# The Seattle Times

# THE MOBILE-HOME TRAP

Billionaire philanthropist Warren Buffett controls an empire that promises low-income borrowers affordable homes.
But all too often, unwary families, especially those of color, find themselves locked into ruinous high-interest loans and rapidly depreciating dwellings.

AN INVESTIGATION BY MIKE BAKER, THE SEATTLE TIMES and DANIEL WAGNER, THE CENTER FOR PUBLIC INTEGRITY AND BUZZFEED NEWS

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#### A SEATTLE TIMES INVESTIGATION

Billionaire philanthropist Warren Buffett controls an empire that promises low-income borrowers affordable homes. But all too often, unwary families find themselves locked into ruinous high-interest loans and rapidly depreciating dwellings. Said one: *Tve lost everything*.

# The mobile-home trap



Kirk and Patricia Ackley, of Ephrata, spent thousands to prepare their land for their Clayton mobile home, then were stuck with a higher loan rate than promised. The lender, also a Clayton company, would not let them refinance and took their home away.

# THE MOBILE-HOME TRAP

BY MIKE BAKER / Seattle Times staff reporter and DANIEL WAGNER / The Center for Public Integrity

First of a series

EPHRATA, Grant County – After years of living in a 1963 travel trailer, Kirk and Patricia Ackley found a permanent house with enough space to host grandkids and care for her aging father suffering from dementia.

So, as the pilot cars prepared to guide the factory-built home up from Oregon in May 2006, the Ackleys were elated to finalize paperwork waiting for them at their loan broker's kitchen table.

But the closing documents he set before them held a surprise: The promised 7 percent interest rate was now 12.5 percent, with monthly payments of \$1,100, up from \$700.

The terms were too extreme for the Ackleys. But they'd already spent \$11,000, at the dealer's urging, for a concrete foundation to accommodate this specific home. They could look for other financing but desperately needed a space to care for her father.

Kirk's construction job and Patricia's Wal-Mart job together weren't enough to afford the new monthly payment. But, they said, the broker was willing to inflate their income in order to qualify them for the loan.

"You just need to remember," they recalled him saying, "you can refinance as soon as you can."

To their regret, the Ackleys signed.

The disastrous deal ruined their finances and nearly their marriage.

But until informed recently by a reporter, they didn't realize that the homebuilder (Golden West), the dealer (Oakwood Homes) and the lender (21st Mortgage) were all part of a single company: Clayton Homes, the nation's biggest homebuilder, which is controlled by its second-richest man — Warren Buffett.

Buffett's mobile-home empire promises low-income Americans the dream of homeownership. But Clayton relies on predatory sales practices, exorbitant fees, and interest rates that can exceed 15 percent, trapping many buyers

A collaboration between The Seattle Times and The Center for Public Integrity, a nonprofit, nonpartisan investigative newsroom based in Washington, D.C.

# THE MOBILE-HOME TRAP



KEN LAMBERT / THE SEATTLE TIMES

Kirk and Patricia Ackley, of Ephrata, said they pleaded with 21st Mortgage for the interest rate they'd been promised for their mobile-home purchase so they could keep their home. They were baffled by the reply: "We don't care. We'll come take a chainsaw to it — cut it up and haul it out in boxes."

in loans they can't afford and in homes that are almost impossible to sell or refinance, an investigation by The Seattle Times and Center for Public Integrity has found.

Berkshire Hathaway, the investment conglomerate Buffett leads, bought Clayton in 2003 and spent billions building it into the mobile-home industry's biggest manufacturer and lender. Today, Clayton is a many-headed hydra with companies operating under at least 18 names, constructing nearly half of the industry's new homes and selling them through its own retailers. It finances more mobilehome purchases than any other lender by a factor of six. It also sells property insurance on them and repossesses them when borrowers fail to pay.

Berkshire extracts value at every stage of the process. Clayton even builds the homes with materials — such as paint and carpeting — supplied by other Berkshire subsidiaries.

More than a dozen Clayton customers described a consistent array of deceptive practices that locked them into ruinous deals: loan terms that changed abruptly after they paid deposits or prepared land for their new homes; surprise fees tacked on to loans; and pressure to take on excessive payments based on false promises that they could later refinance.

Former dealers said the company encouraged them to steer buyers to finance with Clayton's own highinterest lenders.

Under federal guidelines, most Clayton mobile-home loans are considered "higher-priced." Those loans averaged 7 percentage points higher than the typical home loan in 2013, according to a Times/CPI analysis of federal data, compared to just 3.8 percentage points for other lenders.

Buyers told of Clayton collection agents urging them to cut back on food and medical care or seek handouts in order to make house payments. And when homes got hauled off to be resold, some consumers already had paid so much in fees and interest that the company still came out ahead. Even through the Great Recession and housing crisis, Clayton was profitable every year, generating \$558 million in pre-tax earnings in 2014.

The company's tactics contrast

When homes got hauled off to be resold, some consumers already had paid so much in fees and interest that the company still came out ahead. Even through the Great Recession and housing crisis, Clayton was profitable every year.

with Buffett's public profile as a financial sage who values responsible lending and helping poor Americans keep their homes.

Berkshire Hathaway spokeswoman Carrie Sova and Clayton spokeswoman Audrey Saunders ignored more than a dozen requests by phone, email and in person to discuss Clayton's policies and treatment of consumers. In an emailed statement, Saunders said Clayton helps customers find homes within their budgets and has a "purpose of opening doors to a better life, one home at a time."

#### First, a dream

As Buffett tells it, his purchase of Clayton Homes came from an "unlikely source": Visiting students from the University of Tennessee gave him a copy of founder Jim Clayton's self-published memoir, "First a Dream," in early 2003. Buffett enjoyed reading the book and admired Jim Clayton's record, he has said, and soon called CEO Kevin Clayton, offering to buy the company.



KEN LAMBERT / THE SEATTLE TIMES

After their mobile home was repossessed, the Ackleys cobbled together a home that includes this old travel trailer, which houses their kitchen.

"A few phone calls later, we had a deal," Buffett said at his 2003 shareholders meeting, according to notes taken at the meeting by hedge-fund manager Whitney Tilson.

The tale of serendipitous dealmaking paints Buffett and the Claytons as sharing down-to-earth values, antipathy for Wall Street and an old-fashioned belief in treating people fairly. But, in fact, the man who brought the students to Omaha said Clayton's book wasn't the genesis of the deal.

