

YALE CASE 10-024 NOVEMBER 15, 2010

New Hampshire Community Loan Fund

A Nonprofit Attempts to Change the Financial Equation for
Manufactured Homes

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For Americans who cannot afford a standard home mortgage, one alternative to renting an apartment is to buy a mobile home. Also known as manufactured housing, mobile homes are built in a factory and then transported by tractor-trailer to the site where they will be occupied. They provide permanent housing at prices that are less than half the cost per square foot of regular “site-built” houses.

But although manufactured homes offer an affordable way to own a house, they also come with some special challenges. First, because many manufactured home residents rent the land on which the dwelling is sited, and because it is expensive to move a manufactured home, residents may be in trouble if the land owner raises the rent, fails to maintain the property, or chooses to sell the land.

Second, financing products for manufactured homes are modeled on car loans, resulting in higher interest rates and shorter loan terms relative to those available to owners of site-built houses. This method of financing puts additional pressures on manufactured home owners.

The non-profit New Hampshire Community Loan Fund, established in 1983, has worked on addressing these problems. During the 1980s a mobile home park in Meredith, New Hampshire, was trying to find a way to avert the sale of the land under their homes to a condominium developer. The Loan Fund helped the residents to form a non-profit cooperative and then lent the co-op the money to buy the land. In the ensuing years, the Loan Fund supported the purchase and conversion to resident ownership of 94 manufactured housing communities.

The Loan Fund also worked on the problem of mobile home financing. In 2001 it began offering financing for buyers of mobile homes in co-op communities, and soon after it persuaded state and federal housing programs to begin including mobile homes in their loan programs on a trial basis.

In 2010 the Loan Fund was hoping to expand its successes, especially in the area of financing. Although mobile homes were more and more resembling site-built houses in quality of construction, financial institutions were still skeptical about viewing loans for manufactured homes as comparable to mortgages for site-built houses. The Community Loan Fund wondered what might be done to persuade banks to view these loans differently and to create a larger secondary market for manufactured home loans, similar to the secondary market for mortgages.

The Mobile Home Industry

The first “travel trailers” were built in the early 20th century as recreational vehicles for vacationers who desired lodging that was more comfortable than a tent but more affordable and portable than a motel. Then, during the World War II years, trailers or “mobile homes” accommodated workers assisting in the war effort and returning veterans in need of affordable and flexible housing.

In the decades after the war, mobile homes started to become an option for permanent housing for low-income Americans in rural areas. During the 1960s, increased demand for premium amenities spurred improvements in the quality, size, and layout of mobile homes. This trend continued with the 1974 National Mobile Home Construction and Safety Standards Act, which imposed strict safety regulations on the factory-built housing industry. In 1976, the Department of Housing and Urban Development began administering a building code for these dwellings.

Today’s mobile homes are properly referred to as “manufactured housing,” a nomenclature change that reflects the fact that the industry has evolved from a source of recreational vehicles into a producer of high-quality, affordable housing that in many cases is not particularly mobile. (See Exhibit 1 for early and modern examples of mobile homes.)

Ownership Statistics

According to the Department of Housing and Urban Development, in 2005, manufactured homes comprised 6.4 percent of occupied homes in the United States. Although they were found across the country, rates of manufactured home ownership were highest in the Southern states (see Exhibit 2). Residents had less income than owners of site-built houses but more than apartment renters (see Exhibit 3).

Manufactured homes were significantly less expensive than permanent site-built houses, with an average cost per square foot of \$39, compared to \$90 for a new site-built house (see Exhibit 4). In addition to their lower up-front costs, manufactured houses were more affordable on a monthly basis. Manufactured home residents’ monthly outlays were significantly lower, on average, than those of site-built residents. Over half of manufactured home residents reported monthly costs between \$100 and \$499, compared to just over a quarter of the residents of site-built houses. Significantly, only 6.1 percent of manufactured home residents reported monthly costs over \$1,000, compared to 45.6 percent of site-built residents (see Exhibit 5).

Purchasing and Financing

The modern manufactured home’s origin in the automotive industry was reflected in the industry’s business practices, affecting the way these homes were distributed, sold, financed, and sited.

The primary system for the distribution of manufactured housing closely resembled that of the automobile industry, with units typically sold through retail sales centers, not directly from manufacturer to consumer. Most of these dealerships were independently owned and operated, and they provided a variety of additional customer service needs, including customization, delivery and installation, warranty services, and even financing and insurance.

Manufactured home purchasers typically did not shop for financing in the way that buyers of site-built houses did. Whereas the purchase of conventional site-built homes was generally financed through banks and mortgage originators, manufactured housing was often financed by property or “chattel” loans, which, in the case of new homes, was arranged by the dealer. Loans for manufactured housing were shorter and commanded higher interest rates than their site-built mortgage counterparts. According to an early 2000s

Affordable Housing Survey, the median single-family site-built home was financed at 7.5 percent interest over 25 years; the median manufactured house was financed at 9 percent over 15 years, with individual lenders citing a range of 7 percent to as high as 15 percent.⁶ (See Exhibits 6 and 7 for a breakdown of manufactured home loans by selected characteristics, including loan type and approval rates.)

Resale procedures for a mobile home depended on the size of the unit. In 2008 about one-third of new mobile homes were single-wides and two-thirds were double-wides. Owners of the smaller single-wides often traded up, receiving a discount on a new double-wide in exchange for turning in the single-wide. The used single-wide might be re-sold to a new owner or to a mobile home park owner, who rented it out. The single-wide was portable enough that it might either be moved to a new location or left in its original site.

