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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...

I PLEAD GUILTY

The contest opens

On January 11 of this year I announced the new **MHL Corp/Marty Lavin HUDCode Annual Shipments Contest for '07**. I've held the annual contest for several years now and its progress has been reported to my readers in this newsletter monthly. It has been fun, as the turbulence attendant our industry has kept people in the contest lead only for short stretches, never a runaway winner from start to finish.

And while the contest was done primarily to have some fun, it has also contributed to keeping many apprised as to industry direction. The progress is used by industry watchers to track the shipments rate. I must admit that there have been times in the past when knowing the direction of HUDCode shipments would have been more rewarding emotionally than in the last 8 years, as with the exception of the large hurricane orders of 2005, we've been on a roller coaster plunge down, starting at 372,800 homes shipped in 1998, the last top, and most probably under 120,000 for 2006. Grim.

Viewed in any light you wish to use, this has been a major industry downturn never before imagined. Yes, we did drop to 212,890 homes in 1975 from the all-time industry top in 1973 of 579,980 homes, but even then, with about 100 million fewer population in the country and still over 200,000 homes shipped,

while the industry was deeply troubled, it was still in far better shape then than now. It rebounded well during that period, reaching 248,000 shipments by 1976, even as the HUD-Code first became effective.

Predictions come

Shortly after I distributed my email notice of the opening of the "2007 Shipments Contest", in mid January, predictions started to arrive. Most of the entrants I knew, and many had an apologetic tagline, that they "hoped they were too pessimistic", and that they hoped the final shipments figure would be better, much better than they predicted. I was disturbed.

Those of you who struggle through this rag every month have read a litany of my on-going concern for what our industry represents, its decreasing role in serving America's housing needs and our futile attempts, thus far, to an effective industry response to the 68.4% decrease in our shipments since 1998. Yes, that's right, a 68.4% decrease and 255,000 fewer home shipments. It is hard to truly comprehend, isn't it?

As I reviewed the early contest shipments predictions, at first I was semi-amused. None were under 98,000 shipments for 2007, and none over 133,900 homes, and the greatest concentration was at 109-115,000, with over 50% of all entrants

at this level. Wow!

While I have always been candid with my readers, and have been pretty accurate with my pronouncements and assessments, I couldn't help but start wondering to what extent I was driving some of this gloom. Don't misunderstand that I give myself too much credit for importance beyond my role, but a surprising number of people download my letter every month, over 72% of all sent, a very high number, and it is widely forwarded to others. **Marty's News and Notes** gets around. And its tenor for years has not been cheerleader-happy.

Wrong impression?

So have I left the impression there are no bright lights to follow? Is everything a complete gloom? Is there nothing we can point to which gives hope for better industry action? The answer is that there are areas of some positive developments arising. While you know I fret about the *pace* of the change, it is *slowly* occurring. Let's look at some of the developments which are beginning to arise, which give me hope.

In my mind, one of the very best and most powerful industry moves is to the J D Power survey of "**consumer satisfaction**" with our new homes. The first results were tabulated in 2006 and reported to the homebuilder participants and to the MHI membership. Portions of the study were also released to the public. I think it fair to say that Power and the earlier Roper Report gave strong evidence we had some distance to travel before we rest.

Again, to repeat my previous comments, I regard this move toward the J D Power survey the **most important step** to create a far better industry model. As a builder, if a good CSI rating has a positive impact on you, how can you allow anyone in the chain of home construction, sales and placement to let you down? Home builders will not be so uncaring in the future about some of their "partners", be they suppliers, associates, franchised retailers, installation crews, lenders, or frankly anyone else who fails to do a good job. Builders must be driven by customer satisfaction, and it starts and ends with them. It's their homes

and they must demand excellence.