"The Claytons really initiated this contact," said Al Auxier, the Tennessee professor, since retired, who chaperoned the student trip after fostering a relationship with the billionaire.

CEO Kevin Clayton, the founder's son, reached out to Buffett through Auxier, the professor said in a recent interview, and asked whether Buffett might explore "a business relationship" with Clayton Homes.

At the time, mobile-home loans had been defaulting at alarming rates, and investors had grown wary of them. Kevin Clayton was seeking a new source of cash to relend to homebuyers. He knew that Berkshire Hathaway, with its perfect bond rating, could provide it as cheaply as anyone. Later that year, Berkshire Hathaway paid \$1.7 billion in cash to buy Clayton Homes.

Berkshire Hathaway quickly bought up failed competitors' stores, factories and billions in troubled loans, building Clayton Homes into the industry's dominant force. In 2013, Clayton provided 39 percent of new mobile-home loans, according to a Times/CPI analysis

# THE MOBILE-HOME TRAP



NATI HARNIK / THE ASSOCIATED PRESS

Billionaire investor Warren Buffett holds an ice cream bar from Berkshire Hathaway subsidiary Dairy Queen as he talks to Kevin Clayton, CEO of Clayton Homes, also a Berkshire subsidiary, at a 2014 shareholders meeting.

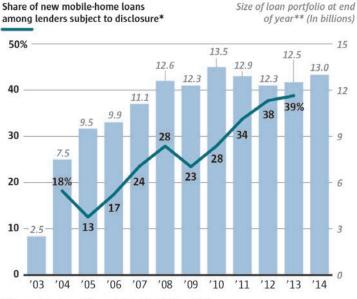
> of federal data that 7,000 home lenders are required to submit. The next biggest lender was Wells Fargo, with just 6 percent of the loans.

Clayton provided more than half of new mobile-home loans in eight states. In Texas, the number exceeds 70 percent. Clayton has more than 90 percent of the market in Odessa, one of the most expensive places in the country to finance a mobile home. To maintain its down-to-earth image, Clayton has hired the stars of the reality-TV show "Duck Dynasty" to appear in ads.

The company's headquarters is a hulking structure of metal sheeting surrounded by acres of parking lots and a beach volleyball court for employees, located a few miles south of Knoxville, Tenn. Next to the front door, there is a slot for borrowers to deposit payments.

# Buffett built a behemoth in mobile-home lending

In 2003, Berkshire Hathaway purchased Clayton Homes, a mobile-home builder and lending company. Berkshire moved aggressively to acquire Clayton's major competitors, consolidating its dominance over the industry.



\*No market share data available for 2003 or 2014.

\*\*2013 figure is an estimate based on changes in Berkshire disclosure methods

Sources: Securities and Exchange Commission; Federal Financial Institutions Examination Council; National Archives

GARLAND POTTS / THE SEATTLE TIMES

Near the headquarters, two Clayton sales lots sit three miles from each other. Clayton Homes' banners promise "\$0 CASH DOWN." TruValue Homes, also owned by Clayton, advertises "REPOS FOR SALE." Other nearby Clayton lots operate as Luv Homes and Oakwood Homes. With all the different names, many customers believe that they're shopping around.

House-sized banners at

dealerships reinforce that impression, proclaiming they will "BEAT ANY DEAL." In some parts of the country, buyers would have to drive many miles past several Clayton-owned lots, to reach a true competitor.

# Buyers guided into costly loans

Soon after Buffett bought Clayton Homes, he declared a new dawn for the moribund mobile-home industry, which provides housing for some 20 million Americans. Lenders should require "significant down payments and shorter-term loans," Buffett wrote.

He called 30-year loans on mobile homes "a mistake," according to notes Tilson took during Berkshire Hathaway's 2003 shareholders meeting.

"Home purchases should involve an honest-to-God down payment of at least 10% and monthly payments that can be comfortably handled by the borrower's income," Buffett later wrote. "That income should be carefully verified."

But in examining more than 100 Clayton home sales through interviews and reviews of loan documents from 41 states, reporters found that the company's loans routinely violated the lending standards laid out by Buffett.

Clayton dealers often sold homes with no cash down payment. Numerous borrowers said they were persuaded to take

on outsized payments by dealers promising that they could later refinance. And the average loan term actually increased from 21 years in 2007 to more than 23 years in 2009, the last time Berkshire disclosed that detail.

Clayton's loan to Dorothy Mansfield, a disabled Army veteran who lost her previous North Carolina home to a tornado in 2011, includes key features that Buffett condemned.

Mansfield had a lousy credit score of 474, court records show. Although she had seasonal and part-time jobs, her monthly income often consisted of less than \$700 in disability benefits. She had no money for a down payment when she visited Clayton Homes in Fayetteville, N.C.

Vanderbilt, one of Clayton's lenders, approved her for a \$60,000, 20-year loan to buy a Clayton home at 10.13 percent annual interest. She secured the loan with two parcels of land that her family already owned free and clear.

The dealer didn't request any documents to verify Mansfield's income or employment, records show.

Mansfield's monthly payment of \$673 consumed almost all of her guaranteed income. Within 18 months, she was behind on payments and Clayton was trying to foreclose on the home and land.

Many borrowers interviewed for this investigation described being steered by Clayton dealers

# Ex-dealer: 'They give you a loan that you can't pay back'

Not only borrowers, but dealers of Clayton homes have felt mistreated by the company, said Kevin Carroll, who until a few years ago owned Carroll's Mobile Homes in southern Indiana.



