Volume 7, Issue 3

"A NEW BEGINNING?"

MARCH 2007

Martin V. Lavin

Marty's News & Notes

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

Inside this issue:

A NEW BEGINNING?

Rumors Flow

The rumors started to flow during the MHI President search committee's work that this candidate had been eliminated, or that one was still in, even as the committee went steadily about its work of trying to find a replacement for the departed MHI President **Chris Stinebert**. He went on to bigger and better things at another association where he no doubt has different challenges, but they'll still be there. I doubt very much the challenges are greater there than at MHI, though.

I heard back that the large original list of candidates, maybe in excess of 100, had been cut to 8 and that amongst that group were at least *two women*. Yes, you heard right, **two women**. And reputedly, one had done very well on her initial interview and the other less so, although both had outstanding backgrounds. Still in the final hunt for the job then were **Michael O'Brien**, the **interim MHI director** and **Dick Ernst of Finmark**, of Texas, who just before Stinebert had also run MHI on an interim basis. Both men had the experience and wanted the position.

The committee kept digging and interviewing candidates, and some were asked back for a final go-around. It was at this final interview that one of the ladies apparently just conquered the search committee with her poise, assertiveness, and the right answers to all their questions. Apparently the second interview left her clearly as the outstanding candidate. She seemed like the one and was soon offered the job.

Rumors Confirmed

By Thursday or Friday, around March 2, 2007 the emails were rolling around that a candidate had been selected, but had not been publicly announced. I knew this event was to be one of the main thrusts of my March newsletter, so I contacted MHI leadership to confirm the rumors of a choice being made and the identity. The rumors were confirmed but I was asked to hold the announcement publicly as the new candidate had not yet given notice at her old job and details of the new one were still pending. This was on a Friday late March 2, and the feeling was that probably the next Monday the choice would be announced. Monday came and went and not until the following Thursday, around 1 PM, did the email come with the confirmation the deal was done. A "girlie" was to head "Trailerville". Sweet Geezus, if I've been looking for industry change, can it be far off? A female in charge!?

Let me be **real clear** here. When I've had my own businesses, I have always had women in positions of high responsibilities and have always liked the highly directed attitude most women bring to the job. Men can be like wandering dogs. They have all these haunts and you never knew exactly where they are and why. Women seem far less afflicted by this defect and they are usually easy to find; on the job and working. Certainly in business, that has been my usual observation. So hiring a female for this job is **fine by me** and I applaud the selection. Further, if state associations are any guide, there are a number of very effective women there.

Choice Made

Hired to be the new MHI President is **Gail Davis Cardwell**, who was **Senior Vice President of the Commercial and Multi Family** section of the **Mortgage Bankers Association (MBA)** since 1991. She's been a senior investment analyst, and a commercial real estate appraiser. She has degrees from Georgetown and Harvard. Obviously we are speaking of a person with a good pedigree as she comes to HUDville. (See her resume on my web site on the home page.)

Outstanding in her background for me is the fact she comes from the real estate industry and that she has experience both with Wall Street and the ABS markets. For 30 years I have been saying that the cause of many of our problems in MH is that we refuse to adopt most of real estate's methods and protections. Without them our loans under-perform and people outside the industry are skeptical of our operating methods.

And while it is good Gail knows her way around Wall Street, she'll have precious little success trying to explain our MH bond's poor record of performance over the last 10+ years. Where her ABS experience will help is looking MHI members directly in the eye and clearly state for them why our present industry model *will not allow* us a much better lending environment. That she can do with an expert background.

Very Positive

Let me be very clear about the choice of Gail for this position. Marty is very much in favor of this move, thinks the search committee did an outstanding job, and thinks she brings unusually suited talents and background to the job, just the type needed. With her substantial Washington, DC presence with the Mortgage Bankers Association experience, the strong reputation that organization casts will halo Gail for a while, their good acceptance giving her an early opportunity to meet people on a positive basis. That is something MHI cannot always say about the acceptance of HUDville in DC circles. It won't save her forever, but it will help her initially, and follow her awhile. Then she and the industry are going to have to make it on their own.