Double-wides were more difficult to move. Their increasing size and increasingly permanent construction and siting methods meant that the cost of relocating a larger manufactured home could be expensive, ranging from \$5,000 to \$10,000.⁷ As a result, once double-wide manufactured homes were delivered and installed, they tended not to be moved (see Exhibit 8).

This meant that for larger manufactured homes the secondary (used) market took on a number of characteristics of traditional real estate, where issues like property condition and location dramatically affected prices. As with site-built houses, the resale value of manufactured housing depended heavily on the upkeep and condition of the unit. This could affect whether or not a manufactured home increased or decreased in value, and the expectation of asset appreciation versus depreciation could significantly impact financing terms.

Land for Manufactured Homes

A holdover from the vacation-trailer days was the practice of renting the land on which the manufactured housing unit was installed. From 1990 to 2005, about one-third of manufactured homes were located in this type of “trailer park,” or more properly a “manufactured home community” or “land-lease community” (see Exhibit 9).

Despite the name, residents in land-lease communities tended to occupy the land without legal leases. State laws governing leases, rent increases, and eviction varied widely. In New Hampshire, park owners had to give residents 60 days’ notice when their park was put up for sale or an offer had been accepted to sell. State laws also varied regarding park closures. As a result of successful lobbying, New Hampshire manufactured home residents had to be given 18 months’ notice for “change of land use evictions.” In contrast, Georgia landowners were required to provide only 30 days’ notice.

The option of renting a site meant that a manufactured home could be more affordable than a site-built house. At the same time, manufactured home owners in a land-lease arrangement were vulnerable. Because mobile homes were in practice semi-permanent structures that were expensive to move, residents were generally locked into their site. If land owners raised rents above market rates, mobile home owners could lose some of the value of their property. This “lock-in” effect might also dampen land owners’ incentives to properly maintain water and sewage systems or to invest in other upkeep. But with so much of their capital tied up in their homes, most residents had little choice but to absorb rent increases or tolerate substandard maintenance of the property. An even worse dilemma might occur if a land owner decided to change the use of the land: if tenants were evicted, and if they were unable to raise the cash to move their mobile home, they might be forced to abandon their most significant asset.

The Loan Fund Establishes Co-ops

In the early 1980s, the Meredith Trailer Park, a land-lease community, faced a dilemma. The park's owner needed to sell in order to support herself and her husband, who was in a nursing home. The residents were worried that the sale of the park would result in an unaffordable rent increase or in redevelopment that would force them out of their homes. Although the owner was willing to sell the park to one or more of the residents, individuals' attempts to secure financing had failed.

Rebecca Storey, a graduate student at the School of Economic Development at New Hampshire College, heard about the residents' predicament, and she proposed that a non-profit cooperative of the homeowners be organized to purchase the park. In January 1984, the Meredith Center Cooperative was formed, and a purchase deal was struck that allowed the owner to stay in her house at the front of the property. However, the cooperative still needed funding to complete the purchase.

At the time, the New Hampshire Community Loan Fund was getting started, with seed capital and technical assistance provided by the Institute for Community Economics in Greenfield, Massachusetts. Two members of the Loan Fund's board, who were nuns from the Sisters of Mercy, were looking for a retirement fund investment that would provide some return while helping to carry out their mission. The sisters made a \$43,000 loan to the Loan Fund, which in turn made a loan to the Meredith Center Cooperative.

In June 1984, the Meredith Center Cooperative became the first manufactured home Resident-Owned Community (ROC) in New Hampshire. It was the first of many Loan Fund investments supporting the purchase and conversion to resident ownership of investor-owned mobile home parks.

Co-op Structure and Procedures

Beginning in the 1980s, the Loan Fund's ROC-New Hampshire team developed a successful system for the creation and maintenance of resident-owned communities.

First, the Loan Fund's staff helped residents to organize the cooperative, including establishing a board of directors and key committees. Then ROC-NH provided financing or helped the co-op to obtain financing from an outside source. These funds could be used for everything from pre-development planning to community purchase to infrastructure improvements. Once the land was purchased, ROC-NH provided ongoing technical support and training to the cooperatively owned communities.

The cooperative required residents to pay a small fee to become shareowners. As a condition of the loan, the community agreed to keep the price of the shares (and with it, the right to vote in the community) affordable. When the co-op was being formed, residents could opt out of membership and instead pay rent to the co-op; after the initial formation, however, any new residents were required join the co-op. In addition, residents paid a monthly site rental fee, which was used for maintaining the property and paying down the debt that was used to finance the park's purchase.

The details surrounding what happened to shares when residents moved varied depending on the community's bylaws, but generally there was an agreed-upon price at which the co-op would buy back the shares from the homeowner.

The shares of the co-op were not transferrable. As the community flourished, homeowners might see increased property values, but they were not permitted to sell their share to another party without selling their home as well. Additionally, when the co-op was formed and loan was made, the residents agreed that they would not sell the community for a profit later on. The goal of the loan was to preserve the community in the long term for those who needed it.

The Loan Fund Enters the Mobile Home Financing Market

In 2001 the Loan Fund became involved in financing for manufactured homes. First, it began to provide loans for purchasers of existing mobile home units in co-op communities in New Hampshire. This experiment proved successful, and in 2003, the New Hampshire Housing Finance Agency began to offer the state's first-time homebuyer loans to purchasers of manufactured homes in co-op communities. Then in 2004 the Laconia Savings bank, based in central New Hampshire, bought \$500,000 of these loans from the Loan Fund and began providing conventional home equity loans to some co-op members. In 2006 Fannie Mae authorized a \$10 million pilot program to offer mortgages to buyers of mobile homes in the co-op communities of New Hampshire.