Carroll, who won Clayton awards for sales volumes, said his problems with the company began after CEO Kevin Clayton helped him with a loan from subsidiary 21st Mortgage in 2008 to buy out his business

Kevin Carroll

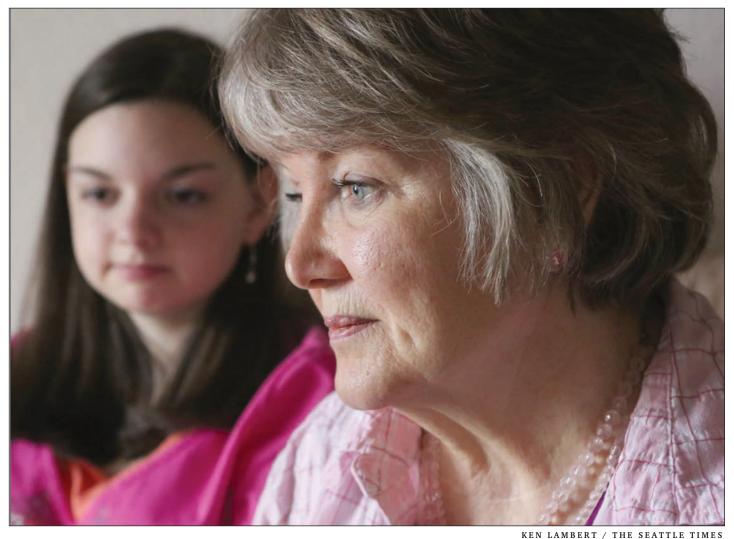
partners. Two weeks after the loan documents were signed, Clayton Homes told Carroll it was shuttering the manufacturing plant, only 70 miles away, that supplied Carroll's inventory.

Carroll said he was unable to obtain Clayton parts for the homes in his inventory and said Clayton stopped helping him get new homes to sell. Carroll's business lost money, and he could no longer afford the loan payments.

Clayton representatives hounded him with phone calls demanding payment, he said. In 2010, he had to surrender his company and the land underneath it to meet his mounting debts.

"They entrap you," said Carroll, who sued Clayton for fraud, but the case was dismissed. "They give you a loan that you can't pay back and then they take from you."

- Mike Baker



In 2010, Ellie Carosa, of Napavine, put down some \$40,000 to buy a used home from Clayton. She'd hoped to sell it one day to help her adopted daughter, Scarlet, go to college. She soon learned the home was worth less than the down payment she made. "I've lost everything," Carosa said.

into Clayton financing without realizing the companies were one and the same. Sometimes, buyers said, the dealer described the financing as the best deal available. Other times, the Clayton dealer said it was the only financing option.

Kevin Carroll, former owner of a Clayton-affiliated dealership in Indiana, said in an interview that he used business loans from a Clayton lender to finance inventory for his lot. If he also guided homebuyers to work with the same lender, 21st Mortgage, the company would give him a discount on his business loans — a "kickback," in his words.



KEN LAMBERT / THE SEATTLE TIMES

A year after Ellie Carosa bought her mobile home for about \$65,000, paint was peeling and carpets were failing. She brought in a market expert, who figured the home was only worth about \$35,000.

Doug Farley, who was a general manager at several Claytonowned dealerships, also used the term "kickback" to describe the profit-share he received on Clayton loans until around 2008. After that, the company changed its incentives to instead provide "kickbacks" on sales of Clayton's insurance to borrowers, he said.

Ed Atherton, a former lot manager in Arkansas, said his regional supervisor was pressuring lot managers to put at least 80 percent of buyers into Clayton financing. Atherton left the company in 2013.

During the most recent fouryear period, 93 percent of Clayton's mobile-home loans had such costly terms that they required extra disclosure under federal rules. Among all other mobile-home lenders, fewer than half of their loans met that threshold.

Customers said in interviews that dealers misled them to take on unaffordable loans, with tactics including last-minute changes to loan terms and unexplained fees that inflate loan balances. Such loans are, by definition, predatory.

"They're going to assume the client is unsophisticated, and they're right," said Felix Harris, a housing counselor with the nonprofit Knoxville Area Urban League.

Some borrowers felt trapped because they put up a deposit

before the dealer explained the loan terms or, like the Ackleys, felt compelled to swallow baitand-switch deals because they had spent thousands to prepare their land.

#### Promise denied

A couple of years after moving into their new mobile home, Kirk Ackley was injured in a backhoe rollover. Unable to work, he and his wife urgently needed to refinance the costly 21st Mortgage loan they regretted signing.

They pleaded with the lender several times for the better terms that they originally were promised, but were denied, they said. The Ackleys tried to explain the options to a 21st supervisor: If they refinanced to lower payments, they could stay in the home and 21st would get years of steady returns. Otherwise, the company would have to come out to their rural property, pull the house from its foundation and haul it away, possibly damaging it during the repossession.

They both recall being baffled by his reply: "We don't care. We'll come take a chainsaw to it — cut it up and haul it out in boxes."

Nine Clayton consumers interviewed for this story said they were promised a chance to refinance. In reality, Clayton almost never refinances loans and accounts for well under 1 percent of mobile-home refinancings reported in government data from 2010 to 2013. It made more than one-third of the purchase loans during that period.

Of Washington's 25 largest

#### Mobile-home buying tips

• Explore a variety of financing options before you begin home shopping.

• Shop around, and be aware of which companies own the lots you are visiting.

• Resist pressure to buy the same day you shop.

- Scrutinize all fees and charges listed on your loan documents.
- Ensure that your monthly payments will be manageable, and don't expect a chance to refinance.
- Finalize a financing agreement before putting money down or making land improvements.

• Be aware that many mobile homes depreciate in value.

• Test your loan's terms in our interactive calculator: seati.ms/mobilehomedebt

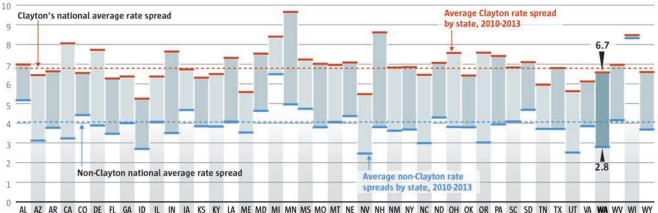
— Seattle Times/CPI

mobile-home lenders, Clayton's subsidiaries ranked No. 1 and No. 2 for the highest interest rates in 2013. Together, they ranked eighth in loans originated.

"If you have a decrease in income and can't afford the mortgage, at least a lot of the big companies will do modifications,"

#### **Clayton's extreme interest rates**

Most of Clayton's mobile-home loans are considered "higher-priced" under federal rules and require additional disclosure. Among those loans between 2010 and 2013, Clayton's rates averaged 6.8 percentage points above a typical home loan – a gap known as a "rate spread" – far higher than the rest of the industry.



