Why Manufactured Housing Bonds Now?

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Three factors indicate a strong potential underlying Manufactured Housing ("MH") bonds:

- **Collateral:** **The average monthly payment on a typical loan is low and relatively affordable.**
- **Performance:** **Delinquency, default, and default loss trends are improving for most MH securities issued between 1994 and 2001.**
- **Data:** **An abundance of historic data enables better cash flow projections.**

Overview of the MH Business

A "manufactured home" prior to the mid-1970s generally was a "mobile home." However, with the adoption of guidelines set by the US Department of Housing and Urban Development ("HUD") in 1976, the term came to specifically refer to housing built in accordance with those regulations. Today, manufactured housing refers to factory-built mobile and modular homes. To the extent that mobile manufactured homes are towed into place, they somewhat resemble their forerunners, but the resemblance very much ends there since the mobility of such units is considerably diminished. Modular manufactured housing, on the other hand, is transported on flatbed trucks and lacks axles and an automotive-type frame.

Until the mid-1990's, borrowers with decent credit — FICO credit scores above 620 — could get a loan from one of several MH loan originators, including GreenTree, Oakwood, Clayton Homes, Champion Homes and Chase Bank. Loan terms were typically no more than 20 years and often times between 10 and 15 years. MH loan terms were shorter than typical residential mortgage loans. The reason for this dichotomy is that manufactured housing commonly declines in value much faster than "brick and stick" homes. Therefore, lenders find it desirable to keep MH loan repayment periods relatively short so that the outstanding principal balance of a MH loan after 10 or 15 years will be small and not in excess of its collateral value.

With a burgeoning demand for affordable housing, lenders sought to expand their markets so as to serve "subprime" borrowers, consumers with higher credit risk (FICO scores under 620). Finance products such as the 125% loan-to-value mortgage loan afforded the dream of home ownership to more buyers. At the same time, loan repayment periods for manufactured homes became longer — to as many as 30 years — in order to bring additional purchasers into the market.

The MH mortgage debt market grew significantly, and institutional lenders developed complex financial instruments to replenish the pool of capital that was being expended to fuel increasing opportunities for home ownership. Investors poured money into purchasing interests in newly created "bonds" secured by MH mortgages.

Unfortunately, however, standards adopted by the rating agencies that attached investment grade ratings to such bonds did not adequately consider factors that were compromising historically rigorous mortgage loan criteria. The impact of compromised lending requirements and increased borrower-related risk was not adequately considered, and a number of bonds suffered significant losses when mortgage defaults grew as marginal borrowers failed to make their monthly payment obligations.

The MH industry tried to develop ways to stem the volume of losses, including a new credit vehicle known as the "repo/refi loan." Instead of repossessing a home and selling it for pennies on the dollar, the entity providing loan servicing functions with respect to a defaulted loan in a bond's mortgage portfolio would frequently find another borrower for the collateral property. The subsequent borrower would move into the home, and the repo/refi loan thereby created would be put into the portfolio securing a new MH bond. Because the subsequent borrower typically also was a bad credit risk, this tactic only served to accelerate the pace of defaults among bonds secured by such loans.

Today, there are four primary MH loan originators: Origen Financial, Clayton Homes, US Bank, and GreenTree. There are also a few small regional firms and a small number of banks making MH loans in their own markets. There is only one firm, Origen Financial, that is securitizing newly originated MH loans, and the majority of loans in these securitizations are to prime credit borrowers. Bond rating agencies are now applying conservative assumptions in developing investment risk profiles, making it very difficult to securitize new loans. This lack of newly issued bonds is one of the forces behind the increase in prices among outstanding MH bonds.

Affordability

With this understanding of the development of the MH securitization market, the issue becomes, "What now?" One conclusion is that painful historical lessons in the marketplace have led to current stability in the MH sector. The market today, in addition, is bolstered by the fact that modern manufactured homes belie the image of early mobile homes, offering very affordable shelter of a quality that can be identical in appearance to site-built homes.

Illustrating the affordability point, look at key components of the average loan securing a representative MH bond, the "GreenTree 1998-1" security:

- Current Loan Balance: $33,454
- Remaining Term in Months: 218
- Fixed Interest Rate: 9.216%
- Monthly Principal and Interest Payment: $316.11

Perhaps most noteworthy among these data points is the Monthly Principal and Interest Payment of $316.11. If a borrower is earning minimum wage, he or she likely can afford a monthly payment of $316.11 for housing, a basic human need. MH borrowers, therefore, will continue to make their required monthly payments because there is no other form of housing that is this so affordable.

