

Speech Delivered at the Manufactured Housing Symposium February 2007-Atlanta

Thank you, Eileen. And thank you for your continued support of us as we complete our organizational revolution.

I trust that everyone has enjoyed the symposium this morning and will learn even more this afternoon.

I want to express my sincere gratitude to the organizers of this event, for time spent bringing together a fascinating group of people committed to the manufactured housing industry. Thank you NeighborWorks Rural Initiative, CFED I'M Home which is generously supported by the Ford Foundation and Freddie Mac. And, thank you Fannie Mae and Fannie Mae Foundation for your support.

There are nonprofit pioneers in this field that have paved the way for this nonprofit emergence in the manufactured field and they fought some of the really tough battles and have shared their key learnings. Folks like Paul Bradley, Tony To, and others. And to them we are grateful. Other trailblazers I want to recognize are George McCarthy, Kathryn Gwatkin-Goulding, David Buchholz, David Dangler, and our native, Lance George. I know I have not included everyone, so to those folks I look forward to getting to know you.

And to the folks *out on the frontier* of manufactured housing I would like to recognize my staff and ask them to stand... Tom Carew, Cody Prater, Kelly Fleck and Sherry Farley. They are an incredibly smart group and have experienced so much change. And I am proud of you.

I plan to tell you a little about myself, my organization and our transformation into the manufactured field. I will share our experience with our strategic alliance with Clayton Homes, the nation's largest manufactured housing company.

I am from rural America, rural Kentucky, and Central Appalachia. I grew up in the most western part of Appalachia, in an area never identified as part of the mountains.

I speak with rural conviction having grown up in Possum Trot, Kentucky in a 100-year old farm house where generations of my family lived and worked in tobacco fields. It was a home without public water; wood was our primary heat source; and we shared a party telephone line.

I was the first in my family to complete college and obtain a graduate degree. I was the first to get a high school diploma. I was taught the value of hard work and not giving up.

When I was a kid, my parents' friends lived nearby on a farm, and their children were my best friends. Every Saturday evening, we spent time visiting each other. We usually shared a meal; our parents played Rook while we played Monopoly.

My best friends lived in a 2-bedroom 1970 single-wide. If you have never been in one from this era, you missed something. Today, I would measure this home as incredibly small. But in 1973, I never noticed—I thought it was cool! It was big enough for 4 adults and 5 kids to have a great Saturday night. I remember every inch of that home, from the avocado appliances to the tiny bedroom with bunk beds for two kids. I remember the underpinning and where you pulled it back to find the softball bats. I wondered why they had tires under their home, now I know.

I particularly remember my sister's birthday party, when an unexpected summer hail storm hit. I remember the fear in my mother's eyes. For years, my mother told the story of her desperation with a home full of kids; feeling the home rock in the wind, trying to make the decision for us to run for cover. We were fine.

By the time the 1980s arrived, our friends had saved enough money to build the home of their dreams. They lived in the old single-wide while the house was built. Last year, my father, now an Auctioneer, often selling family farms, sold his friends' home and farm. They moved to a small city to be close to their grandkids and retire with their nest egg that began with a 1970 trailer.

After graduate school I landed my first job at Kentucky Housing Corporation, the state housing finance agency, as the research assistant. My first job assignment was to take a two-day bus tour with the board of directors to eastern Kentucky. It was my first trip in the mountains.

Because I was young, new and without any relationships, I was bored. So I found a juvenile game to pass my time. As I kid, the familiar game was counting mailboxes, this time I started counting trailers. It was kind of funny at first, and then I was horrified with what I saw. I was in my own state understanding for the first time how the outside world might perceive me. It conjured stereotypical images that were not comfortable. But at each stop, we met the most wonderful people, ordinary people, doing extraordinary things. It is on that trip I first met Tom Carew at Frontier, Dave Lollis at FAHE and many, many others.

Many years later, I came to Frontier as their new director. The organization had celebrated 25 years and was a leader in single-family homebuilding in the FAHE network. Frontier and most FAHE groups were comfortable in how they approached their work. Their successful model was recognized regionally and nationally.

Frontier, and particularly Tom Carew had been very vocal about our distaste, dislike for the manufactured housing industry. He was not alone. The FAHE network took an **unofficial** stance on the industry. We perceived it as bad, from the dealers to the quality. I followed in the same tradition. I took it one step further by introducing a homebuyer education curriculum that warned the buyers of the industry, projecting no possibility of wealth creation and that their home would crumble before they paid off the mortgage.

I asked our counselors to go undercover and shop the dealers. They came back reporting their understanding why folks bought them and I refused to listen.

I didn't take note that many of my own staff were living in manufactured housing or their first place was a single-wide before they transitioned into their new home, even our loan officer had started with a single-wide and moved up to a double-wide. I refused to listen.

My nonprofit colleague (one county over) said he would measure their success when he could build more homes than the number of MH shipped into his county. We didn't listen.

In three years I noticed the first slip in our housing production. There were still lots of people coming in our door, but they were **NOT** choosing to buy our homes. I refused to listen.