Baby Steps

I haven't met Gail. I'm going here entirely based on what I've been told and her resume. As an industry, we flatter ourselves if we think we share much in common with the Mortgage Bankers other than the fact we are both Washington, DC based associations. Beyond that MHI and MBA have little in common. They have many friends, while we have few, beyond our PAC buddies. (Are they "friends"?) As an industry we've created a lot of animosity and very few friends. After endless paying of polling firms to tell us how bad we look to the outside world, virtually nothing has been done by the industry in response.. Baby steps with little to show are the only attempt to correct, even as the January 2007 shipments pace is at **92,500** shipments per year. Yah, no misprint, 92,500 homes, from a high of one home sold for every 345 persons in this country, in 1972 and 1973, down to a pace of one home for every 3,243 of population, at the end of January, 07. This is a **decrease of 89.4%** since the industry top in 1973. Can you spell e-x-t-i-n-c-t-i-o-n ?

As we endlessly seek help at HUD, Congress and elsewhere, they all sit there little moved, as we make no attempt to correct the incredibly flawed treatment we provide of our consumers, and various other industry weaknesses. We speak about the enormous repossessions we had from 1999 to today and how it impacted this *industry* in such a negative way. And it was a disaster of biblical proportion.

But other than in an article by **Don Glisson, Jr. of Triad Financial**, several years ago in the **MH Merchandiser**, how often have you heard an industry *mea culpa* about the more than one million persons who lost their manufactured homes to repossession in the last 8-10 years? Home repossessions cause broken families, loss of jobs, kids changing schools, and traumatic experiences for the borrower and his family. But little or no concern was reflected from industry sources, the industry lament entirely about how these repossessions affected us, not our customers and their families and lives.

Investor Losses

And where were the concerns about the Wall Street ABS bond disaster, as investors and lenders lost billions. Yes, the money flow stopped and we lamented that. The industry's lenders were heavily impacted and they formed Lenders Best Practices to try to correct. That action was beneficial for both sides. But the rest of the industry really believed that Wall Streeters are "big boys" and they just need to "take their lumps". Tough titty. No tears were shed, no moves made in the industry to correct the flawed manner in which we operate as an industry, and that manner holds sway *even to this day*. Of course, Wall Street knows and money is still very scarce.

For 60 years this industry has prospered primarily because of flawed lending. The lenders' losses subsidized the industry, as naïve, stupid lending money, with insufficient portfolio performance knowledge, would come into the industry to buy loans. They would bring a lending program they felt was fully protected by those "high interest rates" available in MH. They figured 12-21% total portfolio losses over the portfolio life would occur, so they lent heavily in leasehold communities, where the easy loan action was to be found. And in 3-5 years, the wall would be hit by lender loan delinquencies, defaults and losses, chasing that lender out of the industry, at times out of business entirely. Their portfolio would be bought by another on the cheap, the mess would get cleaned up, and yet another eager lender, drawn by those "high rates" would arrive to start the process over again. Over and over again this happened, the industry slid back and forth, up and down, repeatedly since 1950 to 1999. But since then it's been straight down hill only.

ABS Arrives

By 1988 the final naïve/stupid money had arrived from the Wall Streeters, who as we are now seeing in sub prime mortgages, do know how to overdo things. The bad news from the industry perspective was that not only did Wall Street drop us like a hot potato when they started losing big money, but far worse, Wall Streeters keep good books. They started tracking the performance of the MH portfolios, and for the *first time ever*, anyone who cared to read, could find out that in the general run of land lease communities, what was commonly believed to be a 12-21%-losses business, really was a 35-75% loser business. Even if you charge Mafia interest rates, you cannot prevail, because if you don't collect the interest, the rate is irrelevant. And charging the high rate was far easier than collecting it.