AL AL AK CA CO DE FL GA ID IL IN IA KS KT LA ME MD MI MIN MS MO MI NE NV NH NM NT NC ND OH OK OK PA SC SD IN IX DI VA WA WV WI WT NOTE: Alaska, Connecticut, Hawaii, Massachusetts, New Jersey, Rhode Island and Vermont had fewer than 20 Clayton mobile-home loans Source: Seattle Times analysis of data from the Federal Financial Institutions Examination Council GARLAND POTTS / THE SEATTLE TIMES

> said Harris, the Knoxville housing counselor. "Vanderbilt won't even entertain that."

> In general, owners have difficulty refinancing or selling their mobile homes because few lenders offer such loans. One big reason: Homes are overpriced or depreciate so quickly that they generally are worth less than what the borrower owes, even after years of monthly payments.

Ellie Carosa, of Napavine, Lewis County, found this out the hard way in 2010 after she put down some \$40,000 from an inheritance to buy a used home from Clayton priced at about \$65,000.

Clayton sales reps steered Carosa, who is 67 years old and disabled, to finance the unpaid amount through Vanderbilt at 9 percent interest over 20 years.

One year later, Carosa was

already having problems peeling paint and failing carpets — so she decided to have a market expert assess the value of her home. She hoped to eventually sell the house so the money could help her granddaughter, whom she adopted as her daughter at age 8, attend a local college to study music.

Carosa was stunned to learn that the home was worth only \$35,000, far less than her original down payment.

"I've lost everything," Carosa said.

#### 'Rudest, most condescending' agents

Berkshire's borrowers who fall behind on their payments face harassing, potentially illegal phone calls from a company rarely willing to offer relief.

Carol Carroll, a nurse living near Bug Tussle, Ala., began looking for a new home in 2003 after her husband had died, leaving her with a 6-year-old daughter. Instead of a down payment, she said, the salesman assured her she could simply put up two acres of her family land as collateral.

In December 2005, Carroll was permanently disabled in a catastrophic car accident in which two people were killed. Knowing it would take a few months for her disability benefits to be approved, Carroll said, she called Vanderbilt and asked for a temporary reprieve. The company's answer: "We don't do that."

However, Clayton ratcheted up her property-insurance premiums, eventually costing her \$803 more per year than when she started, she said. Carroll was one of several Clayton borrowers who felt trapped in the company's insurance, often because they were told they had no other options. Some had as many as five years' worth of expensive premiums included in their loans, inflating the total balance to be repaid with interest. Others said they were misled into signing up even though they already had other insurance.

Carroll has since sold belongings, borrowed money from relatives and cut back on groceries to make payments. When she was late, she spoke frequently to Clayton's phone agents, whom she described as "the rudest, most condescending people I have ever dealt with." It's a characterization echoed by almost every borrower interviewed

# Berkshire doesn't disclose details about loan failures

In a letter to shareholders last month, Warren Buffett wrote that a "very high percentage" of Clayton's borrowers kept their homes during the 2008 housing meltdown thanks to the company's "sensible lending practices."

But the company has provided scant data to back up Buffett's claims.

"I wouldn't give much credence to those comments," said James Shanahan, an analyst with Edward Jones who follows Berkshire Hathaway.

Typically, lenders disclose loan information, such as size of loans and their down payments, delinquencies, defaults and foreclosures. Regulators rely on the information to protect consumers and shareholders.

But Clayton Homes doesn't have to make these details public because it is part of a bigger company, Berkshire Hathaway.

Each year since 2010, Berkshire has declared in SEC records that 98 percent of its loan portfolio is "performing." But its definition of "nonperforming" — found elsewhere in the documents — is narrow. Berkshire's impressive-sounding ratio ignores loans that are delinquent and homes that already have been foreclosed or repossessed.

Across the industry, about 28 percent of non-mortgage mobile-home loans fail, according to research by Kenneth Rishel, a consultant in the field for 40 years. Clayton's failure rates are 26 percent at 21st Mortgage and 33 percent at Vanderbilt, said Rishel, citing his research and conversations with Clayton executives.

In a brief email, 21st President Tim Williams said those numbers were "inaccurate," but he declined to provide the company's figures.

> — Daniel Wagner and Mike Baker

for this story.

Consumers say the company's response to pleas for help is an invasive interrogation about their family budgets, including how much they spend on food, toiletries and utilities.

Denise Pitts, of Knoxville, Tenn., said Vanderbilt collectors have called her multiple times a day, with one suggesting that she cancel her Internet service, even though she home-schools her son. They have called her relatives and neighbors, a tactic other borrowers reported.

After Pitts' husband, Kirk, was diagnosed with aggressive cancer, she said, a Vanderbilt agent told her she should make the house payment her "first priority" and let medical bills go unpaid. She said the company has threatened to seize her property immediately, even though the legal process to do so would take at least several months.

Practices like contacting neighbors, calling repeatedly and making false threats can violate consumer-protection laws in Washington, Tennessee and other states.

Last year, frequent complaints about Clayton's aggressive collection practices led Tennessee state officials to contact local housing counselors seeking information about their experiences with the company, according to two people with knowledge of the conversations.

#### Treated like car owners

Mobile-home buyers who own their land sites may be able to finance their home purchases with real-estate mortgages, which give them more federal and state consumer protections than the other major financing option, a personal-property loan. With conventional home mortgages, companies must wait 120 days before starting foreclosure. In some states, the foreclosure process can take more than a year, giving consumers a chance to save their homes.

Despite these protections, twothirds of mobile-home buyers who own their land end up in personal-property loans, according to a federal study. These loans may close more quickly and have fewer upfront costs, but their rates are generally much higher. And if borrowers fall behind on payments, their homes can be seized with little or no warning.

Those buyers are more vulnerable because they end up being treated like car owners instead of homeowners, said Bruce Neas, an attorney who has worked for years on foreclosure and manufactured-housing issues in Washington state.

Tiffany Galler was a single mother living in Crestview, Fla., in 2005 when she bought a mobile home for \$37,195 with a loan from 21st Mortgage. She later rented out the home.

After making payments over

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eight years totaling more than the sticker price of the home, Galler lost her tenant in November 2013 and fell behind on her payments. She arranged to show the home to a prospective renter two months later. But when she arrived at her homesite, Galler found barren dirt with PVC pipe sticking up from the ground.

She called 911, thinking someone had stolen her home.

Hours later, Galler tracked her repossessed house to a sales lot 30 miles away that was affiliated with 21st. It was listed for \$25,900.