Benefits of Co-op Ownership of Land

By the early 2000s, the Loan Fund had helped hundreds of families through its resident ownership program and had begun a program of financing for owners of manufactured homes. They believed that resident-owned communities brought measurable economic benefits to manufactured home owners, but they lacked data to demonstrate these benefits, so in 2006, the Loan Fund contracted with the Carsey Institute at the University of New Hampshire to undertake an independent study comparing investor-owned and resident-owned manufactured home communities in New Hampshire.

The study confirmed that between 2004 and 2006, for residents of co-op-owned manufactured home parks, maintenance fees were lower and house values higher than for residents of conventional land-lease parks.

First, the study found that monthly fees were slightly lower than the lot fees in investor-owned parks – about \$11 per month on average. But the benefit was greater than this number might suggest, because there was a trend of decreasing fees in the resident-owned communities. The longer the co-op had been operating, the lower were the monthly lot fees. The Carsey researchers hypothesized that when a resident-owned community was first purchased by its residents, there was often a great deal of work that needed to be done to improve the park. As a result, fees might rise in the short term, but as the park was brought into good repair, the fees were lowered.

In addition to the advantage of lower lot fees, the Carsey report suggested that co-op residents were receiving a better value for their fees. Their payments went directly toward infrastructure improvements and paying down debt, which gave residents a greater sense of security. Indeed, the Carsey Institute study found that “residents who own their communities consistently perceive greater control over and stability in their lot rents and governance, and worry less about being displaced because of park closure for redevelopment.”⁸

The Carsey report also examined comparative data on manufactured homes sold in both resident-owned and investor-owned communities (see Exhibit 10). The authors found that manufactured homes in resident-owned communities were significantly larger and newer and tended to sell for higher prices per square foot. However, although the size and age were statistically significant, the price differences were not. The report also saw a much larger average difference between resident-owned communities and investor-owned parks when looking at actual price per square foot, as compared to the professionally assessed difference. In other words, although professional appraisers expected sale prices of homes in resident owned communities and investor-owned communities to be the same per square foot, in practice buyers were willing to pay a premium to live in a cooperative.

These findings were confirmed by the testimonials of co-op members. For example, Florence Quast, a nurse and the first president of a cooperative in Amherst, NH, which was formed to avoid a sale to a developer, commented, “My proudest accomplishment is helping us become a co-op and buying the park,

because it's something people said we couldn't do. Not only did we do it, but more than 20 years later the co-op is still working. We are united so that anything that might affect this community, we make sure that we have a say in it.”⁹

Other families were pleased to gain control over property maintenance. Julie and Wayland Phillips, homeowners in the Rambling Woods Manufactured Housing Park in Bethlehem, NH, recalled periods under investor ownership when the water and sewer were shut off because the owner had failed to pay the bills. But the couple believed there was little that they could do about the situation. Julie recalled, “We were afraid to complain about the problems here because we knew he’d just up the rent again.” But under cooperative ownership, she said, “we make decisions together and make the park a better-looking place for all of us.”¹⁰

The success of the ROC-NH program led to a national spin-off, ROC USA, LLC, launched in 2008 by Paul Bradley, a long-time program manager and vice president at the Community Loan Fund.

Manufactured Home Financing Challenges

The Carsey Institute report confirmed that the Loan Fund’s system of co-ops had improved the lives of many residents in manufactured home communities. The new resident-owned communities were helping manufactured home owners to eliminate the risks created by separating the ownership of a home from the ownership of the land beneath it.

The report also found that residents had greater access to fixed-rate home financing. Manufactured home owners in resident-owned communities were more likely to have mortgages, and those loans were more likely to be fixed-rate loans. A higher level of fixed-rate financing was a direct result of the Loan Fund having intervened in the market in 2001 with a financial product for homes in resident-owned communities.

But the Loan Fund was still concerned about the relative difficulty that manufactured home owners experienced in obtaining favorable financing. Even when manufactured homes were built on personally-owned land, chattel loans remained the most common financing method, and the terms were generally not better than those offered to residents in land-lease communities.¹¹ There were a number of reasons for this disparity.

First, the system that was in place for financing manufactured homes brought a number of benefits to buyers and dealers. Buyers of manufactured homes could rely on the ease of obtaining financing from the dealer, and the chattel loans were simpler in structure and easier to execute, which speeded up the transaction process. Dealers benefitted from the existing system because they often received a commission for referring the buyer to the lender; thus they were incentivized to push higher-rate products in order to capture a larger commission.

Another reason cited for the disparity between site-built and manufactured housing financing terms was that the latter was believed to be more risky. Lenders thought that because manufactured home owners had lower incomes than owners of site-built houses, they were more likely to default on a mortgage.

A third reason for the disparity in loan pricing was the value of the underlying collateral. Real estate had historically been viewed as an appreciating asset (see Exhibit 11), allowing lenders to offer a more favorable rates, because they had more assurance that they could recover the value of their loan in the event of a borrower default. But manufactured homes were typically considered to be a depreciating asset like a car or a boat. As one owner said, “The minute you buy a mobile home it [depreciates]. Like taking home a refrigerator. The minute it’s uncased, the value just plummets.”¹²

One factor in this valuation was that in spite of the increasing quality of construction, the majority of mobile homes were still more fragile than site-built houses. In 2008 73 percent of new manufactured homes were secured with tie-down straps or were unsecured, whereas only 27 percent had a permanent masonry foundation (see Exhibit 6). Thus the Federal Emergency Management Agency included mobile home residents in a list of people who should evacuate during a hurricane, because “such shelters are particularly hazardous during hurricanes no matter how well fastened to the ground.”¹³

From Personal Property to Real Estate?