Since this portfolio performance knowledge has become pretty wide spread since the early 2000's, and I'm told even the Sherpas in the Himalayas know it, let's just say lending on a chattel basis, especially in LLC's has been, shall we say, "constrained". Even with high 600's FICO's in these placements, a lender struggles to prevail. Since all MH lenders in the industry know this fact, and lots of banks and credit unions are right now having their memory refreshed again, chattel placements have swooned. In a former MH lending world where up to 85% of all loans were on a chattel basis, with the majority going into LLC's, is it any wonder that in order to have some resident occupancy in many LLC's the owners have had to resort to rent-to-own, no-green-card self financing, and let's sell out for the higher and better use? Substantially more than 100,000 new homes (pushing 200,000) are no longer being sold because they cannot be financed. The number of chattel-financed homes going into communities has been devastated. There goes the industry, or at least the industry we once knew.

Industry Response

So what is the industry's response? Why, nothing, of course. They are all still waiting for the return of stupid money. Gail is coming on board only because Stinebert left of his own volition for a better job, otherwise Chris would still be there. Which brings up an interesting thought.

Recently, a well-known industry figure started asking around to whom Chris Stinebert reported. Well now, that's easy, to the MHI Chairman and to the Executive Committee, got it. But it's not quite that neat. Who told Chris what to do and what to say? Who or what drove his agenda? That one requires a little more thought, but after the question was asked, I gave it a lot of thought. I concluded that Chris never had a positive agenda. He reacted primarily to the negative thoughts of powerful association members, those individuals numbering not more than 5-10, and the whims and wishes of those same people as they endlessly spurred Chris to get third parties, like HUD, Congress, and others to do things for the industry, which they had no intent or desire to do. Sounds like an easy job, it's called the Windmill-tilting.

It follows a standard formula. Always, almost without exception, there was a contestation. An industry that should be in front of the wish-grantor with hat in hand, is there with a bludgeon, *demanding* things endlessly. No thought of cleaning up the mess we had made for ourselves and our customers. No, we were *ever demanding*, *"negotiating"* with people who have precious little incentive to negotiate. And if they don't favor us, let's run to Congress to get help to bludgeon the intractable. This has been a brilliant strategy as we continue to get everything we want: **not**. Instead, we harangue endlessly and it goes nowhere. We are chasing the *same tails* now we were chasing 5 years ago, and 10, and even 20. Same tails.

Failed Approach

You would think an industry inhabited by people as bright as the average in other industries would ultimately comprehend the failure of this approach, but during Stinebert's tenure they never, ever did. Jousting and tilting, the mere engagement sufficient for blood sport of the cheering masses. Go get 'um! Chris could never sit down, take those 5-10 "bosses" at MHI and get them to ***focus on a cure***. Yes conferences were held, speeches given, but always someone, different ones for different causes, dropped the "black ball" on change. Chris finally got the hint, and did what they wanted. He thus saved himself and was deemed irreplaceable as he fought hard to get "our points". Problem is, most of what we sought would have little real impact for us, and others were simply demanding industry subsidy from people not in the subsidy business! Obviously, two very bad results.

We would carefully shepherd a bill we wanted through Congress and at midnight AARP or Consumer's Union or whoever, would come in and with 3-5 minutes of their testimony, the bill would go into the "holding tank", shelved for more study. *We got no friends*. We are tolerated at sufferance at municipalities, zoning boards, consumer boards, Wall Street, HUD, Congress and elsewhere. No one will lift a finger to help us, no matter how much Barney Frank and his buddies want us to help the nation in the affordable housing segment.

So now as Gail comes in, I can't tell if she is the type who will do what no other President of MHI has done in my lifetime; hold a mirror up to the industry and ask it if that is what they really like, if it gets the result we want. And tell them that if they want to continue the same tired course, if they can individually find a way to succeed at 92,500 shipments per year, then everything is all right. No need for change. And up to now, that is the decision the industry has made. There is no need to change.

A Strong Leader?

I'm hoping that getting a strong female who apparently was candid during her interviews that our whole agenda needed study, will translate into action. The selection committee is pretty progressive. If at one time we thought we could go into survival mode for a while and then have the industry bounce back to far better action, you now have to be pretty silly to think any of this will happen by itself. Can Gail look at the "good ole boys" in the eye and do what apparently Stinebert never attempted; a follow through to fruition to many needed industry changes, most of which will seem to burden the industry, but without implementation, there can be no positive change? After all, as we read Stinebert's parting advice to the industry it is pretty obvious he "got it". (On my web site.)

