comes to conforming real estate loans were clearly brought home to me at a recent luncheon meeting.

I met with **Opportunities Credit Union of Burlington, VT**, which had been to a non-profits conference in Atlanta, which was attended by many including the Ford Foundation. The credit union people spoke to me about their desire to help with financing factory-build housing, but they, and everyone they speak with, is frustrated by their inability to get **one party** in MH who controls the whole transaction, builds the home, installs, finishes and delivers the home to the homeowner in first class condition. And they do not want it to be the retailer. They would be ecstatic if some day one party of good financial capability, not the retailer, but the builder, would take charge and they could then depend upon the process. Lenders really want this. The need for this assurance is very clear and persuasive with real estate conforming lenders (and chattel lend-

ers pray for it as well).

### Parity

Recently, our industry builders have sought full parity with site-built housing lending by asking for a conforming mortgage program that would offer the same underwriting as site-built, the same pricing, and the same appraisal process, eliminating the need for MH comparables in the appraisal. Assuming this program becomes a reality, this would be a **block-buster, break-through lending availability** for industry builders who have been requesting this, and who need it.

### Need an industry "insider"?

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The primary provisions the lenders seek in return are a home that is essentially visually indistinguishable from site-built and . . . , a sufficient degree of builder accountability to assure the program details are in compliance at the time of home delivery to the homeowner and for a limited period thereafter. The builder, after all, builds the home, controls the home seller, and is the most capable party for lenders to look to. It would be essentially the same accountability as the site-builders offer and which accountability mortgage lenders there have come to rely upon. The split responsibility our industry uses, split between builder and retailer, and sometimes even an installer, leaves lenders looking for the responsible party with no clear answer usually, often with divided responsibilities. Upon problems arising, fingers point everywhere. That just won't fly.

## Considering It

I am very pleased to report that industry builders are carefully considering a builder accountability which "wraps around" others involved in the process, and should the others fail to perform, the builders will pick up the pieces for the homeowner and when appropriate to the lender.

Let's not mince words here; this would be a spectacular industry move by the builders of seismic proportion. It would give a clear message to lenders that the industry builders stand behind their homes, and their process. It would clearly signal that they care about the satisfaction the homeowner gets with their home. And perhaps most importantly, that lenders now have a "protective partner" in the home lending process that definitely encourages a very predictable and rational process for accountability, something lenders must have, and has not been an industry staple heretofore.

Marty thinks this move, should it go forward, and I believe it will, is wonderful news and a great way to signal to the lending world that the industry wants to become a partner with lenders to assure a smooth and profitable process. Heady stuff, indeed.

Failure to follow through on this measure would simply portend the status quo, with no positive news to spur far better industry lending, and better industry lending cannot occur without some of these "partnerships" occurring. Someone has to watch the lender's back.

## THE MHL CORP ANNUAL SHIPMENTS CONTEST

After running at a **92,841 annual homes pace** based on the January 2007 HUDCode home shipments, the pace slowed further based on the February 2007 report. The pace dropped to around **91,400** homes, again bringing a chorus of groans around the industry. The reports of better industry activity discussed earlier have not yet reached the shipments people.

Again, as last month, **Scott Slevak of the Foremost Insurance Company** with a prediction of HUDCode shipments in 2007 of **93,144** was a little high, but still easily in the lead: no one else was close enough to mention.

## VIEW IT AS A COMPANY

When writing this letter and proposing changes to extricate us from the "stupid money lending" which created a defective industry model over the last 50+ years, I view our industry as just one company. In fact there are companies that alone transact more business than this whole industry.

I find it difficult to believe that if any industry participant was running this "company", that after dropping from 373,000 homes shipped to 100,000, that a flurry of changes and moves wouldn't already be made. As we view individual industry companies, they have made many changes. Not enough in my opinion, but they have moved to some degree. But when viewed as an industry, the manufactured housing industry, far too little has been done.

"The Manufactured Housing Industry Company, Inc.", if any of us were running it we would have made many changes because we could easily see that our status quo stance and the depth of our business pull-back was beyond any reasonable expectation of waiting it out to return to the old paradigm. We would know that without action we might be beyond the point of no return.

What amazes me is that people who are smarter than I and whom I respect greatly, do not see this. Can it be so hard, or am I so mistaken?

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