Questions remained, however, as to whether these reasons were valid and insurmountable obstacles. Research in the mid-2000s was suggesting that manufactured homes were evolving from personal property that quickly grew obsolete to real estate that could hold its value over time.

For example, looking at the whole picture of mortgage lending revealed that manufactured home owners posed both greater and less risk than site-built home owners. Lenders were concerned with two types of risk: default risk (which referred to the borrower’s expected ability to make interest and principal payments) and prepayment risk (which referred to the likelihood that borrowers will repay their loans ahead of schedule, which leaves lenders with the reinvestment risk of having to find another investment that is capable of generating the same return). According to research at the University of North Carolina cited in the 2006 Community Development Investment Review, when controlling for everything except whether or not a house is site-built or manufactured, default risk was 11 percent more likely for manufactured homes, while prepayment risk was 43 percent less likely.¹⁴ Thus it was not clear that owners of manufactured homes overall posed a greater risk to a mortgage lender than owners of site-built houses.

In addition, as the quality and size of manufactured homes increased, it was no longer clear whether manufactured houses were depreciating or appreciating assets. Longitudinal studies indicated that in at least some cases, manufactured housing prices appreciated at the same pace as comparable site-built homes in the same area.¹⁵

In addition, because of advances in the construction and design of manufactured units, it was becoming increasingly possible to improve manufactured home property and thereby to increase its value. Resident-owned communities could also contribute to increased home values by improving landscaping, utilities, and recreational facilities. For many low-income families, disposable income for home improvements was a luxury. However, the Loan Fund believed that it was not inevitable that a manufactured home would depreciate in the same way as an automobile.

A Secondary Market for Manufactured Home Loans?

As the Loan Fund celebrated its success with resident ownership, it was looking to expand access to new and, more importantly, “used” or existing housing financing. The Loan Fund wondered whether it might play a role in encouraging a market for manufactured home mortgages that assumed that the homes resembled traditional site-built houses rather than cars or boats, especially when the land was owned by the home owner or by a co-op.

An investor as respected as Warren Buffet believed that manufactured home loans were worthy of comparison with conventional home mortgages. (See Exhibit 12 for an excerpt from Buffet’s 2009 letter to Berkshire Hathaway shareholders.) But according to Buffet, the key problem was that manufactured home mortgages were not included in the government securitization programs of Fannie Mae and Freddie Mac (see Exhibit 13). If the government were to create a secondary market, lenders could resell the loans to a securitization vehicle. This might provide both risk mitigation and a source of financing to the original lender. In addition, it would provide an alternative vehicle (to direct loans) for investing in the manufactured housing market with options for diversification and secondary trading.

But the Loan Fund wondered how it could get enough lenders involved to create adequate volume for a secondary loan market, and what it would take to convince secondary buyers that manufactured homes were homes in every sense of the word.

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Endnotes

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⁵ Project Editor, Case Study Research and Development, Yale School of Management.

⁶ Sean West, "Manufactured Housing Finance and the Secondary Market," *Community Development Investment Review* (June 2006), p. 36, quoting William Apgar, Allegra Calder, Michael Collins, and Mark Duda, "An Examination of Manufactured Housing as a Community- and Asset-Building Strategy," Report to the Ford Foundation by the Neighborhood Reinvestment Corporation in collaboration with the Joint Center for Housing Studies of Harvard University, September 2002, p. 16.

⁷ TJ Silver, "How Much Does It Cost to Move a Manufactured Home?" Associated Content website, Feb. 9, 2009.
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⁸ Sally K. Ward, Charlie French, and Kelly Giraud, "Resident Ownership in New Hampshire's 'Mobile Home Parks': A Report on Economic Outcomes," Carsey Institute, September 2006.

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¹⁰ "An Early Independence Day," New Hampshire Community Loan Fund 2003 annual report.
<http://www.communityloanfund.org/how-we-help/success-stories/early-independence-day>

¹¹ Sean West, "Manufactured Housing Finance and the Secondary Market," *Community Development Investment Review*, p. 36. Median 8.7 percent interest rate for 18 years on personal property loans to manufactured homes on owned land versus 9 percent for 15 years to manufactured homes on rented land.

¹² Consumers Union, *Manufactured Housing Appreciation: Stereotypes and Data*, 2003.

¹³ <http://www.fema.gov/areyouready/hurricanes.shtm>, accessed on August 17, 2010.

¹⁴ Sean West, "Manufactured Housing Finance and the Secondary Market," *Community Development Investment Review*, p. 44.

