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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...

Around 1,400 participants showed up for the Las Vegas National Congress and Expo at the Paris Hotel, March 29-31. I joined them and here are some random observations that stayed with me.

## Claytons, Claytons everywhere

If we had to put a name to this Congress, it would be called "The Clayton Congress." Clayton Homes, their President and CEO, **Kevin Clayton**, and their MH interests walked away with both major awards, "Industry Person of the Year (Kevin Clayton), and "Manufacturer of the

Year" (Clayton Homes) and a number of other significant awards between these two biggies.

With the addition to Clayton Homes of Berkshire Hathaway money and business sophistication, this longtime industry stalwart has now reached true industry eminence. And Kevin,

the very approachable and bright operative he is, continues his growth into the true MH industry superstar he's become. I'm sure he and his wife, Chelly, were gratified with the events at Vegas, which in a life full of vagaries, will always be a bright day for them to remember.

## Clayton Awards



<b>Outstanding Retail Sales Center</b>	Northeast/MidAtlantic Region
<b>Outstanding Retail Sales Center</b>	South Region
<b>Outstanding Retail Sales Center</b>	West Region
<b>Best Production Single Section Home</b>	"The Bayview"
<b>Industry Person of the Year</b>	Kevin Clayton
<b>Manufacturer of the Year</b>	Clayton Homes, Inc.

## Wall Street Types

There were a number of highly influential Wall Streeters there to observe the industry close-up. They spent a lot of

time huddled with industry participants catching up on inside-the-industry trends and gossip. People continue

to scratch for answers as to industry direction.

I found my conversations with several of

them were very interesting. Without quoting anyone, I found their comments very candid. In addition, if at one time most of them viewed this industry in a flawed fashion, today their view is much more informed. I found most of them pretty sanguine about the business we are in, our fortunes, our challenges, and the prospects over the next few years. The results of the recent past and a greater understanding of the industry's internal dynamics finds these Wall Streeters much better prepared. (I don't know whether that is good or bad!)

Few were doing handstands over industry prospects. Yes, affordable housing continues in high demand but the factory-built housing business, especially the HUDCode subset, has not yet found a sustainable way to truly capitalize on the promises and consumer demand. There appears to be a developing aware-

ness that "affordable housing" for many of the customers we commonly see may need a Section 8 type "purchase subsidy" just as a Section 8 subsidy helps with apartment rentals. Perhaps a purchase subsidy may be needed to help that very large tier of business, the lowest 20% of FICO's, which cannot now be done successfully. This has caused a reduction of at least 100,000 new home sales annually. I'll discuss this in detail in the future. It's interesting that Wall Street has recognized this, maybe even before the industry.

It is also correct to say that the analyst generally believe that our poor asset backed securities performance over the last 10 years has caused investors to shy away from bonds backed by our loans. This continues to this day and is expected to continue.

The one bright spot in this

ABS gloom is Origen Financial, which has sold a couple of bonds since the 2002 business, which so far (this stuff is still pretty young) has outperformed most other originations of the last 10 years, at least initially. Further confirmation of performance will be needed, but for the moment, Origen is being relatively well treated by the markets, and is one of the few lenders which can access the ABS markets successfully.

Nonetheless, the over collateralization (certain monies left on the table to add greater security predictability to the bonds after the closing), is still pretty high, and reduces the liquidity and increases the cost of that avenue as a funding method. Origen believes their o/c will continue to drop to even more manageable proportions on their next securitization, which should be soon.



**Best Production Single Section Home**  
"The Bayview"

## But, ouch!

The most intriguing point heard from our Wall Streeters? Admittedly, factory-built housing is not a large industry with large companies. I heard questions of the performance by and abilities of the people in charge of our industry's companies. The feeling being that even though our industry is small-

ish, the quality of our leaders is "disappointing." This especially so, as our industry is viewed as extremely challenging, which requires highly proficient people.

