IS IT A NIGHTMARE OR DEJA VU AGAIN?

By Martin Lavin

Even though it was pitch black, I could feel the room swirling around me. I soon woke up in a sweat, breathing heavily in the dark. I realized that I was home in bed. The sheets were wet, and stuck to my body. What had me so spooked? The nightmare I had just experienced was slowly dawning on me...

I was dreaming it was sometime in 1974 or 1975. I was in the mobile home business (in those days the industry was just starting to ban the use of the word *trailer*), reviewing the horrible things that were happening.

The factories that built homes were in meltdown. Consequentially, homes piled up in lots, meaning enormous amounts of unsold inventory and financial liquidity reduced to unacceptable levels.

At least 50 percent of the factories that built the 575,000 homes produced in 1973 were gone two years later. Retail sales locations the factories had opened or purchased in the early 1970s were soon closed: It was cheaper to close their doors than to wait for the upturn. Thousands were displaced from the industry, never to return.

Repos were everywhere, and not a one seemed to sell. Sounds a lot like *The Rhyme of the Ancient Mariner*, who was surrounded by salt water but couldn't find a drink.

In my dream, I was surrounded by so many repossessed homes that it became hard to sell them one at a time. No matter how many I sold, it seemed they were replaced, and then some, continuously.

This condition was corrosive not only to financial considerations, but the industry's emotional stability. Many fine people lost their careers during this turmoil. Many fingers pointed in blame, and not always in the right direction.

Generally, repos are the most disheartening outcome, and not only to lenders. Retailers get calls to help with repo resales and have cut back on lender programs. They may face financial recourse and will certainly experience reduced sales brought about by tighter lending standards and excessive repo sales. The lenders suffer most, though. Money is ripped from their pockets.

I recalled industry friends who lost their jobs which adversely affected their lives and families, even if for the short-term.

I recalled the lawsuits over leased lots that couldn't be paid; inventory sold out of trust; recourse that couldn't be met; credit bonds that couldn't be paid; and factories closing forever. The whole industry was mired in a 1929-style depression. My stomach felt queasy.

The 575,000 homes sold in 1973 were a high watermark for this industry. And there were years in which less than 200,000 homes were sold. The national lenders dried up and financing became difficult. Without sound financing sources, the manufactured housing industry cannot succeed.

But, as time went by (in spite of the Texas debacle in the mid 1980s and troubles in the Northeast earlier this decade), most of the 1990s gave the industry hope for a resurgence in manufactured housing. And 1994 through 1998 was so much **fun**!

Green Tree led the way with a new form of financing. And there were securitized loans and lenders sprouting up almost overnight that did not have much capital gained almost unlimited liquidity. In other words, you no longer had to be a bank to offer loans in this business. Happy days!

Access Financial, United Companies Funding, Deutsche Financial, IndyMac, Dynex, Chemical/Chase, Green Tree, Security Pacific/BankAmerica, MCI, CIT Group, Ford/The Associates, MNB, NBD, Bank One, Comerica, Peoples Heritage and Bombardier. All came, and more besides.

The good times returned, and portfolios grew rapidly. Lending standards became more accommodating to continue the growth that forestalls the day of reckoning. You know about the ills of declining portfolios, right? (If not, just ask me sometime.)

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But, try as some might, lending institutions couldn't grow forever. The manufactured housing industry was soon ill equipped to deal with the events occurring in securitization markets and their ramifications.

That portion of the nightmare takes more understanding. Suffice it to say, the easy money became harder to come by, and the cheap money got very expensive. Of the dizzying array of lenders that came, most didn't stay, and the jury is still out on who is next to go.

I go back over my nightmare, and think about the people who have departed, the assets wasted, value destroyed and fortunes dissipated. What could have been done differently so that the industry could achieve a better result?

Then, it hits me like a hammer. My stomach is in knots, and my throat goes dry. Is this déjà vu I am experiencing? Am I being frightened by those events of 1975 or am I paralyzed by the present? Are the comrades and associates I am lamenting phantoms from the past or the phone calls of today?

Is the recent departure of a good friend from a major program after 11 years bothering me? You bet. What about the exit of several high-ranking officials recently from another prominent lender? The pang in my stomach told me the answer.

Here's where it gets bad and confusing. Are we doomed to make all the same mistakes repeatedly? I thought we would never see 1974-1975 again. So, why is everything so familiar and the results so identical?

It slowly dawns on me that everything is the same, including the results. In the '70s, the liquidity came from banks drawn to our ever-growing industry by high interest rates and double-digit growth (I blush when I remember my testimony to a North Carolina banking subcommittee in an attempt to get manufactured housing usury laws raised from 19 to 24 percent).

Growth over the last few years of that period were spurred on by credit bonds which were used as "insurance" against losses at default. Now, there's a nightmare for you.

Then, interest rates rose suddenly in 1974. Money became scarce and expensive. Defaults begat defaults. In other words, "You couldn't pay me so I couldn't pay him." The lenders left, the industry shriveled and the music died.

Flashing forward to the '90s, the liquidity came from Wall Street. At one point it was too easy. Now it's too hard.

Interest rates increased dramatically in 1998-99. Activity slowed, retailers failed and factories shrank.

Lenders tried to keep pace for a while. As liquidity dried up, however, lending did likewise. The defaults spread, and the lenders left.

As the industry contracts, I fear the *fun* is over.

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