What would cause the industry to change by itself for the better? What is the catalyst for that change? Some silly people are out there touting that the major reverses in sub prime real estate lending will benefit HUDCodeville, that this will be the catalyst for better MH action. What??? By definition, the sub prime mortgage business deals with sub prime applicants, those primarily with 620 FICO's and less. Don't the people mouthing this nonsense understand that we cannot and do not lend to sub prime persons anymore? We used to, up to about 2001, but that's gone now. And that's what brought us down, in any event, we know it won't work. And someone is either going to lend us money or use their own to lend to this tier? Save me, Mother Teresa.

So in order for *us* to profit, we have to assume that as the tightening at sub prime progresses, that money heretofore being siphoned to them will find its way to our pockets, so *we* can lend it to sub primers. After all, while the total dollars lost in this sub prime real estate will dwarf the money lost in MH ABS, I'll bet you an apple that the *percentages* of losses and bond downgrades at sub prime will not *remotely approach* our MH ABS record, which amazingly, is still seeing elevated loses. Even MH portfolios 10-12 years old now are still losers. Hell, you would have thought everyone who was going to give his home back for a loan he took out 10 or more years ago would have gotten around to it by now, but hot-damn, they are still sending them back! Unbelievable! I wasn't expecting it. Into the Valley of Death….

So into this quagmire, of the most startling losses perhaps ever seen in any ABS bonds, money is going to flow back to MH, the "King of Sub Prime" historically. And the Wall Street rating agencies are so heartened this will happen, that **Standard and Poors** continues most sour on MH and **Moody's** has a better disposition, but touts that an over-collateralization of 12 or more percent may have to be "built into" any future deals. Over-collateralization means leaving a bunch of your money in the deal until certain performance figures are met years down the line. It is one of the better ways to go cash-flow broke making a profit. Profits on paper are nice, but if you have to borrow to get your cash out, one is reminded of New Century Financial, the Sub Prime Bad-Boy Poster Child. Those warehouse lines of credit and other loans they used to buy loans were great, until they got called, requiring the payment of all their cash to handle their lending lines. Whenever you are in an over-collateralization situation, the eventuality of a call on the loan you take on to cover it is ever present. I can tell you from experience the calls on those lines of credit or warehouse loans have a way of coming at most inopportune times.

So yeah, I'm into it. It seems certain that the sub prime morass at real estate should spill over to *help* MH. Their deep sub prime customers will become ours. We need more as we don't already see enough subprimers now at our sales locations. I can hardly wait.

Direction

Can Gail prevail? Will Gail prevail? And what does she have to prevail at? I know I am repeating my mantra, but the industry has **two major weaknesses**: They are, in order of importance:

1. Too much home value depreciation in many types of placements, especially in land lease communities. (**Home value depreciation**.)

2. A severe weakness in the manner in which we sell and deliver our product to consumers, and their experience with us after the sale. (**The Roper Factors**)

The first, on **home value depreciation**, is so self-evident, I don't know why there is any controversy. Note that if our homes tended not to depreciate, most of the problems we all know about would not exist. Can you say that about *any other* factor? Lending would change dramatically better and this episode would end. Find a way to stop, or at least decrease home value depreciation, and you are back in business, forever.

The **Roper Factors** need correction because our poor business comportment impacts the negative degree to which many consumers view us, decreases our friends in government and limits our juice with regulatory groups, consumer groups, and others who have control over us. This is not the important issue home value depreciation is, but correcting it will help value depreciation on the margin, and better yet, get us more friends. It is also far easier to correct than the value depreciation. And who has too many friends? Not HUDville.

We'll see if Gail understands any of this and can convince her "boys" (and yes, her girls) of the need for action. The past record of MHI and the industry has not been good.

BILL TURNEY

If there was a nice man and a likeable one at that, he inhabited the body of **Bill Turney**, the 70 year old who worked for the **Florida Association** for years. Bill died on March 20th in St. Petersburg. Here was a man who will actually really be missed. He was that pleasant.