In 2004, life got really interesting. I was accepted in the Achieving Excellence Program offered by NeighborWorks. I encourage all Directors to look seriously at this program. It is the best program I have ever encountered in terms of commitment to performance. It is not training; it is the key to putting your organization on track to achieve results.

Off to Harvard we go, the first week a case study is presented on a nonprofit that is not successful in their expansion because they find that their loan product is not competitive with local loan sharks. It's easier to get the loan from the loan shark because it's easily understood if you don't repay the loan. The loan sharks had tailored their products to the needs of their customers. They met them in their needs. They didn't require 8 weeks of loan classes. They didn't put odd regulations on their loans. One simple rule, you don't pay we break your legs.

The nonprofit was too hard to deal with and lost their customer base. They would not give the customers any choices. All customers have individual consumer preferences. As this case was dissected and analyzed, I felt the hair on my neck raise and tears floated on my eyes. It was an epiphany! The manufactured dealers were the loan sharks in the story. We were too hard to deal with. We would not give them choice. We were treating them as clients, not customers with individual preferences.

I uttered these words under my breath, "Dear God, please don't make me face that!" It **would not** be the last time I would feel these odd sensations as I faced my board, my staff, my 45 nonprofit colleagues in Appalachia with the prospect of undertaking manufactured housing as a solution, not a problem.

When I got home, I found out the real story. I had been told by staff that it took 6 months to get a home. When we studied it, it was 18 months on average. For every 10 people in the door, one family got keys to a new home. And the reality set in when I counted 49 dealers within a 50 mile radius of our office. We had real competition. We asked folks why they did not complete the loan process, while many had credit limitations, 29% told us our process took too long. And who could disagree? I started shopping dealer lots,

and reputable dealers gave me a 90 day timeline. Some told me 2 weeks. My experience on the lot was pleasurable, I saw beautifully decorated homes that were comfortable and excited my impulsive shopping instinct. The subprime market is alive and well on these Dealer Lots.

We took on a performance challenge to triple the number of customers served, while cutting our production time in half while maintaining a loan delinquency rate below 5%. We committed to compete with manufactured housing for credit ready buyers within 4 months. When we stated that, we didn't realize how much "Compete with Manufactured Housing" really meant.

We kept doing our homework. I spoke to a few confidants about what I was thinking, those great minds that I trusted. I was told by one that I should not go there. Modular housing was OK, but stay out of the manufactured field. One advised me, if I did it, do it in a leadership role to begin to affect policy nationally. The third is here today, Lynn Luallen, the CEO of the Housing Partnership in Louisville and the former CEO of Kentucky Housing. He confirmed for me that he thought I was on the right track and he shared a story of some information he had given to an investment research team before Warren Buffett bought Clayton Homes. As we parted, he gave me some recommended readings on the industry.

All the way back to Morehead, I kept thinking about what Warren Buffett saw in the industry. I had to find out.

Over months, I read everything published on the industry, especially from an investor's perspective. I became fascinated with the question, what did Warren Buffet see in the industry? Then I became fascinated with the question if I aligned our organization with a manufactured company, who would it be?

What happened with the credit ease and explosion of the industry in the 90s? What made the industry bust? In 2003, the industry was near collapse and many were forced into bankruptcy. The industry was crippled and is still crippled today by the exit of the capital markets. Today the GSEs hold less than ½ of 1% of their total portfolio in Manufactured Housing. Would it come back, if so how would it come back?

As I studied the industry, I asked these questions of the companies.

Did it have conservative business/lending practices?

Did it have a pristine balance sheet?

Was it a leader and have brand recognition in the industry?

What was the outcome of the company given the boom/bust?

What was the commitment to quality?

Was there any commitment to Central Appalachia?

Were any homes built or jobs created in Central Appalachia?

What was their construction building method? Did they utilize unitized construction?

What were their philanthropic commitments? (**That was always my last question.**)

Now with every good story, there is a moment of serendipity. For me, it was standing in the right place at the right time, telling my story of research to Paul Bradley. He asked me which company emerged. When I replied Clayton Homes, he smiled and said, you know we are setting up a meeting with Kevin Clayton to show him what we do and George McCarthy of the Ford Foundation will be joining us. Would you like to tag along? How could I say no to that?

Two years ago, we all met in New Hampshire to tour the wonderful work of the NH Community Loan Fund and their Resident Owned Communities. We talked about the emerging I'm Home program which would jumpstart the investment and create incentive for the nonprofits to enter the field.

My role there was small, to tell our story. We were from the same neck of the woods, Appalachia, Clayton is home-based in Maryville, Tennessee in the mountains, and they spoke with the familiar Cumberland Plateau Dialect. Never underestimate the power of your story, your passion.

From New Hampshire, sparked a "Sense of Possibility"!

I was soon to hear from the Mr. Clayton and his wonderful team and together we identified a potential project, the Community at Edgewood for an I'm Home grant proposal. The Communities team spent hours of teaching and assistance—and we worked incredibly hard to learn a new language, a new method of construction, a new business model. We became a licensed Dealer and joined our state association. There were many bumps in the road. We negotiated our quality standards with the factory and they met us. Our message is simple, A Quality Home and a Fair Loan, that is our promise. We would never sacrifice our quality standards. We believe in customer choice. Today, we offer three products, site-built, manufactured or modular.