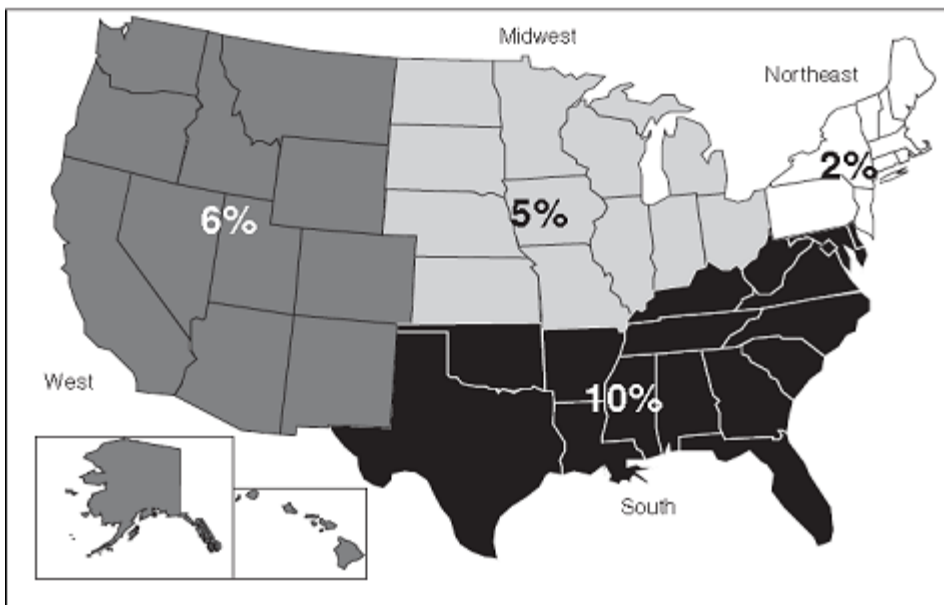
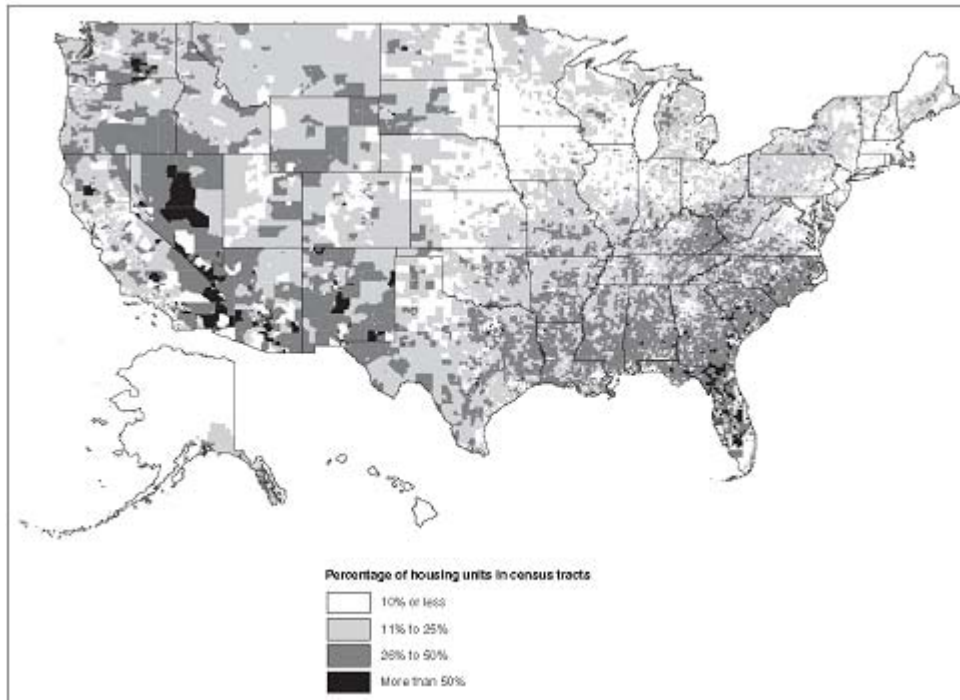
¹⁵ Sean West, "Manufactured Housing Finance and the Secondary Market," *Community Development Investment Review*, p. 43.

Exhibit 1: From Trailers to Manufactured Housing



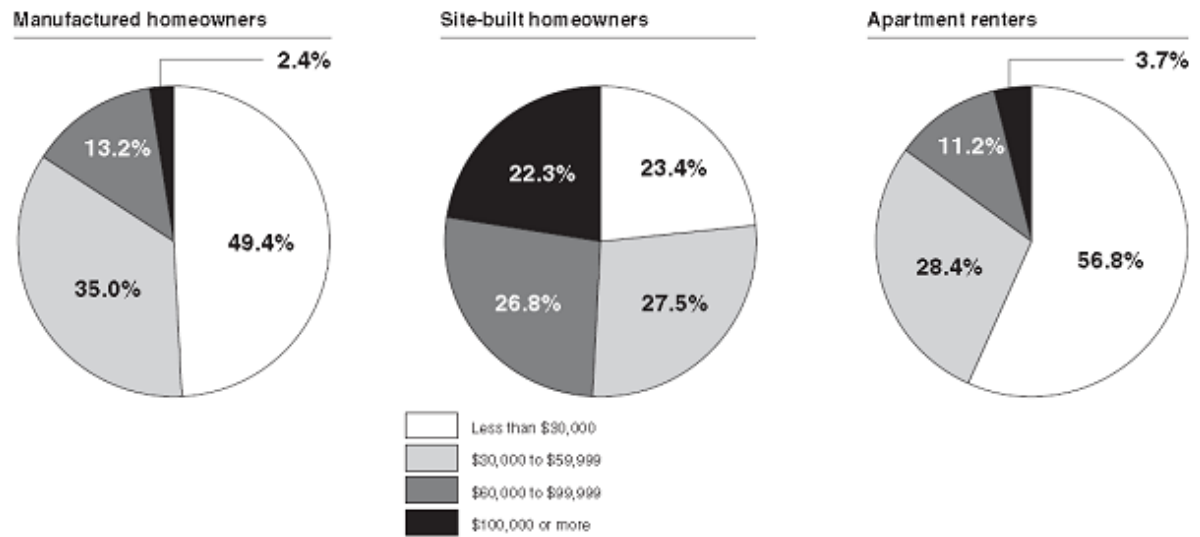
Sources: Smithsonian Institution (top), Manufactured Housing Institute (bottom)