Winners and losers

In a highly competitive world, those companies with high consumer satisfaction will hold sway over those seen to be less than effective in this regard. Witness the domination of foreign automobiles over the last twenty years as J D Power annually chronicled the Toyota's quality badly besting the Chrysler's. You knew as an auto buyer that if you bought the Toyota, you would see little of their service department, while buyers of the Chrysler would know the service manager well, very well. Most people having more than enough troubles in their life sought to protect themselves from more as they flocked to Toyota and other "low problem/high quality" vehicles, all the while avoiding the faulty. As the Power survey cuts on our homes, the stage seems set for similar results with HUDs. Assuming educated consumers, why would they act differently?

The Power survey didn't transform autos overnight, but it did transform the industry over time. The level of "faults" any automobile could have has been trending down over the years, as the auto builders strive for **perfect** cars. Competition being what it is, it drives all to do better, far better. And the results over the last 20 years and the quality and longevity of the product today are nothing less than outstanding.

In an industry which has anecdotally and by survey failed too often to live up to consumer expectation, MH can make vast strides because there is much to do, and so far to go. Early indications seem to be leading to this very result, as both the J D Power survey and **John Grissim's "TheGrissim Ratings Guide to Manufactured Homes" (360-683-1458)** begin the public exposure of the individual homebuilders and their homes. As Joe Lewis said, once in the ring, "they can run, but they can't hide". Our builders are all in the ring and have been for a long time. Hiding gets harder everyday.

There's more

Aside from the great benefit I expect from the Power survey and all its tentacles, (aided by Grissim) there are other very important movements. Chief among these is the almost total understanding at this point that **stupid retail lending money** is not mak-

ing its return to spur the industry to the previous industry model of easy chattel loan money availability, imprudently lent to many who could not and would not repay it. If the industry stayed far too long with false hopes of going back "to how it always was", that all seems abandoned today. Virtually all understand the reality, even thick craniums now penetrated.

And what does this mean? Well it means that as industry participants have triangulated to require better action, a new sales and distribution model could be arising. This is likely to be driven by the evolving Title I, chattel financing program at HUD and the emerging pilots at the GSE's for full conforming financing, essentially on par with site-built housing.

And all of this is only possible because the wild and ridiculous lending platform of the 1995-2003 period has ended and much of the hangover manure left from its fallout has cleaned up. Although it still sends investors to bomb shelters when they speak of the bond performance of MH issues, we are obviously on the downhill pull of that tale.

If the present isn't good enough yet, continued progress on loan performance promises better access to capital by industry lenders. It will also happen because if the industry had virtually no loan performance data prior to 1998, there's quite a compendium building now. The loan performance data is now tracking many previous loans, most of which, knowing the details in retrospect, one would instinctively know that they couldn't perform. And they didn't, of course.

So even if it will take some time for Wall Street bond investors to gain greater confidence in the industry, after all we were very bad boys and girls, it is happening even as we pay our penance. Forgive me Wall Street, for we have sinned. (A Wall Street sin is losing them money.) The move to better, cheaper and more consistent funding lies ahead and each time the industry embraces something like J D Power or an amicable and responsible associations merger, proof filters to the world that Trailerville "gets it".

Deeper and better

Better funding will allow many things which are not possible now. A leading lender said to me recently, "other lenders will learn they can approve much more aggressively if they police the aesthetics, site, landscaping, and installation. What do you think?"

What do I think? As a statement of fact I cannot quibble with that statement. I think most lenders know and believe that, except their funding constraints leave them protecting themselves by escaping upwards in the FICO tiers. We all know this is a pretty small business if we only want to originate 725 FICO business. (Site-built mortgages would be a fraction of what they now are operating essentially in this tier.) And their funding constraints block more aggressive underwriting, which while still profitable, is still too "out there" for the available money spigot. Confidence in the investors is not yet established.