Delinquency, Default and Loss Trends Stabilize

In this regard, delinquency, default, and loss statistical trends have improved significantly over the past 24 months as the noted market stabilization appears to have become solidly rooted. The result has been a general overall increase in the prices of MH bonds. Demonstrating this point are the following analyses of the GreenTree 1996-1; GreenTree 1997-1; GreenTree 1998-1 and GreenTree 1999-1 MH bonds.

With quite favorable repossession ("REO"), delinquency, and collateral liquidation trends, the secondary market prices of such seasoned bonds have benefited current owners of the bonds and made it more difficult to find purchase opportunities.

GT 1996-1 Pool Performance Summary

Bond Payment Date	Rolling 12 Month REO %	Rolling 12 Month 30 Day DQ %	Rolling 12 Month 60 Day DQ %	Rolling 12 Month 90 Day DQ %	Rolling 12 Month Recovery %	Rolling 12 Month CDR Rate
9/15/06	0.80%	0.99%	0.34%	0.88%	24.22%	3.10%
8/15/06	0.78%	1.02%	0.35%	0.88%	23.88%	3.23%
7/17/06	0.78%	1.03%	0.36%	0.88%	19.28%	3.47%
6/15/06	0.80%	1.04%	0.34%	0.89%	18.38%	3.71%
5/15/06	0.84%	1.05%	0.35%	0.87%	16.45%	3.72%
4/17/06	0.86%	1.07%	0.36%	0.87%	16.81%	4.21%
3/15/06	0.92%	1.08%	0.36%	0.87%	16.56%	4.35%
2/15/06	1.00%	1.11%	0.40%	0.90%	15.40%	4.38%
1/18/06	1.07%	1.18%	0.41%	0.90%	16.03%	4.34%
12/15/05	1.13%	1.17%	0.41%	0.90%	15.51%	4.35%
11/15/05	1.16%	1.19%	0.45%	0.89%	15.66%	4.34%
10/17/05	1.18%	1.23%	0.44%	0.91%	15.70%	4.39%
9/15/05	1.20%	1.31%	0.44%	0.93%	16.09%	4.59%
8/15/05	1.24%	1.30%	0.43%	0.98%	16.75%	4.79%
7/15/05	1.28%	1.31%	0.45%	1.00%	18.76%	4.87%
6/15/05	1.32%	1.34%	0.44%	1.01%	19.62%	4.95%
5/16/05	1.35%	1.38%	0.45%	1.01%	19.60%	5.22%

CDR means "Constant Default Rate" which is the percentage of liquidated repossessed mobile homes every month on an annualized basis. The Recovery Rate is the percentage of recovery on liquidated repossessed mobile homes net of all expenses and servicer advances.

GT 1997-1 Pool Performance Summary

Bond Payment Date	Rolling 12 Month REO %	Rolling 12 Month 30 Day DQ %	Rolling 12 Month 60 Day DQ %	Rolling 12 Month 90 Day DQ %	Rolling 12 Month Recovery %	Rolling 12 Month CDR Rate
9/15/06	1.36%	1.52%	0.49%	0.99%	19.41%	5.02%
8/15/06	1.35%	1.56%	0.48%	0.97%	19.71%	5.18%
7/17/06	1.37%	1.52%	0.48%	0.96%	19.17%	5.24%
6/15/06	1.38%	1.51%	0.47%	0.95%	18.65%	5.13%
5/15/06	1.39%	1.50%	0.47%	0.96%	18.77%	5.55%
4/17/06	1.42%	1.49%	0.49%	0.95%	19.17%	6.01%
3/15/06	1.46%	1.48%	0.50%	0.98%	19.19%	6.13%
2/15/06	1.52%	1.57%	0.53%	0.99%	17.84%	5.89%
1/18/06	1.55%	1.57%	0.53%	0.97%	18.83%	5.73%
12/15/05	1.60%	1.57%	0.51%	0.96%	19.56%	6.04%
11/15/05	1.66%	1.55%	0.52%	0.96%	19.31%	6.35%
10/17/05	1.73%	1.55%	0.53%	0.98%	19.63%	6.59%
9/15/05	1.79%	1.54%	0.54%	1.02%	19.47%	6.44%
8/15/05	1.82%	1.54%	0.53%	1.08%	20.03%	6.46%
7/15/05	1.84%	1.57%	0.55%	1.12%	20.26%	6.54%
6/15/05	1.84%	1.60%	0.57%	1.18%	20.48%	6.77%