DUELING BILLIONAIRES

I note there is a bit of a difference of opinion by two multi-billionaires about the role of *land lease communities* in this industry and the customary annual rent increases so well established in that sector. **Sam Zell of Chicago and Equity Lifestyle Properties**, has one outlook and **Warren Buffett of Clayton Homes**, another. Both are major community owners, both with well in excess of 30,000 homesites. I leave it for you to research the statements by both in the last year, but I tend to agree with the statement that says that if you are passing on LLC rent increases annually which are in excess of the earning capacity of the residents, you are on the wrong trail.

I've done a lengthy 10 year study on the subject and I am persuaded of the damage a landlord does with an aggressive rent increase policy. I assume the present constrained lending environment coupled with aggressive rent increases in LLC's will cause some occupancy mischief. And it will not only affect the resident, but the landlord as well. This trend seems most prevalent in blue-collar, working-class communities. But , what gets around, comes around.

SUBSIDY

A comment

Some years ago in a meeting with a powerful person on the "other side", the statement was made that absent *some subsidy*, the MH industry was *likely to struggle* in the future. Prescient! This statement was made as the subsidy the MH lenders had made the industry through bad loans was ending. After all, if a customer is financed who has a very high probability of defaulting, and upon repossession the home is likely to lose a good share of its loan value at sale, that lender has just transferred his money in a form of a subsidy to the industry, from the builders on down. The industry is now suffering because this subsidy has been pulled, lenders cannot afford to lend in the old manner. They'll go broke, and many did.

This industry is always casting about for a subsidy from someone, with a notable lack of success lately. In my mind there is only one subsidy which the industry should be seeking and which would revolutionize the industry. I refer to a "Section 8" type subsidy to help people <u>buy</u> affordable housing rather than renting it. You know there is a "Section 8" program that helps low-income persons pay the monthly rent on their apartments. That subsidy can be around $700-800 or more. Just think the home a person could buy from MH with $700+ available to them per month in the form of a government subsidy, to help make the payments.

It's Hard

I know all the reasons why it will be difficult to achieve, but it makes so much sense, it hurts. Let's cut back on all those HIA 2000 meetings and requests, none of which will sell one more home, and concentrate our efforts where it would really tell.

Our problem is that our buyers have difficulty paying for the purchase of their homes from us. Many are fully satisfied with MH living, but we can't help the vast majority who want to live in our housing get a loan as they are unlikely to pay it back. This is a job for government to get involved and help people make their monthly mortgage payments just as they do for rent payments. I think our average customers, many with family incomes of $30-35,000 per year, need and deserve the help for homeownership, instead of mere renting.

And don't tell me this program already exists. Under its present provisions the existing program is a complete non-starter, entirely without merit. In a nation starved for affordable housing, its supply should come from us and it can only be done with government's help. This one deserves a full-court press, especially since affordable housing is so much geared to lower income people who need the help, and can't handle it on their own. And it isn't as though "subsidy" is a dirty word in Washington.

THE MHL SHIPMENTS CONTEST FOR 2007

Down, Down

It's no big news anymore. News of *low shipments* that should have everyone going nuts, is greeted with a mournful yawn, just one more step on the way to extinction of many in the industry who are still hanging on. Any business plan made more than six months old is already obsolete and most must feel powerless to change for the better. Down, down, the shipments go. Is there a bottom?

The January shipments numbers were sent out in early March and it drew my breath away. Not that it was unexpected, in spite of tales of more lender applications and selected home sellers with glowing reports, most activity is still *pretty slow* out there. It may be that the reports of better activity could ultimately translate into better shipments, but I've seen too little corroboration to buy it *yet*. Even with these tales of "better activity", we just dropped down to 1950's shipments numbers, when US population was at least 115 million fewer people than populate the country now. This harkens back to a time when they were filling those trailer parks across the road from the main entrance to Los Angeles Airport, all now long gone. We are talking about activity levels occurring where even in this industry it was OK to say "trailer", as we hadn't dreamed up a "better" term yet.