The effort on **HUD's Title I**, the chattel component, likewise can serve to spur far better lending as the money supplied there can be relatively inexpensive and very consistently available, not requiring a high rate of return on the loans. As an example, **GreenTree Servicing** exited industry lending, after finding the return, cost and availability of ABS money unequal to other opportunities. Everyone in the industry believes the Title I program is necessary and HUD and the industry concur that strong measures must be taken to assure the viability of the program. False expectations of wildly accommodative lending programs from HUD and others are gone. Everyone knows every lending program must stand on it's own.

The forgoing mesh cleanly with various other initiatives, including the GSE's new programs, an expanded desire to make resales perform far better for their owners, and a fixation on "building value for our consumers". Empty words you say? Well, yes, often they have been such by the industry. And even if they are still a little hollow, there is no question that most industry players comprehend that this is where the battle is joined...not in Washington jousting with bureaucrats, but focusing without distraction on building consumer value. As one builder said to me: "The HIA of 2000 is almost irrelevant to me. So long as all builders are dealt the same, we'll adapt and do just fine." I couldn't say it better.

Frankly, as the value noose tightens, those indus-

try segments which do not focus on building consumer value and think salvation is to be found in the edicts of the regulators, are most likely to be **dead meat**, the buzzards hovering over these builders failing to make seismic moves towards better consumer value.

My favorite

In addition to the foregoing, I refer to the **Industry Image Campaign** for which I've fought so hard and so long. No, this is not only my vision, but one shared by many. I think it is getting close. Push every industry leader you know to embrace this campaign very soon. Remind them that even if the industry is not entirely where we'd all like it to be yet, spending advertising dollars to tout and educate will add an extra layer of urgency for us to conform, so we are "walking the talk".

Further, educating the public on the role of factory-built housing in our nation, the advantages to building homes in a factory, and a professional correction of long-held public misperceptions has nothing to do with whether we are where we want to be in all other regards. Things like these can and should be addressed now, immediately. And, ... I am told we get ever closer to the image campaign. Bravo!

Notice how these things dovetail, a drive for better consumer satisfaction, and a dedication to doing those things that build consumer value, are already showing. This is likely to create an obsession to deliver a far better consumer equation. Industries are like three-dimensional puzzles; keep any one necessary element out of the mix, and you can't make it stand. We've now recognized that the post-1998 realities have bitten and only those who accept its verdict and bend to the will of the necessary flow will prevail. Those refusing to bend will be snapped in half by the strength of the flow. That much I know. You are in the ring now and you best start defending yourself.

So are these half-positive trends I describe for real? Yah, I think so. In spite of a decreasing home shipments trend line for 2007, I personally think the **shipments bottom has been**

reached, and if we are not off to the moon yet, we are also not sinking further into the **Grimpen Mire**. (As always, make no life changing decisions based on my deranged shipments speculations.)

Finally there are powerful moves being made by powerful people which could revolutionize the industry. It will, along with J D Power, force true awareness that if new financing programs are in the offing, they can only succeed with industry restraint, followed by our ability to educate and influence the public that factory-built homes are an important mix of our overall housing. Discipline, restraint, aggressiveness, sound marketing, and meeting and surpassing the consumer's expectation, that is the course upon which the industry has embarked. Can it be that far off course?

Caveat

If after making substantial efforts at effecting the items I've discussed above, we still continue to drop, or stabilize at low shipments levels, we will be left with a far more brutal conclusion than the one we now have. If after doing these things above we find no solace, the inevitable conclusion must be that the role of factory-built housing in America is, for the foreseeable future, an extremely minor part of the total housing mix.

One of these ends is in our future. I like to think that as we've isolated the failings of our industry and worked to correct them, a growth scenario is a definite possibility. I am not alone in that conclusion, but..., it will not happen by itself. We need to **make** it happen.

Need an MH industry expert witness?

Marty Lavin is an attorney and appears as an expert witness in complicated manufactured housing lender liability and fraud lawsuits.