Exhibit 2: Manufactured Home Concentration by Census Tract and Region



Source: General Accounting Office, Federal Housing Administration, August 2007

Exhibit 3: Types of Dwellings across Income Categories



Source: General Accounting Office analysis of American Housing Survey 2006 data

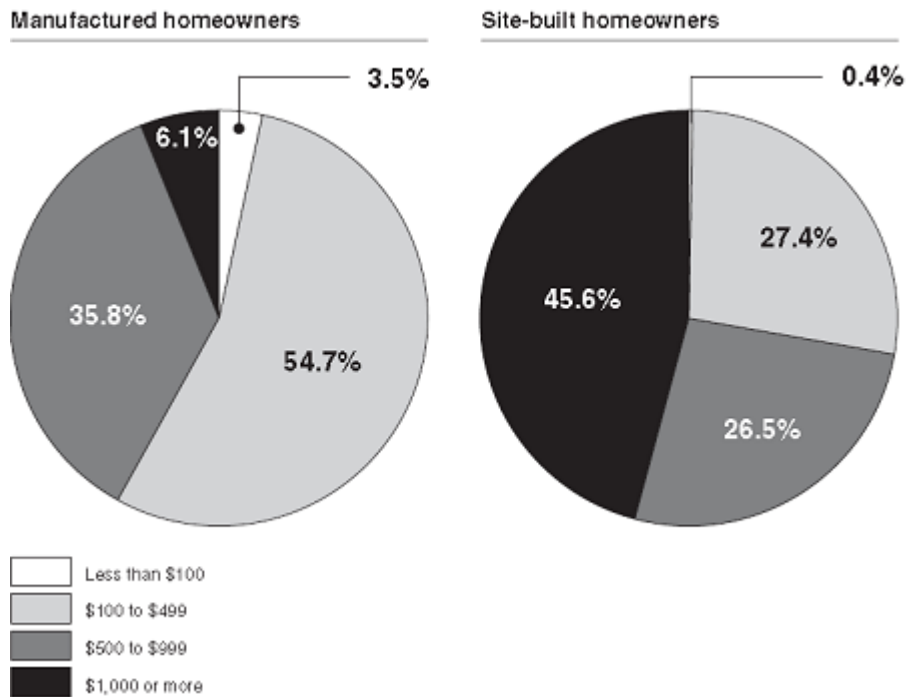
Exhibit 4: Comparative Pricing Data, 2001 - 2005

Cost & Size of New Manufactured Homes and New Single-Family Site-Built Homes

Year	2001	2002	2003	2004	2005
New Manufactured Homes					
<i>(Including typical installation cost) (excluding land)</i>					
Average Sales Price	\$48,900	\$51,300	\$54,900	\$58,200	\$62,300
Average Square Footage	1,545	1,590	1,620	1,625	1,595
Cost Per Square Foot	\$31.65	\$32.26	\$33.89	\$35.82	\$39.06
<i>Single-Section</i>					
Average Sales Price	\$30,400	\$30,900	\$31,900	\$32,900	\$33,800
Average Footage	1,115	1,125	1,100	1,090	1,080
Cost Per Square Foot	\$27.26	\$27.47	\$29.00	\$30.18	\$31.30
<i>Multisection</i>					
Average Sales Price	\$55,200	\$56,100	\$59,700	\$63,400	\$68,600
Average Footage	1,695	1,710	1,735	1,745	1,725
Cost Per Square Foot	\$32.57	\$32.81	\$34.41	\$36.33	\$39.77
New Single-Family Site-Built Home Sold					
<i>(House and the land sold as a package)</i>					
Average Sales Price	213,200	228,700	246,300	274,500	297,000
Less Land Price	-\$49,056	-\$54,560	-\$62,929	-\$73,082	-\$78,219
Price of Structure	\$164,144	\$174,140	\$183,371	\$201,418	\$218,781
Average Square Footage	2,282	2,301	2,315	2,366	2,414
Cost Per Square Foot	\$71.93	\$75.69	\$79.21	\$85.13	\$90.63

Source: Census Bureau; Richard Genz, "Why Advocates Need to Rethink Manufactured Housing," Housing Policy Debate, 12:2. Fannie Mae Foundation, 2001.

Exhibit 5: Monthly Housing Costs: Manufactured versus Site-Built Houses



Monthly housing costs include utilities, maintenance, and other housing-related fees in addition to loan or mortgage payments.

Source: General Accounting Office analysis of American Housing Survey 2006 data

Exhibit 6: New Manufactured Homes Placed by Selected Characteristics, 2008

Units Placed (thousands)			
	Total (1)	Single	Double
United States new manufactured homes	79	27	50
Location:			
Inside manufactured home communities	20	10	11
Inside parks or courts	15	8	7
In subdivisions	5	2	4
Outside manufactured home communities	59	18	39
Title as:			
Personal property	50	20	29
Real estate	22	7	17
Not titled	7	3	4
Number of bedrooms:			
2 or fewer	11	8	3
3 or more	68	20	47
Central air-conditioning:			
Installed	67	24	41
Not installed	13	3	9
Foundation:			
Concrete pads	11	4	7
Blocks	40	18	21
Masonry	22	3	17
Other (2)	7	3	4
Secured in place with:			
Tie-down straps (3)	56	23	32
Permanent masonry foundation	22	3	17
Not secured	2	1	1
Average square feet or floor area	1,570	1,105	1,775
Median square feet or floor area	1,455	1,215	1,680

(1) Includes manufactured homes

(2) Includes steel piers, no foundation, etc.

(3) Includes a small number of manufactured homes secured by other means, such as bolts or welding.

Note: Components may not add to totals because of rounding.