GT 1998-1 Pool Performance Summary

Bond Payment Date	Rolling 12 Month REO %	Rolling 12 Month 30 Day DQ %	Rolling 12 Month 60 Day DQ %	Rolling 12 Month 90 Day DQ %	Rolling 12 Month Recovery	Rolling 12 Month CDR Rate
9/1/2006	0.93%	1.13%	0.31%	0.91%	21.64%	3.88%
8/1/2006	0.94%	1.10%	0.35%	0.91%	22.09%	3.90%
7/3/2006	0.96%	1.11%	0.34%	0.92%	23.31%	4.04%
6/1/2006	0.99%	1.05%	0.34%	0.92%	21.96%	4.24%
5/1/2006	1.04%	1.04%	0.33%	0.92%	21.06%	4.27%
4/3/2006	1.13%	1.02%	0.34%	0.99%	20.89%	4.37%
3/1/2006	1.16%	1.08%	0.36%	0.99%	20.56%	4.68%
2/1/2006	1.20%	1.05%	0.37%	0.97%	20.92%	4.54%
1/3/2006	1.22%	1.06%	0.33%	0.96%	22.34%	4.69%
12/1/2005	1.24%	1.01%	0.37%	0.97%	24.54%	5.03%
11/1/2005	1.28%	1.01%	0.39%	0.97%	26.77%	5.57%
10/3/2005	1.35%	1.06%	0.39%	0.98%	26.78%	5.38%
9/1/2005	1.37%	1.08%	0.40%	0.99%	25.98%	5.38%
8/1/2005	1.38%	1.11%	0.38%	1.01%	26.65%	5.54%
7/1/2005	1.38%	1.14%	0.41%	1.02%	25.01%	5.58%
6/1/2005	1.37%	1.18%	0.41%	1.06%	24.93%	5.74%
5/2/2005	1.37%	1.19%	0.43%	1.09%	24.75%	5.95%
4/1/2005	1.34%	1.23%	0.45%	1.05%	23.82%	6.09%

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GT 1999-1 Pool Performance Summary

Bond Payment Date	Rolling 12 Month REO %	Rolling 12 Month 30 Day DQ %	Rolling 12 Month 60 Day DQ %	Rolling 12 Month 90 Day DQ %	Rolling 12 Month Recovery	Rolling 12 Month CDR Rate
9/1/06	1.28%	1.10%	0.35%	0.81%	27.00%	4.81%
8/1/06	1.28%	1.09%	0.36%	0.83%	25.94%	4.90%
7/3/06	1.29%	1.09%	0.37%	0.84%	26.02%	5.20%
6/1/06	1.31%	1.07%	0.37%	0.85%	26.22%	5.41%
5/1/06	1.35%	1.09%	0.37%	0.87%	25.95%	5.73%
4/3/06	1.39%	1.06%	0.38%	0.89%	24.91%	5.95%
3/1/06	1.44%	1.13%	0.40%	0.93%	24.35%	5.92%
2/1/06	1.47%	1.15%	0.43%	0.96%	24.44%	6.05%
1/3/06	1.51%	1.17%	0.43%	0.98%	24.17%	5.98%
12/1/05	1.53%	1.18%	0.44%	1.00%	24.66%	6.14%
11/1/05	1.56%	1.19%	0.46%	1.00%	23.68%	6.06%
10/3/05	1.57%	1.23%	0.46%	1.02%	22.74%	6.00%
9/1/05	1.59%	1.25%	0.46%	1.03%	22.67%	6.13%
8/1/05	1.62%	1.24%	0.46%	1.06%	22.54%	6.43%
7/1/05	1.67%	1.24%	0.47%	1.07%	22.06%	6.06%
6/1/05	1.68%	1.25%	0.48%	1.10%	22.00%	6.24%

Availability of Historic Data Informs Pricing Analyses

Data such as is displayed here, collated by WMD Capital, is fundamental to the Company's bond cash flow and pricing analyses. Twenty-five months of information is readily available with respect to most securities. This data is the product of proprietary research and strong working relationships with the other investor firms. Because other sophisticated buyers of MH bonds source similar data, trades of MH bonds - while more efficiently achieved - also have become more competitive.

Summary

Typically MH bonds (such as B Class and M Class bonds) have below investment grade ratings with associated risks. Consequently, they present a potential for high returns.

We take several factors into account when considering the potential of MH bonds, both as a buyer and as a seller. On the "buy" side, the most important factor to us is the percentage of purchase price recovered after 12 months and 24 months. Historic bond pricing also helps us gauge earnings expectations. On the "sell" side, we rely on our experience as a respected and active participant in this marketplace to make informed judgments.

WMD Capital sees significant investment opportunity in seasoned non-investment grade, subordinate, and mezzanine MH bonds.

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