Call Marty at 802-862-1313

LOUISVILLE

I had to work to get to Louisville for the show this year. My projected opening day arrival at 10 AM with a full show day on Tuesday and again on Wednesday was frustrated by the snowy/icy conditions in Burlington. Whether it's closing schools or canceling flights these days, the hook comes out quick.

I didn't get to the show until mid-morning Wednesday and was able to make a whirlwind tour until the show closed at five PM. And what did I think about show activity and what were the rumors running the floor?

First the show itself

The display space such as it was, seemed pretty full, with many suppliers I've not noticed before. I do understand that show space and displays have reduced pretty dramatically over the last several years (40-50%). Still the home displays were ample and several noted to me that they felt the "affordable" segment was better represented this show than in most recent shows. Single section homes, in short supply in past years, often overwhelmed by the many gorgeous upscale homes, were more evident. Not to say that there weren't plenty of absolutely stunning homes, there were. But there were more singles as well. Several land lease community owners commented favorably on this trend.

Cottage Trends

What really drew my attention? **CEO and President, Austin Baidas of Four Seasons Housing**, bright young man that he is, met me at his large display. I had already heard of his "**Katrina Cottage**" long before I got to it, and when I did, I was enormously impressed by the cottage. It was an absolute stunner, "Tara" in miniature, crossed with a short New Orleans "shotgun", all with style and panache. I heard more than one attendee remark on the captivating style of the cottage and as I toured it, I was impressed. Like everyone else I thought to myself, "Damned, this would make a great guest cottage". The home got a lot of buzz.

Oh, price you ask? Yes, I wondered the same and asked Austin. Around \$40-50,000 was the answer. Trendy for a one bedroom single section you say? Yah, maybe. But I recall reading in the Wall Street Journal recently when the "Katrina Cottage" was all the rage that Lowe's Home Improvement Center was marketing a Katrina Cottage for \$75,000 as a kit. So you can pay Lowe's \$75K and you build it or Austin can build it for you for \$25-35K less. Sounds like a deal.

I know Austin's bringing it to Tunica to show the various agencies scrambling for housing in Mississippi, what factory-built housing can do beside the \$23,000 HUD singles sitting in that Arkansas holding yard. How successful Four Season's home will be I do not know. But I do know that the home I saw absolutely will not embarrass this industry. Quite the contrary, it will enhance our image. We need more of this innovative product.

HUD or Mod

Oh, speaking of Austin, as we stood in his display space surrounded by 8 or 9 homes, he casually asked whether I could pick out the **two modulars** of the group. Gulp! I'm not a home expert, far from it, but in general we all have an idea of what we think HUDs are like and how we distinguish them from mods.

The two homes I quickly selected as mods were *both* HUDs and the two mods looked like run of the mill "doublewides". One of the HUDs would have fooled anyone, perhaps even an expert, and in thinking of all the talk of high-end homes, here was graphic proof in front of me of what we can do if we want. No excuses need be made for these homes if properly installed on a well-landscaped lot, in keeping with the area. None.

Not only Four Seasons, but several builders had upscale HUDs that prove the point that we can build HUDs that are indistinguishable from site-builts, in and out.

Punk Mood

As I wondered the hall speaking with known industry stalwarts and many I did not know as well, one theme was undisputed by everyone I spoke with: the general mood of the show was punk. Attendance was low, enthusiasm muted and far too little activity was

occurring. For the 15 or so years I've been attending the show recently, I must say with regret that it was not an encouraging visit. Quite the contrary.

It wasn't the displays, it wasn't the people manning the booths. There simply wasn't enough activity from show attendees. For once you had the feeling that compressing the space into a far smaller building might have helped create an air of greater activity, which was sadly lacking. The people manning the displays feed off attendees' excitement to create excitement for themselves. That aspect was wanting. Too bad, I was hoping for a blockbuster beginning to the year. That eludes us so far.

Rumors, rumors, I hear rumors

I understand **Rick Rand** and **Jim Reitzner**, both of Wisconsin, drank together, regaling a coterie of friends with tales of "how it was" in the industry before Noah's flood.