#### **Clayton wins concessions**

The government has known for years about concerns that mobilehome buyers are treated unfairly. Little has been done.

Fifteen years ago, Congress directed the Department of Housing and Urban Development to examine issues such as loan terms and regulations in order to find ways to make mobile homes affordable. That's still on HUD's todo list.

The industry, however, has protected its interests vigorously. Clayton Homes is represented in Washington, D.C., by the Manufactured Housing Institute (MHI), a trade group that has a Clayton executive as its vice chairman and another as its secretary. CEO Kevin Clayton has represented MHI before Congress.

MHI spent \$4.5 million since 2003 lobbying the federal government. Those efforts have helped the company escape much scrutiny, as has Buffett's persona as a man of the people, analysts say.

"There is a Teflon aspect to Warren Buffett," said James McRitchie, who runs a widely read blog, Corporate Governance.

Still, after the housing crisis, lawmakers tightened protections for mortgage borrowers with a sweeping overhaul known as the Dodd-Frank Act, creating regulatory headaches for the mobile-home industry. Kevin Clayton complained to lawmakers in 2011 that the new rules would lump in some of his company's loans with "subprime, predatory" mortgages, making it harder for mobile-home buyers "to obtain affordable financing."

Although the rules had yet to take effect that year, 99 percent of Clayton's mobile-home loans were so expensive that they met the federal government's "higherpriced" threshold.

Dodd-Frank also tasked federal financial regulators with creating appraisal requirements for risky loans. Appraisals are common for conventional home sales, protecting both the lender and the consumer from a bad deal.

Clayton's own data suggest that its mobile homes may be overpriced from the start, according to comments it filed with federal regulators. When Vanderbilt was required to obtain appraisals before finalizing a loan, company officials wrote, the home was determined to be worth less

#### EXHI

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than the sales price about 30 percent of the time.

But when federal agencies jointly proposed appraisal rules in September 2012, industry objections led them to exempt loans secured solely by a manufactured home.

Then Clayton pushed for more concessions, arguing that manufactured-home loans tied to land should also be exempt. Paul Nichols, then-president of Clayton's Vanderbilt Mortgage, told regulators that the appraisal requirement would be costly and onerous, significantly reducing "the availability of affordable housing in the United States."

In 2013, regulators conceded. They will not require a complete appraisal for new manufactured homes.

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# Buffett's mobile-home business has most to gain from deregulation plan

**CLAYTON HOMES PUSHES CONGRESS TO ROLL BACK CONSUMER PROTECTIONS** 

BY MIKE BAKER Seattle Times staff reporter

Warren Warren Buffett's mobilehome business wants Congress to curtail recent consumer safeguards put in place after the financial crisis, saying a rollback is necessary to ensure that competing lenders continue to provide loans.

But, in reality, the deregulation plan that recently passed the U.S. House would be a boon almost exclusively for Buffett's Clayton Homes, according to an analysis of 2013 federal loan data by The Seattle Times. Based on interest rate levels from that year, Clayton controlled 91 percent of the market segment set to be deregulated.

U.S. Rep. Maxine Waters, D-Calif., the lead congressional critic of the proposed deregulation, gave an exasperated chuckle last week when a reporter told her the 91 percent figure.

"There's something wrong with legislation that would benefit any one company," said Waters, who didn't realize the proposal would serve Clayton to such a large degree. Once open to changes pushed by the mobile-home industry, the congresswoman said she has grown wary of its practices and that perhaps a federal agency like the Consumer Financial Protection Bureau should be investigating Clayton.

A Senate committee is scheduled to take up the House plan on Thursday.

Clayton's loans are particularly expensive compared with those of its peers. A recent investigation published by The Times and the Center for Public Integrity showed how the company locks buyers in loans at interest rates that can exceed 15 percent. The nation's largest manufacturer of mobile homes, Clayton sells them at its own retail lots, finances purchases through its own subsidiaries and sells property insurance on them.

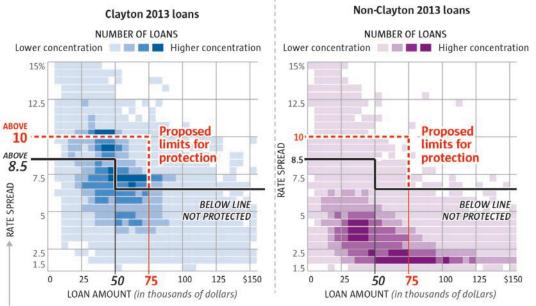
Buyers have described how Clayton retail outlets misled them to take on unaffordable loans and steered them to Clayton-owned lenders, Vanderbilt Mortgage and 21st Mortgage, without disclosing the corporate relationships. Former dealers also told of how Clayton Homes pressured or provided incentives to retail outlets to get buyers into Clayton loans.

#### Aggressive lobbying

Loans with high interest rates can be especially devastating to buyers of mobile homes because

# Looser loan rules a boon for Buffett company

A plan to limit consumer protections for costly loans would overwhelmingly benefit Clayton Homes, the mobile-home builder and lender in Warren Buffett's Berkshire Hathaway conglomerate. The House-approved changes would raise the interest rate levels for loans to qualify for consumer protections. Based on 2013 data, the Clayton loans would account for 91 percent of that segment.



**Note:** The interest-rate spread is the reported gap between the loan and a typical home loan. To get a rough estimate of the actual loan rate, add 4 percentage points.

Source: Seattle Times analysis of 2013 Federal Financial Institutions Examination Council data
GABLAND POTTS / THE SEATTLE TIMES

they often depreciate swiftly. A buyer they often depreciate swiftly. A buyer the with a high rate will still owe a large as sum for many years on a home that can be almost impossible to sell or wrefinance because its value is below the loan balance.

In 2010, responding to the financial crisis, Congress adopted sweeping financial reforms as part of the Dodd-Frank Act. Its provisions included rules protecting mobilehome consumers offered high-cost loans.

Among the changes, starting in 2014 lenders were required to give

those borrowers an accounting of all costs and interest rates three days before signing. Lenders also were prohibited from charging prepayment penalties and were required to refer borrowers to preloan counseling.

These loans were defined as having an annual interest rate more than 6.5 percentage points above the average prime rate. For smaller loans under \$50,000, the protections typically applied to those more than 8.5 percentage points above that benchmark.