I don't spend enough time with Jack Welch or Warren Buffett to know what great

leaders are like. (In fact I don't spend any time with Jack or Warren.) I had to listen to that remark a couple of times from analyst who do spend time in this and other industries and I assume they have some basis for comparison. Interesting insight.

*"The feeling being that even though our industry is smallish, the quality of our leaders is 'disappointing.'"*

## Tunica

Half a continent away, at another gaming hotspot, Tunica, MS, another MH show was going on at the same time. It was actually surprising that Vegas was as well attended as it was, with Tunica going on and another MH show in Pennsylvania as well.

I heard from several Tunica attendees that good business was transacted and there appeared to be an upbeat atmos-

phere. I found this in contrast to what I personally thought a fairly muted feeling in Vegas. It seemed to me that either the display hall was too big or there were too few displays in the space. This presented a low critical mass of liveliness and activity, which in my mind robbed the enthusiasm level.

The reports I got from the display areas were sketchy, with some displayers quite pleased

and some less than pleased. I suppose, anyway you view it, this much-downsized industry simply can't present the bulk of displays, people manning them, and attendees visiting them as we once did during the 1990's ramp-up. At that time, the many lenders, the other suppliers, and the intense competition for market share, saw a much-increased level of activity at Vegas and other industry shows.

## Well organized

One thing you can depend on is that the Congress was well orchestrated and well pre-

sented. Gub Mix, who has so much to do with this event, has the format down to a science.

Everything runs on schedule and all events come off as promised. Gub and MHI did a very good job.

## Propane Council

Kate Caskin, the young Senior Vice-President and host of the Industry Awards presentation at Vegas, and the Propane Education and Research Council (PERC) is to be commended for their continuing support of

the industry at a time when fewer sponsors are able to assist with funding industry events. It shows a commitment to the industry I hope will be rewarded.

I had breakfast with Kate and

some of her people and found them very high on factory-built housing, its future, and PERC's continued role in helping increase the reach and popularity of our homes. Thank you.

## Rumors

Did I hear that Tom Piszczor, former BAHS and GreenPoint Pennsylvania area manager is helping Equity One and their

Banco Popular launch a manufactured housing land/home and chattel retail lending program regionally, then going nationally

in the future? Pure rumor, so don't repeat it, but it spread at Tunica.

## Athens Park Homes

Old friend, Phil Surles, formerly a Big Honcho at Champion Homes, appeared at Vegas. Phil is building park model homes down in Athens, Texas, in a plant he bought from his old employer.

Park models, not built as HUDCode homes, are really RV's for financing purposes.

This gives them a generally much more financially qualified buyer, and based on the retiree demographics, should have a very promising unit growth during the "Baby-Boomer Retiring Phase," coming up over the next 20 years. If he can catch and ride that trend, he has the physical space for substantial growth. I hope it happens for him.

P.S. Not Phil, because of his HUDCode background, but the park model boys seem hesitant to accept that retirees should actually buy these "homes" for placement within a HUDCode leasehold community, for seasonal, fulltime living. They tell me they are fearful of catching HUDCodeitis. Yes, it can be a crippling and terrifying disease.

## Strategic Planning Initiative

There was ample discussion by many about the upcoming "Roper Report" meeting in Chicago, May 5 and 6. Yogi Berra was with me during the discussions as "déjà vu all over again" was the feeling I couldn't shake.

I felt like Bill Murray in "Groundhog Day" waking up to one more strategic planning meeting, endlessly reliving the various industry flaws detailed and discussed in previous meetings and committees (then recently codified by Roper), making

a return visit at 6 AM each morning, as Sonny and Cher blare from the radio, knowing already how the day will go. Maybe our movie will have a happy ending as well, this time, just like Groundhog Day. (Yah, think?)