I heard the **image campaign** is very much front burner stuff and one or more potential methods to raise money to do it, (\$20 million annually) are on the possibilities checklist. More in Austin, TX, I'm promised.

I hear the "**Search Committee's**" effort to find a replacement for the departed **Chris Stinebert**, former **MHI President**, is in the hands of a professional search firm and possibilities are being found and others are throwing their hat into the contention ring. **Jim Clifton (301-545-1115)**, former MHI economist who made a lot of friends during his tenure is considering a run at it...

The word in the halls is that the **MHI-MHARR Merger** which has been in negotiation since the famous (infamous) July '06 Chicago meeting", is stumbling. Apparently the culprit is a divergence of opinion on major matters of policy and operation. I can report, however, that both sides continue to make *earnest attempts* to reach an accommodation. If two associations were one too many at 373,000 HUD homes in 1998, I wonder the status of two at 115,000 shipments. Just wondering.

Isn't it strange that some industry participants who are **doing reasonably well** are apologetic about it. They see so much distress by other industry participants around them that it makes them edgy to speak of their success. But yes, some do report to me they have found a way to succeed despite the challenges. Many keep it to themselves.

If the **Berkshire-Hathaway Group** buys every industry company I heard rumored was under purchase consideration, we all better learn to speak Omahaese. Can they buy them all? Do they want to?

There continues to be concern in the industry that the **lack of chattel volume**, competition from local banks and the funding availability/aggressiveness of the **Berkshire Lender Duo** could force one or more of the remaining industry MH lenders to retire. You hear this refrain with increasing regularity as the feeling grows that with decreasing home sales, there just is not enough profitable lending volume to go around. I hope that is a mistaken belief. If GreenTree Servicing's departure recently was the last one, that would be OK by me.

One of the **prevalent rumors** consistently encountered concerned builder A or B or C, all of whom had substantially decreased home volume, and were said to be in extreme financial straits. Some were questioning whether they were a potential takeover target. Others, whether they would reorganize or take one more downsizing move. The rumors run strong and persistent, although it saddens me that such distress is occurring. The **industry overcapacity** either has to be re-utilized by a strong growth in shipments, or it has to disappear leaving the remaining competition more viable. One of those beckons soon.

THE MHL CORP HUDCODE SHIPMENTS CONTEST

has almost whimpered to a conclusion. After a general belief by contestants in early 2006 that home shipments would tend to stabilize, they instead took a decided downward trend for the year.

No *hurricanes* hit the mainland in '06, so one of our **growth triggers** of the recent past was entirely lacking. And while we still get reports of FEMA's inability to get needed housing to Louisiana and Mississippi Katrina homeless, the difficulty of getting HUD-

Codes homes into livable sitings has kept the Arkansas HUD home inventory high, in the holding yards. Seems that our homes, specifically built to be moved over the road to a useful living location have instead grown roots in Arkansas, becoming affixed to the soil in those holding yards. Wonder if that will make them grow?

For the last few months **Chuck Ladd of Roadmasters Transport, LLC** has led both the contest categories, the all-in including FEMA, and the normal category without FEMA, with **117,500** and **114,000** homes respectively. We will not get the final home shipments figures for 2006 until after the Austin MHI show, but barring the greatest comeback since the "Hail Mary" pass, this thing is done. And since there are none

who predicted shipments lower than Chuck, he cannot lose on the downside. If the past contests have been close right to the final count, the 2006 contest did not follow that trend. Chuck has been in the lead for several months now and it became obvious he was "the man".

Final Call

On January 11, 2007, in Orange County, CA, **John Crean**, the founder of **Fleetwood Enterprises**, died at the age of 81. I didn't know Mr. Crean personally, never having had the pleasure. If the newspaper reports and reputation are of any consequence, he was a man of great abilities and accomplishment. Yes, this industry, small as it is, has spawned some good ones.

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