Industry officials, including representatives from Clayton, have lobbied aggressively to repeal the Dodd-Frank rules, arguing the standards make it harder for buyers to obtain affordable financing. The mobile-home industry gained traction this year with a bill by Rep. Stephen Fincher, R-Tenn.

Fincher's bill would raise the 8.5 rate rule to 10 percentage points and the small-loan threshold from \$50,000 to \$75,000. Under current interest rates, that means those smaller mobile-home loans generally wouldn't benefit from the added consumer protections unless they had interest rates close to 14 percent or higher — more than triple the level of a typical home interest rate.

In the last election cycle, Clayton employees gave Fincher \$15,150 in campaign contributions, which was more than they gave any other candidate.

Federal home-loan data is not yet available for 2014, when the interest-rate protections took effect. If those rules had been in place in 2013, about 9,700 of the industry's mobile-home loans would have triggered additional consumer protections. Under the new proposal moving through Congress, some 5,600 of those 9,700 would not have qualified for the protections.

Of those, 91 percent were Clayton loans. The industry's second-largest mobile-home lender, Wells Fargo, didn't have a single loan in that pool.

(The rules also add protections for loans that have high fees information not available in federal loan data.)

#### Claims don't hold up

Several consumer groups have opposed the plan, including the National Manufactured Home Owners Association, a Seattle-based group that works with mobile-home owners around the country. The group says the legislation would harm homeowners and make homeownership more costly for the poor.

In a brief interview earlier this month at the Berkshire Hathaway shareholder meeting, Clayton Homes CEO Kevin Clayton cast the proposed rollback that passed the U.S. House last month as a lifeline for other lenders, not Clayton. Clayton, whose company was acquired by Berkshire Hathaway in 2003, said the recent rules on costly mobile-home loans had driven some companies out of the business.

"We want more lenders in the industry," Clayton said in an interview. It's a sentiment echoed by Rep. Fincher, who hails from Clayton's home state of Tennessee.

When asked to identify which companies left the industry, Clayton Homes referred questions to the Manufactured Housing Institute (MHI), the industry's trade group. MHI pointed to two banks that had been cited by a lawmaker on the floor of Congress, saying the banks "cited the regulations as a cause for major reductions in their manufactured housing lending."

One of the banks was Five County Credit Union in Maine. Rep. Jeb Hensarling, R-Texas, reading from a document, said Five County reported that it was no longer offering mobile-home loans.

But federal data show the company has provided just two new mobilehome loans in the nine years before Dodd-Frank protection took effect.

Mike Foley, a Five County vice president, said in an interview that the floor-speech mention was news to him and he was unaware of any company letter sent to Congress. He said he was checking to see what the congressman may have been referring to.

The other bank cited by the industry and by Hensarling in Congress to support the deregulation plan was First National Bank of Milaca. But the bank, in Minnesota, said that while it had concerns about the federal regulations, it was able to provide eight mobile-home loans last year, up from three the year before the high-cost rules took effect.

MHI also told The Times that U.S. Bank stopped making mobile-home loans because of the new regulations. But U.S. Bank continues to provide mobile-home loans directly to consumers, according to the bank, just not through dealers or brokers.

Very few of the bank's loans were subject to the tighter standards. In 2013, of the more than 2,300 new mobile-home loans U.S. Bank provided, just eight of them had interest rates high enough to trigger the stronger consumer protections.

#### Earnings up despite rules

Clayton said his company is no longer making loans above rates that require extra consumer protections,

#### **O** ON THE WEB

The mobile-home trap Read the ongoing investigation of the mobilehome industry seati.ms/mobilehometrap

now about 12 percent interest. He said lenders need the higher rates on those loans to make a profit.

With the rules in effect last year, Clayton still earned \$558 million, up 34 percent over the 2013 cycle when the rules had not been implemented.

The bill would also repeal rules that prevent salespeople from advising consumers about financing. That's particularly pertinent to Clayton, which has its own retail outlets that have been touting Clayton financing options.

Clayton is represented in Washington, D.C., by the MHI, which has a Clayton executive as its vice chairman and another as its secretary. MHI spent \$4.5 million since 2003 lobbying the federal government.

Fincher declined an interview request through a spokeswoman, as did Sen. Joe Donnelly, D-Ind., the bill sponsor in the Senate.

Daniel Wagner contributed reporting. The Center for Public Integrity is a nonpartisan, nonprofit investigative reporting newsroom in Washington, D.C. Mike Baker: 206-464-2729 or mbaker@seattletimes.com. On Twitter @ByMikeBaker

#### **THE MOBILE-HOME TRAP** A Seattle Times investigation

# Buffett company exploits minorities

\* Billionaire's Clayton Homes repeatedly accused of racism against staff, customers

- \* Minorities saddled with higher-cost financing for mobile homes
- Ads targeted non-English speakers, but company didn't translate contracts



Clara Daye, left, with sister Rose Mary Zunie, was told by a Clayton Homes salesperson that the company's Vanderbilt Mortgage was the only lending option on the Navajo reservation. It was a lie, and it was caught on tape.



DONOVAN QUINTERO / SPECIAL TO THE SEATTLE TIMES Clayton Homes' sales lot in Gallup, N.M., markets the dream of homeownership to Navajo people, many of whom live in poverty.

By MIKE BAKER / Seattle Times staff reporter and DANIEL WAGNER / BuzzFeed News reporter

ALLUP, N.M. — After a few years living with her sister, Rose Mary Zunie, 59, was ready to move into a place of her own.

So, on an arid Saturday morning this past summer, the sisters piled into a friend's pickup truck and headed for a mobile-home sales lot here just outside the impoverished Navajo reservation.

The women — one in a long, colorful tribal skirt, another wearing turquoise jewelry, a traditional talisman against evil — were steered to a salesman who spoke Navajo, just like the voice on the store's radio ads.

He walked them through Clayton-built homes on the lot, then into the sales center, passing a banner and posters promoting one subprime lender: Vanderbilt Mortgage, a Clayton subsidiary. Inside, he handed them a Vanderbilt sales pamphlet.

# THE MOBILE-HOME TRAP

"Vanderbilt is the only one that finances on the reservation," he told the women.

His claim, which the women caught on tape, was a lie. And it was illegal.

It is just one in a pattern of deceptions that Clayton has used to help extract billions from poor customers around the country particularly people of color, who make up a substantial and growing portion of its business.