## Appraisals, appraisals

For years, we've all heard that perhaps one of the true answers to our home depreciation problem is that our loan advance methodology has relied much more on percentage of invoice than on true market value (read comparable sales) appraisals. Santa Monica Boulevard was treated just like Death Valley Alley, all values were the same. Good commu-

nities were treated like inferior communities, the rental rate, community vacancies, and other good, or bad, points given no credit or penalized. One size fits all, making most uncomfortable, fitting few.

Enter FreddieMac and FannieMae, the GSE investors looking at MH with a fixed glaze, especially in their desire to understand and

enlarge their participation in HUDCode housing, in a survivable way. I think it fair to say that increasingly, market value appraisals, for leasehold placements, will join long-term leases as industry staples in an attempt to correctly capture home value at sale and attempt to maintain it, over time. This is the Holy Grail of leasehold chattel financing, and if ever attained, all will be possible.

**"One size fits all, making most uncomfortable, fitting few."**

## Escrow closings, Invoice database

Substantial discourse occurred over these two hot topics. Lenders and loan investors have become quite hesitant to loan money on chattel, new and resales, hamstringing this industry's volume severely.

Escrow closings are viewed as a consumer/lender protective measure, creating a much more transparent process, giving greater surety to the parties. Always used in real estate closings, their use is undergoing consideration for adoption by the industry.

The invoice database is

predicated to give resale homes the same certainty of home identification as the invoice, now commonly provided, creates for new homes. It is pretty obvious to those of us engaged in resales, who have the intent to create a far better resale marketplace, that a cradle to grave invoice availability can only have a positive impact on resales. That, along with the recently adopted MH MLS database are absolute necessities for resales value improvement.

While it is obvious that some participants of the industry feel threatened by escrow closings

and the database, I feel very strongly that the industry will ultimately gauge the value of these programs as benefiting consumers and lenders, leading to a much more reliable and transparent transaction, instilling investor confidence in our entire industry. All of that is very good.

They are the right moves to make and I'm sure Chicago will see substantial discussion on the best way to adopt these measures while protecting legitimate industry concerns.

## Musical Chairs Continues

It was announced on April 18, that Bombardier was selling its Bombardier Capital Group to GE Commercial Finance, which includes the MH inventory division. I don't know how this will affect my old friend

Rick Odom and his people at MH inventory, but I hope the entire crew will transition to the new owners.

It also sounds like our friend Bob Parish, at GE Commercial

Finance could have a much greater industry role in MH inventory financing, rivaling Textron for the number one position in the industry. I hear Sonny and Cher singing, "And the beat goes on, ladi lawdi, daw."

## "If Winning Isn't Everything, why do we keep score?"

Vince Lombardi

**FICO Facts/scorecard** Fair Isaacs, inventor of FICO says:

What FICO Scores mean \* Quantification of loan risk.

- 780 – 850** low risk on loan
- 740 – 779** medium – low risk
- 690 – 739** medium risk
- 620 – 689** medium – high risk
- 619 and below** - High risk or subprime

**How is FICO computed? \* Elements and weight.**

- Factor 1:** Payment History (35%)
- Factor 2:** Extent of Indebtedness (30%)
- Factor 3:** Length of Credit History (15%)
- Factor 4:** Type of Credit (10%)
- Factor 5:** Inquiries and new credit (10%)

**Where do we stand (Early 2004) \* Borrowers by category.**

**FICO 800 or higher – 11 percent of borrowers**

- 750 - 799** 28 percent of borrowers
- 700 - 749** 19 percent of borrowers
- 650 - 699** 16 percent of borrowers
- 600 - 649** 12 percent of borrowers
- 550 - 599** 8 percent of borrowers
- 500 - 549** 5 percent of borrowers
- 499 and under** 1 percent of borrowers

(Our "normal" customer base is kind of scary, isn't it?) (FICO is not income dependant.)

From "Credit Scores and Credit Reports" by Evan Hendricks, published by Privacy Times, Inc, 2004.

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

**Need an MH industry expert witness?**

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