Marty Lavin: Subprime Woes Show Consequences of Lack of Concern for the Customer

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-- SUBPRIME WOES SHOW CONSEQUENCES OF SHORT-TERMISM

Dear Reader,

This article below is so in sync with the problems besetting our industry, I couldn't help but forward this very well authored piece which concerns subprime mortgages, but has manufactured housing's past failures and current challenges clearly described. As we read today the MHARR press release on the failed merger with MHI, reflect on the following sentence from their press release, and see if we can justify the time and effort spent on the merger, while the true problem, the consumer, continues to lack any real industry focus, other than rhetoric. The relevant sentence says in part, **" ...no HUD Code manufacturer should have to relinquish proper representation in Washington, D. C.--where survival of the industry rests."**

So that's where the industry's future lays, in DC! No wonder we go ever lower. (Emphasis added by me.) Marty Lavin

SUBPRIME WOES SHOW CONSEQUENCES OF SHORT-TERMISM

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By Don Peppers and Martha Rogers, Ph.D.

The recent subprime mortgage meltdown is unfortunate for everyone involved -- homebuyers and their lenders. A record number of houses are in foreclosure and some lenders are in financial jeopardy. The situation serves as a lesson for companies fixated on the short-term bottom line. **It dramatically illustrates that neglecting a customer's long-term situation can devastate customers and, it seems, some companies. (And even whole industries.)**

Some of these subprime lenders may have thought they were being customer-centric at the outset by making low-interest home loans available to consumers who wouldn't otherwise be able to get them -- people who had little credit or a marginal financial history. But the companies didn't advise these customers on the potential dangers or long- term implications if interest rates rose substantially or financing changed. Now that interest rates have gone up and many refinancing options have disappeared, it's clear that the strategy wasn't built to last.

No business can succeed by focusing exclusively on current-period sales and profit. Current sales and profit are simply one measure -- an important measure, yes, but not the only measure -- of a firm's value creation. Success for a business requires creating a balance of long- and short-term value. **It requires looking at the customer from a relationship perspective, not a one-time sale.**

When a company doesn't see customers as having **a long-term value** that will be affected by its current actions, then it is free to give in completely to the false assumption that its ultimate goal, as a business, is simply to maximize current sales and profit. Right now. The more impatient a company is for results, the more likely it becomes to engage in behavior that actually destroys shareholder value.
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The temptation to rush full speed ahead and damn the long-term torpedoes is greatest when there is a big pot of short-term gains to be had or quick sales to be made, or when a whole market or industry is in a rapid growth stage, and competition heats up for a share of that growth. The housing boom of the past few years created a perfect storm for such an approach.

Mortgage lender's sin was a textbook example of short- term thinking: It had enticed subprime borrowers into loans they couldn't afford, extracting large lending fees that were not fully disclosed, and locking consumers into loan agreements they should never have undertaken. Then, as interest rates rose and the housing boom cooled, thousands of subprime borrowers began defaulting on their loans.

Recently, various lenders' employees began coming forward to talk about the shameful tactics they were pressured to use when enticing financially unsophisticated customers to borrow more than they could afford. According to one employee, interviewed on National Public Radio, the lenders' training was aimed at showing employees how to deceive potential borrowers into taking the loans, and suggesting that the goal was to "make the sale at any cost." For instance, employees would white out the income on a customer's W-2 and fill in a bigger amount to qualify someone for a loan they otherwise wouldn't be eligible for. This was called "taking the loan application to the art department." That short-term (certainly unethical, and likely (**fraudulent**) treatment came back to haunt the lender, which must now pay millions to wronged customers. The lenders only did what was good short term for the lender, with little or no concern for the customer.

A lesson here for all companies (and industries) is simply this: If any of the ways you make money will not be good for customers, figure out a better way to make money that brings what's best for the company and what's best for the customer into alignment. It's a hard lesson for those embroiled in the subprime mess, but one that all customers and companies **(and industry's)** should remember over the long term.

Amen.

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