The company is controlled by Warren Buffett, one of the world's richest men, but its methods hardly match Buffett's honest, folksy image: Clayton systematically pursues unwitting minority homebuyers and baits them into costly subprime loans, many of which are doomed to fail, an investigation by The Seattle Times and BuzzFeed News has found.

Clayton's predatory practices have damaged minority communities — from rural black enclaves in the Louisiana Delta, across Spanishspeaking swaths of Texas, to Native American reservations in the Southwest. Many customers end up losing their homes, thousands of dollars in down payments, or even land they'd owned outright.

Over the 12 years since Buffett's Berkshire Hathaway bought Clayton Homes Inc., the company has grown to dominate virtually every aspect of America's mobilehome industry. It builds nearly half the new manufactured homes sold in this country every year, making it the most prolific U.S. homebuilder of any type. It sells them through a network of more than 1,600 dealerships. And it finances more mobile-home loans than any other lender by a factor of more than seven.

In minority communities, Clayton's grip on the lending market verges on monopolistic: Last year, according to federal data, Clayton made 72 percent of the loans to black people who financed mobile homes.

The company's in-house lender, Vanderbilt Mortgage, charges minority borrowers substantially higher rates, on average, than their white counterparts. In fact, federal data shows that Vanderbilt typically charges black people who make over \$75,000 a year slightly more than white people who make only \$35,000.

Through a spokeswoman earlier this month, Buffett declined to discuss racial issues at Clayton Homes, and a reporter who attempted to contact him at his home was turned away by security.

Clayton and Berkshire Hathaway did not respond to numerous requests for interviews with executives, delivered by phone

#### **ABOUT THE MOBILE-HOME TRAP SERIES**

**BILLIONAIRE PHILANTHROPIST** Warren Buffett controls a mobile-home empire that promises low-income borrowers affordable houses. But all too often, it traps those owners in high-interest loans and rapidly depreciating homes. To read other stories in the series, visit <u>seattletimes.com/category/mobile-homes</u>



WILLIAM WIDMER FOR BUZZFEED NEWS

Leroy and Helen Shorts stand outside the mobile home they share with their grandchildren in Jackson, La. Their previous home burned in 2013; now they may lose this one, too.

and email, as well as in person at Berkshire Hathaway's headquarters in Omaha. The companies did not answer any of 34 detailed questions about Clayton and its practices. Nor did they respond to an extensive summary of this article's findings, provided along with an invitation to comment. On its website, Clayton says that it seeks to "treat people right" and "preserve our integrity above all else."

(After publication of this article, Clayton issued a news release, accusing the reporters of "activism masquerading as journalism" and stating: "We categorically and adamantly deny discriminating against customers or team members based on race or ethnicity." For two specific categories of loans, the company said, minorities pay the same or slightly lower interest rates than whites.)

Clayton has expanded its minority customer base — 31 percent of its loans went to minorities last year, up from 22 percent in 2008 — with

the help of meticulous demographic analysis and targeted sales promotions. Spanish-language ads in Texas promise Latino immigrants without Social Security numbers that they, too, can enjoy the American dream of homeownership.

As it drew in more Latino customers, however, Clayton's practice was not to provide Spanishspeaking customers with translated loan documents or interpreters at closing — even after employees at headquarters complained that too many customers were being misled about loan terms.

Fair-housing laws prohibit lenders from targeting and overcharging people of color, whose communities historically were denied access to credit.

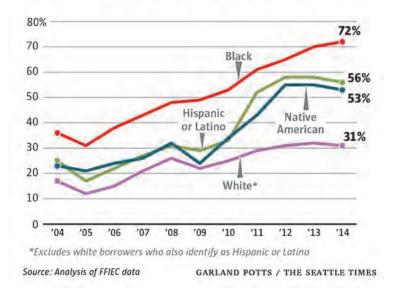
Clayton's practices are part of a corporate culture that has condoned racism, including black employees fired while white workers used discriminatory slurs and kept their jobs, and phone collectors casually insulting borrowers with racist stereotypes.

For an earlier story in this series that detailed Clayton's widespread abuse of borrowers, a Clayton spokeswoman said in a statement that the company helps customers find homes within their budgets and has a "purpose of opening doors to a better life, one home at a time." Buffett later defended the company, telling Berkshire Hathaway shareholders he "makes no apologies whatsoever about Clayton's lending terms."

For this story, The Seattle Times and BuzzFeed News analyzed hundreds of internal company

# Clayton brands now dominate minority lending

Clayton Homes' market share among minorities who take out mobile-home loans has grown dramatically over the past decade. Last year, among the thousands of lenders required to report federal data, 72 percent of black borrowers got their loans from Clayton's Vanderbilt Mortgage and 21st Mortgage.



documents, thousands of legal and regulatory filings, more than 40 hours of internal company audio recordings and federal data on hundreds of thousands of mobilehome loans over a decade. Reporters conducted interviews with more than 280 customers, employees and experts, including some Clayton insiders who said they were appalled by the company's practices.

Meanwhile, in the first nine months of this year, Clayton generated more than half a billion dollars in profit, up 28 percent from the same period last year.

"It's a perpetual system of people who are never able to get themselves out of the hole," said Gwen Schablik, who worked as a collector and handled borrowers' bankruptcies at Clayton's Maryville, Tenn., headquarters from 2011 until she quit in 2014.

"I felt, ethically, I couldn't continue working there," she said.

#### A culture of racism

David Ashley's problems at Clayton began soon after he became one of the few black employees to serve in management.

One of Ashley's subordinates called him a "coon," and he fired her, he said. To his dismay, a regional manager overruled the decision and warned Ashley not to be so hasty, he said.

Ashley said his bosses grew eager to push him out of his role managing a Clayton lot in Arkansas, even suggesting he had taken some furniture that various employees brought in and out of the lot for staging homes — an accusation that another black manager in the region reported facing around the same time. Both denied taking any furniture.

When they offered Ashley a transfer to a sales lot far from his home, he said, he declined and eventually left his job in December 2012.

"I'm almost a 60-year-old man," he said earlier this year. "It's the first time — living in Arkansas my whole life — and it was truly the first time that I had experienced true racism."

In at least six states, Clayton managers have permitted open racial hostility toward people of color, according to interviews and legal filings by more than 15 former workers with direct knowledge of the incidents. In at least seven cases documented in court records, sales reps — both black and white — were fired after complaining about racism on the job. Four cases were dropped or dismissed, and Clayton settled three.