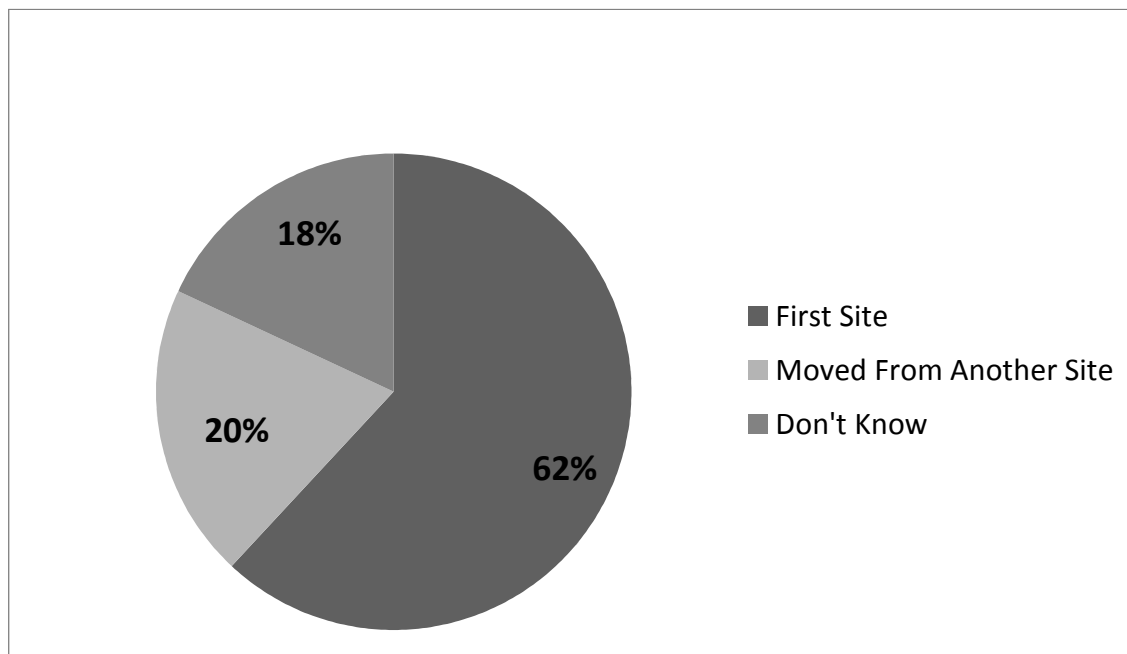
Source: These data are produced by the U.S. Commerce Department's Census Bureau from a survey sponsored by the U.S. Department of Housing and Urban Development.

Exhibit 7: Loan Application Approval Rates by Home Type, 2007

	<u>Applications</u>	<u>Approvals</u>	<u>Approval Rate</u>
Manufactured Homes	686,996	344,888	50.2%
Site Built Homes	6,304,817	4,575,061	72.6%

Source: Home Mortgage Disclosure Act (HMDA) data cited in the MHI 2009 Policy Agenda

Exhibit 8: Manufactured Home Site Placement, 2005



Source: American Housing Survey 2005, HUD & Census Bureau

Exhibit 9: Manufactured Home Locations, 1990-2005

	1990	1993	1996	1999	2002	2005
Park – don't own lot	34%	37%	37%	36%	33%	35%
Subdivision – own lot	6%	6%	6%	6%	6%	7%
Condominium/Co-op park	1%	1%	1%	1%	1%	1%
Owner's private property	42%	44%	45%	46%	49%	49%
Someone else's property	16%	11%	11%	11%	11%	9%
Total percentage	<u>99%</u>	<u>99%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>101%</u>
Number responding	<u>18,388</u>	<u>17,174</u>	<u>23,106</u>	<u>22,704</u>	<u>21,836</u>	<u>19,450</u>

Source: Foremost Insurance Company, Manufactured Homes Market Facts

Exhibit 10: Comparative Sales Data

Comparative Data on Homes that Sold				
Housing Characteristics	Sales Since 1999		Sales 9/22/04 – 9/22/05	
	ROC	Investor	ROC	Investor
Price	\$45,884	\$41,318	\$53,077	
Living Area	1,035*	953*	1,017.8^	936.9^
Age of Home	22.4 years	22.8 years	17.6 years*	23 years*
Assessed Value	\$38,803*	\$35,565*	\$40,021	\$36,882
Days on Market	68	72	60	83
Price per Sq. Ft.	\$42.2	\$41.9	\$55.1	\$48.6
Assessed Value Per Square Foot	\$36.9	\$36.8	\$38.7	\$38.5
Note *p<.05 ^ p<.10				

