FINANCE

NEW HOPE FOR LENDING

By Martin V. Lavin

The young man on the phone asked for me, explaining that my name was given to him by the folks at *Merchandiser*.

He introduced himself as a product development manager for a $4 billion real estate originator who had been asked by his company to research manufactured housing lending opportunities. This manager started by asking questions—very specific questions—about the current state of affairs in our industry.

I wanted to put the best face on MH lending, but I had to be truthful with him. I told him many MH lenders were on the backside of a lending binge. And, like all binges, it was going to take some time to flush out the impurities and cleanse the system.

That said, this process is well underway and every lender I know of is "on the wagon." The fast and loose lending standards that prevailed until just recently are no longer in vogue. Caution has replaced expansive lending. Verifications of loan details have replaced indifference.

None of this bothered him. As he asked more questions, I could tell he was enthused. Since he currently lives in the real estate lending world of 6.5 to 7.5 percent rates, our MH rates of 11 to 18 percent really caught his attention. I could "hear" the gears turning.

We discussed average loan amounts between $30,000 and $50,000 and strenuous servicing responsibilities. Still, he was not deterred.

I don't think he liked everything I told him but, on balance, he felt there was an opportunity for his company to participate successfully. He mused that it was their intent to be a major player.

When he asked about the large originators in our industry, I reviewed the top five or six companies and

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their estimated annual originations. He thought his company would easily fit into that group. (Now, *I* was enthused!)

When I asked him if he wanted to attend MHI's February gathering in Washington, D.C. to see who the players are and learn about the industry first-hand, he thought that was a good idea.

I called MHI President Chris Stinebert and told him about my conversation and he promptly put out an invitation to my caller and his boss. We'll see where this goes.

By my unofficial count in the last three years, we have lost about 15 lenders, some national, some regional. During that same period, only a handful have joined the industry.

Most of our remaining lenders have strongly curtailed their activity. Most of them—good companies though they are—have hit a hill of liquidity problems and found themselves with a surplus of repossessed collateral.

These twin concerns have caused a downscaling as lenders have scrambled to downsize, get their costs down and live to lend another day. Some large lenders have seen their originations cut by half or more.

The money they need is scarce and expensive. Their interest rates have increased dramatically, putting upward pressure on street rates. In addition, as defaults locked in during the "go-go" days go through their cycle, their survival requires even greater rate increases to achieve profitability while making up for past mistakes on today's reduced volume.

These rate increases make manufactured housing less competitive with other housing alternatives, which cut into home price points and ultimately how many can be sold.

Moreover, since losses of previously originated portfolios have surpassed the most pessimistic estimates, buyers of MH portfolios have demanded higher rates of return and refused to purchase a wide tier of lower-end credits that previously comprised a significant portion of most portfolios.

We are hemmed in by scarce, expensive money on one hand and the need to originate loans from much stronger credit profiles on the other creating a double whammy.

Making calls

I was making phone calls to friends and associates in the industry after hearing disturbing news on the Southeastern front where a long-time, quality MH lender was virtually exiting the business.

The lender's executives at the top simply could not stand the state of the industry. They were shutting off the vast majority of their originators which was too bad, because I liked those people.

My next call was to a long-time Midwestern lender. His news was better. They had bitten the bullet early last year, downsized the company, substantially reduced costs, retreated to their base and seemed well poised to return to substantial profit during 2001.

While there was still caution in the air, an earnest expectation of improved conditions bid fair to reestablish this MH lender. Score one for the good guys and the industry they serve.

My next conversation was really interesting. A long-time industry executive of sound credentials and known for his common sense told me he was aware of a really big player with its eyes firmly set on our industry.

In his mind (and he has a good conduit for this information) he saw these guys were coming. I don't know, and I'm not sure he knew, whether they were purchasing one of the industry players up for sale or starting from scratch. If it all pans out, this could be major news.

If the industry is in such disarray, why am I hearing rumors about new players entering the field? For well-managed, well-capitalized lenders, it seems obvious. Here's why:

1. MH lending can be a moneymaker because of the potential for high yield. The downside is that the yield does not come without hard work. Not all lending institutions have the culture that will tolerate the level of work needed to get the return. Originations underwriting is important, but servicing is critical.

2. Presently, there is a large surplus of industry talent available to an MH lender. As the industry downsized, it has not been able to accommodate the surplus of people employed since 1998. The talent pool of experienced executives and other personnel on the street is impressive.

3. The primary problem many of our troubled companies have is the repossession overhang that plagues them now is likely to do so for some time in the future. This destroys focusing on new originations and makes continued profitability difficult. New entrants to the field do not have this problem.

So are they coming? Will they replace our lost lending capacity?

I can say with certainty that the "D" level of lending capacity—folks with bureau scores of 550-600—are not apt to be accommodated anytime in the near future. And, frankly, no case can be made that you can consistently make money lending to these folks. This is especially true on a chattel basis, regardless of the rates charged.

With the black cloud currently hanging over the industry, it's nice to hear that fresh money may be coming to MH lending. The industry cannot prosper unless sound financing is readily available to all qualified segments.

We'll know in due course whether these were indeed rumors or advance notice. □

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