



Robotti & Company Conference

Abdul Rajput

Manufactured Housing Finance

Ready to Be Your Financial Partner

Ranking

- World's largest public companies
- US's largest financial services holding company

68th
6th

Asset Size

\$190 B

Deposits

\$120 B

Loans

\$123 B

Return on Average Assets

2.19%

Return on Average Equity

21.9%

Customers

11.6 M

Bank Branches

2,315

ATM's


4,565

NYSE

USB



Consumer Lending Products

-  **Indirect lending (RV, Marine, Auto)**
-  **Consumer Finance**
-  **Direct Loans (Home Equity, etc)**
-  **Student Loans**
-  **Manufactured Housing Finance**






Rationale to Enter MH Market

- ✍ **Big shakeout is over – signs of life emerging**
- ✍ **Market lacks a strong National Portfolio Lender**
- ✍ **Funding constraints limiting growth of many lenders**
- ✍ **Extension of existing USB real estate financing business**
- ✍ **Spreads are attractive**
- ✍ **Affordable housing**
- ✍ **History of success with De-Novos**

Success Factors in MH Business

- ✍ **Strong credit culture**
- ✍ **Risk based pricing discipline**
- ✍ **Experienced MH lending team**
- ✍ **Does not depend on ABS market for funding**
- ✍ **Partner with select established, well-capitalized retailers**

Critical Industry Trends

-  **22 million people currently live in manufactured homes**
-  **Quality of such homes has improved in recent years**
-  **MH will continue to provide an alternative to more expensive site-built homes**
-  **MH land/home business has increased in recent years**
-  **Multi-section growth has significantly increased in last ten years**

MH Industry Issues in Last Five Years and a Major Correction

- ✍ **Lenders – irresponsible underwriting and irrational pricing practices**
- ✍ **Easy Money – created artificial demand that lured more manufacturers and retailers**
- ✍ **Manufacturers acquired independent retailers at premium prices**
- ✍ **Retailers – inexperienced and underfunded retailers entered the market**

MH Industry Issues in Last Five Years and a Major Correction

- ✍ **Loans defaulted, lenders panicked and extended credit to less creditworthy borrowers on repos**
- ✍ **Securitization markets became very unfriendly and risk premium went up**
- ✍ **Lenders began exiting; manufacturers shut down retail stores and closed plants**

Positive Trends in MH Industry

- ✍ **Prudent risk management and business practices have made inroads**
- ✍ **Reduction in fraud, falsification and misrepresentation – MARI**
- ✍ **Verification of employment, income and down payment required**
- ✍ **Underwriting guidelines upgraded and enforced**
- ✍ **Credit quality has gone up significantly**

US Bank Manufactured Housing Finance

 US Bank MH Portfolio	\$120M
 Credit quality – FICO (De-Novo)	725
 30+ Delinquency (De-Novo)	0.48%
 Losses (De-Novo)	-None-
 Repossessions (De-Novo)	-None-
 Approved Retailers	750

US Bank MH Products and Programs

- ✍ **Chattel Financing offered in 48 contiguous states**
- ✍ **Land/Home (real estate) offered in 13 states, planning to add more states**
- ✍ **Conventional fixed rate loans**
- ✍ **New, used, single and multi-section homes**
- ✍ **Placement – parks, communities, leased and owned land**

Summary Underwriting Guidelines

 **Credit Quality**

Min. FICO – 630

 **Collateral valuation**

- Chattel
- Land/Home

Algorithm based

Appraisal based

 **Advance on new homes**

125% of net invoice

 **Employment history**

2 years

Production Activity and Credit Quality

FICO - Mix

<u>FICO Range</u>	<u>< 630</u>	<u>630 – 679</u>	<u>680 +</u>
Applications	35%	25%	40%
Approved	< 1%	17%	82%
Funded	< 1%	12%	87%

Production Activity and Credit Quality

Production Distribution

<u>FICO Range</u>		<u>< 630</u>	<u>630 – 679</u>	<u>680 +</u>
Apps	↴ Actual	35%	25%	40%
	Target	N/A	60%	40%
Funded	↴ Actual	< 2%	12%	86%
	Target	N/A	40%	60%

Portfolio – Weighted Average FICO

Actual = 725

Target = 680

Business Model

- ✍ **Credit application processing – internet based system**
- ✍ **Centralized – credit, pricing, product development, funding**
- ✍ **Decentralized – marketing, sales and business development**
- ✍ **Collections – decentralized centers**
- ✍ **Servicing support - centralized**

Growth of MH Industry Depends On

- ✍ **Credit discipline**
- ✍ **Quality vs. quantity – don't chase market share!**
- ✍ **Availability of ABS market for MH paper**
- ✍ **Truth in Invoicing Practices**
- ✍ **Retailer Best Practices**
- ✍ **Lender Best Practices**
- ✍ **MARI reporting – approve reputable retailers**

MH Industry – Stability Requires Changes

- ✍ **Image of the Industry**
 - Affordable housing
 - Home
- ✍ **Manufacturers Invoice standard – MSRP**
- ✍ **Adherence to Best Practices**
- ✍ **Proper home setup**
- ✍ **Minimum FICO cutoff**



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