Source: The Carsey Institute, University of New Hampshire

Exhibit 11: Case-Shiller Composite Home Price Indices, Jan 1987 - Jan 2009

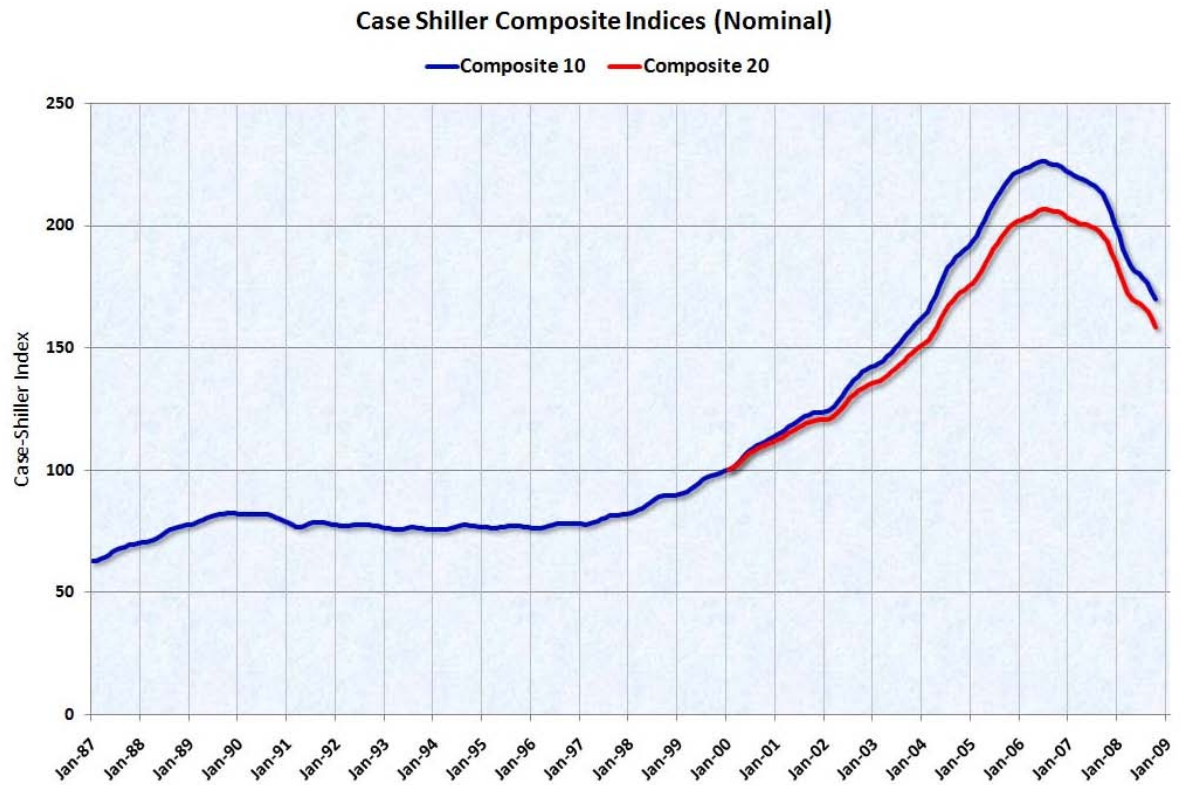


Exhibit 12: Excerpt from Warren Buffett's 2009 Letter to Berkshire Hathaway Shareholders

"Our largest operation in this sector is Clayton Homes, the country's leading producer of modular and manufactured homes...The industry is in shambles for two reasons, the first of which must be lived with if the U.S. economy is to recover. This reason concerns U.S. housing starts (including apartment units). In 2009, starts were 554,000, by far the lowest number in the 50 years for which we have data. Paradoxically, this is *good* news. People *thought* it was good news a few years back when housing starts – the supply side of the picture – were running about two million annually. But household formations – the demand side – only amounted to about 1.2 million. After a few years of such imbalances, the country unsurprisingly ended up with far too many houses...

The second reason that manufactured housing is troubled is specific to the industry: the punitive differential in mortgage rates between factory-built homes and site-built homes. Before you read further, let me underscore the obvious: Berkshire has a dog in this fight, and you should therefore assess the commentary that follows with special care. That warning made, however, let me explain why the rate differential causes problems for both large numbers of lower-income Americans and Clayton.

The residential mortgage market is shaped by government rules that are expressed by FHA, Freddie Mac and Fannie Mae. Their lending standards are all-powerful because the mortgages they insure can typically be securitized and turned into what, in effect, is an obligation of the U.S. government. Currently buyers of conventional site-built homes who qualify for these guarantees can obtain a 30-year loan at about 5.25%. In addition, these are mortgages that have recently been purchased in massive amounts by the Federal Reserve, an action that also helped to keep rates at bargain-basement levels.

In contrast, very few factory-built homes qualify for agency-insured mortgages. Therefore, a meritorious buyer of a factory-built home must pay about 9% on his loan. For the all-cash buyer, Clayton's homes offer terrific value. If the buyer needs mortgage financing, however – and, of course, most buyers do – the difference in financing costs too often negates the attractive price of a factory-built home.

Last year I told you why our buyers – generally people with low incomes – performed so well as credit risks. Their attitude was all-important: They signed up to live in the home, not re-sell or refinance it. Consequently, our buyers usually took out loans with payments geared to their verified incomes (we weren't making "liar's loans") and looked forward to the day they could burn their mortgage. If they lost their jobs, had health problems or got divorced, we could of course expect defaults. But they seldom walked away simply because house values had fallen. Even today, though job-loss troubles have grown, Clayton's delinquencies and defaults remain reasonable and will not cause us significant problems.

We have tried to qualify more of our customers' loans for treatment similar to those available on the site-built product. So far we have had only token success. Many families with modest incomes but responsible habits have therefore had to forego home ownership simply because the financing differential attached to the factory-built product makes monthly payments too expensive. If qualifications aren't broadened, so as to open low-cost financing to *all* who meet down-payment and income standards, the manufactured-home industry seems destined to struggle and dwindle.

Even under these conditions, I believe Clayton will operate profitably in coming years, though well below its potential..Our product is first-class, inexpensive and constantly being

improved..Even so, Berkshire can't borrow at a rate approaching that available to government agencies. This handicap will limit sales, hurting both Clayton and a multitude of worthy families who long for a low-cost home..."

Source: Berkshire Hathaway, Letter to Shareholders, updated February 27, 2010

Exhibit 13: Loan Purchases by Government-Sponsored Entities

Loan Purchases by Product Type, 2007			
	Manufactured Homes	All	%MH
Ginnie Mae	30,875	471,054	6.6%
Fannie Mae	11,621	2,406,229	0.5%
Freddie Mac	11,861	1,532,893	0.8%

Source: HMDA data cited in the MHI 2009 Policy Agenda