I have a piercing vision, that if improvements are to be made in manufactured housing in Central Appalachia, it must be accomplished at **scale** and with the **help** of the Industry. I was headstrong that Clayton would be our only partner as we engaged the industry. MH is the largest unsubsidized source of affordable housing in the nation. The manufactured housing industry has an amazing advantage when it comes to scale. They have one national code that allows them to move the homes into any jurisdiction. For the nonprofits, can we imagine a national law that required all our funders to only require the same paperwork, same reporting, no differences, no exceptions? Can you imagine how that would impact our efficiency?

Also, manufactured quality has improved immensely. It is not my friend's 1970s single-wide. In fact a turning point for me and my staff was a visit to a factory when we learned we were using basically the same products, materials and building practices and accomplishing the same quality standard. Times **had** changed.

But it was more than that; the MH industry had shamed the nonprofit industry in terms of what customers really wanted in their homes. Whenever someone would make the comment, I used to feel a rage burn inside of me. If that comment placed a spark with you, I encourage you to look broader.

Unfortunately, the industry is plagued with problems; shipments have not rebounded and continue to lag. The capital markets seem absent and the industry needs more leadership to confront with brutal honesty the underlying reasons why the problems remain. Wealth creation for the buyer is the only key to stabilizing the industry. It is not only about making the first sale of the dealer's lot, but the second sale of that home to the next homebuyer. **That home must perform in the market identical to its site-built cousin.** It must be financed in the same way as its site-built cousin. There are many examples giving proof that this happens, but it must happen consistently.

For the industry, the nonprofits hold a critical part of the equation, we have home buyer education, affordable loan products and we can bring subsidy. By our commitment to mission, we bring a positive image to the industry! When we put together what is good about both industries, we will bring so many more successful homebuyers into fruition. I believe the capital markets will return with this demonstrated success.

We, the nonprofits, are largely **scale deficient** when engaging the industry. We somehow think that we can approach a manufacturing factory with an order of 2 and get all the nice little changes we want. It doesn't work that way. Sometimes it doesn't work for 10 or 15 homes. Why should they provide low cost and small volume customization of their product when it is assembly line, standardized product design that allows for low-cost efficiencies? Scale is critical as we move forward. I encourage you to place critical thought on this issue. When we chose MH, it is first vital to understand the differences in the industry. Also, we have to remember that some in the MH industry think that the nonprofits have some unfair advantage over them and we might threaten their business. That was an eye opener for me. This perceived threat can become real, and it takes constant education and dialogue on both sides, because really, we don't know each other very well at all. If we work hard at it together, it is only a win-win and together we can grow the market, and not take away business from each other.

At FAHE, we are addressing scale in Central Appalachia. Our 45 members have a rich tradition of collaboration and our commitment to one another runs as deep as the valleys in which we live. We are all faced with dwindling subsidy, and rising construction costs in an area where incomes are poor and stagnant. Under Jim King's leadership, we faced our realities and made a commitment to one another called the **Berea Performance Compact**. Where a member has a core competency specific to a product that would lead to scale, other groups would join with the member group to achieve that scale. Manufactured housing is one of the five products and Frontier is leading to make the product available to the other nonprofits and Central Appalachia. We have become dealer aggregator for the nonprofits. This will boost our volume while keeping prices low. The participating nonprofits have access to our key learnings, quality standards and we will act as interpreter between the factory and group. We speak both languages. Our

first projects have been identified and several FAHE members have committed to working with us. We are within days of making our first nonprofit to nonprofit sale, and within a week a new quality home will be delivered. And it will be the first of many, many homes.

The Symposium Agenda said that I would be joined by my key partners for candid insights into a regional strategy in Appalachia. Our key partners are the nonprofits joined with me in this room. Our other key partner is Clayton Homes. Mr. Clayton sends his sincere regrets that he could not personally join us today, but sends his well wishes to all of us engaged in wealth creation through homeownership.

Frontier is enjoying a special strategic alliance with Clayton Homes and now has been approved to deal homes to a larger geographic region, including many markets and states outside of Appalachia. We look forward to new partnerships with many of you that are looking for ways to access quality product whether you're working on new production or a replacement strategy in a community. Together we can address scale.

When I retire 30 years from now, I will end my career, much like I began my career with a bus ride. And I will play my counting game. I will count every home where I know the quality is good and the loan was fair. As that bus crosses the Tug Fork over into West Virginia, I will count those same homes. As we roll down to Virginia through the New River Valley, I will keep counting thousands of wonderful homes. And as we cross back into KY and then down through the Cumberland Tunnel to Tennessee, the numbers will soar as high as the mountains. The trip will take us by Bean Station and by the Clayton Norris Plant where homes are made and jobs retained. The bus will make one last stop in Kentucky where I will get off and realize I somehow lost count of the quality manufactured homes, site built homes, and modular homes. I will know the paradigm shifted and together, we made a difference.

As I part, Thank you and Indeed, Good Things are Happening Amongst Us.