Gut Punch

As the January shipments report hit, a **41.1%** decrease was the first thing that caught my eye. I knew January '06 had had some FEMA shipments and we are no longer supplying homes to FEMA. So the comparison would be at least partially unfair. But still, 41% decrease? That's a lot. And it dropped the annual shipments pace to 92,841 homes (thank you for the computation **John Diffendal, of BB&T**, the famous MH analyst. Phone 615-340-8284, email jdiffendal@bbandtcm.com) This is "a new cycle low, a bit below the 96,000-99,000 level of the prior three months", says John. Goody!

And of all of the entrants in **the MHL Corp Annual Shipments Contest**, who was closest to the mark for the present shipments run rate? That would be **Scott Slezak** of the **Foremost Insurance Company**, with an entry of **93,144 homes**. While I'm sure Scott is pleased he was so "on", I'm not sure he or anyone else in the industry is very happy about it. No one else was within thousands of homes from the present pace.

Now we await the February shipments call looking to confirm all that chatter about increased activity. Is it really happening? I see little evidence so far, but I live in hope.

MARKETING OURSELVES

I opened the February Journal, and there was the title: **"Why it took Wal-Mart so long to Embrace Marketing"**. I chuckled. One of our boys in "this" industry was ballsy enough to dare criticize one of the world's largest companies; one of its most successful, and one who's managed great growth very well. Even in the mature status it's reached as a company, one of *us* is telling Wal-Mart, America's favorite, how to market. Preposterous.

But, after reading the title and scoffing, I sat down and read the piece by **John Graham**, who writes the monthly column on **Sales and Marketing in "The Journal"** and is a sales and marketing consultant.

There is no question Wal-Mart has been the targeted poster child for a certain group of people in this country and elsewhere who only like things to be big if they are government and taxes. A large company like Wal-Mart stands for everything they hate and in the last ten years they have repeatedly frustrated new store openings and championed the imposition of special mandates and constraints, meant primarily to ensnare only Wal-Mart, and no one else. Frankly, Wal-Mart hasn't reacted too well to the new opposition directed at them.

If you haven't read this article, you must read it. Look at it with an eye to the things Graham says which are so applicable to HUDCodeville. Think about how poorly we've marketed ourselves and the lessons we need to learn as we entertain proceeding with an image campaign in MH. If this article doesn't convince you of the need both Wal-Mart and MH have for a proper marketing campaign, then nothing will. On my web site for you to read. (www.martylavin.com click: John Graham Article)

CONTINUATION?

Parting thought

If we've brought Gail in to have a continuation of the last 20 years of inaction at MHI, then she'll soon keep her bosses happy with windmill-tilting and the masses will have the circus they love in a full three rings style, cheering every failure as we continue to strike out on things we really need, as we chase will-o-wisps, like HIA 2000.

I'm reminded of the situation where one has an extremely urgent task he must attend to. But he does not relish doing the task. So in order to make himself feel as though he is accomplishing *something*, he finds minor make-work tasks to do. They are relatively unimportant, but they assuage one into believing that one is accomplishing much because he is so busy. It also allows one to avoid doing what he really should be doing, because the real task is difficult, or uninviting or whatever. But deep down we all know it has to be done, but we stay real busy with "make-work", thus avoiding it.

I contend that the actions of MHI in the last few years have fallen into this "make work" mode, because neither the association leaders nor industry leaders have come to grips that things actually need to be done. Or perhaps, no one knows what to do, and as the iceberg looms, the deck chairs are getting perfect placement.

But it is obvious the hard tasks have not been undertaken as the Windmill-tilting allowed us to fool ourselves that we were accomplishing something, when in point of fact nothing of what was needed was being done. Into this house walks **Gail Davis Cardwell.**

Set The Stage

On the other hand, Stinebert's leaving may have broken the trance the industry has been in, and a new attitude could exist to curtail the use of "black balls" by the "big group" and perhaps accept some short-time pain or discomfiture in order to correct our broken model. By giving Gail a *free hand* to seek self-correction on our part, we will be on the right track.

It is not Congress, HUD, the GSE's, our consumers and our regulators who have to change. ***It is us.*** And the sooner we get about doing that, the better chance we have of creating a growing industry again.

802-862-1313

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