After one of those firings in South Carolina in 2010, the company hired another black salesman. But that man, Larry Summers, testified in court

Clayton Homes, the largest U.S. builder of mobile homes, sells them through a network of more than 1,600 dealerships. It also finances more mobilehome loans than any other lender by a factor of more than seven.

records that Clayton's workers, despite his many requests, did not train him. He also said that he witnessed a co-worker make racist comments and that black customers were treated with contempt.

"When I was there, I saw they treated black customers differently than what they did white customers, you know?" he said in a deposition. "With their white customers, they're more pleasant." He said he soon quit Clayton.

In Baton Rouge, La., Clayton managers engaged in "malicious and reckless conduct" by allowing employees to harass and fire the store's only black salesman, according to a lawsuit filed by the federal government against the company in 2007.



MIKE BAKER / THE SEATTLE TIMES

A colorful poster heralds Clayton's Vanderbilt brand as "YOUR #1 CHOICE IN LENDING." By law, Clayton sales agents aren't allowed to pitch for Vanderbilt loans. But a push of the button does it for them: "Vanderbilt wants to finance your home. Fast approval. Friendly service. And less-than-perfect credit accepted," a voice says. "Choose Vanderbilt!"

The company's in-house lender, Vanderbilt Mortgage, charges minority borrowers substantially higher rates, on average, than their white counterparts. In fact, federal data shows Vanderbilt typically charges black people who make over \$75,000 a year slightly more than white people who make only \$35,000.

A regional manager knew about the harassment, four former employees, including the victim, Melvin McNeal, said in interviews. McNeal said he complained about being called "Sambo" and "Buckwheat," but managers defended his colleagues, saying they were "having fun" with him. Two of McNeal's white co-workers backed up his complaints to managers, according to legal filings. They, too, reported being fired.

"I can't help myself, I hate n—s," McNeal's main harasser told a contractor on the sales lot, according to a separate lawsuit filed by the two white co-workers. One remembered the harasser calling the sales lot "n—ville" when black customers arrived to tour homes.

The suit by the two white employees was dismissed for procedural reasons. Clayton settled the federal lawsuit, brought by the Equal Employment Opportunity Commission, in part by agreeing to end racial harassment. The company did not admit or deny wrongdoing.

#### Steering customers

Laws designed to protect consumers prohibit mobile-home sales reps from doing double duty as loan officers unless they obtain a separate license. They can sell the mobile home, but they may not guide buyers to a particular financing option.

Peter Shaw, who manages Clayton's lot in Gallup, N.M., denied that his employees steer Navajo buyers to Vanderbilt loans. He is "100 percent" sure it doesn't happen, he said, because the company trains its workers that doing so would be "strictly against the law."

Yet in three dozen interviews, Clayton's minority customers said they were led to believe that Vanderbilt was the only option to finance their homes.

One of the Navajo women at the Gallup lot recorded audio of their shopping experience, including the exchange in which a sales agent told them Vanderbilt was the only financing option on the reservation. Even after being told of the recording and its contents, Shaw insisted that his

In at least six states, Clayton managers have permitted open racial hostility toward people of color, according to interviews and legal filings by more than 15 former workers with direct knowledge of the incidents.

# THE MOBILE-HOME TRAP



SCOTT DALTON / SPECIAL TO THE SEATTLE TIMES

Rocio Orozco, right, a single mother in Willis, Texas, said she was rushed through her loan closing and ended up with an interest rate of 14.2 percent, far higher than the 8 percent she'd been promised. "I thought I could understand it myself, and trust them, because they were so nice," she said. "But that all changed the second I signed that paper."

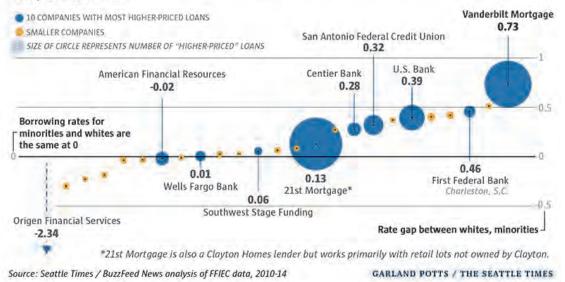
> employees follow the law. In fact, there is a range of options for financing mobile-home purchases on the reservation. Many lenders make loans under a federal program created in 1992 to improve Native Americans' access to home financing. Known as the 184 Program, the subsidy guarantees that banks won't lose money on the loans. This allows them to offer interest rates

comparable to a prime home mortgage.

The Navajo Nation itself also offers loans to finance mobile homes. Louise Johnson, the head of Navajo Nation's credit-services division, said tribal leaders developed the program after seeing widespread repossessions of mobile homes on the reservation. Her division offers mobile-home loans with an interest rate often under

# Compared to peers, Vanderbilt charges minorities the most

Under federal rules, a lender making a "higher-priced" loan must disclose data about its interest rate. Among the 25 companies that originated at least 500 such mobile-home loans over the past five years, Clayton Homes' Vanderbilt Mortgage gave the highest rates to minority borrowers as compared to whites.



6.5 percent — half the rate paid by many Clayton borrowers. Yet few Navajo buyers end up borrowing from the tribe.

When he defended Clayton's compliance with the law earlier this year, Buffett said the company's lots use "lender boards" on their walls to show buyers the array of finance options to choose from. But the lender board at the Gallup lot, just five miles from tribal territory, had no information about Navajo credit services. It did list a lender that participates in the federal program. In an interview, however, Shaw dismissed the program as a poor option for many borrowers. The lender board also has a single large red button labeled, "PUSH ME." By law, Clayton sales agents aren't allowed to pitch for Vanderbilt. But if they or a customer presses the red button, a digital recording does it for them:

"Vanderbilt wants to finance your home. Fast approval. Friendly service. And less than perfect credit accepted," a voice says. "Choose Vanderbilt!"

For years, salesmen received a bigger cut of the sales price if borrowers financed with Vanderbilt. That's no longer the case, but management has imposed new pressures.

Clayton tracks each lot's "capture rate," or what percentage of its buyers borrow from Vanderbilt, internal records show. Managers receive reports that show how their capture rate ranks against other lots' and how their rate has changed over time. Last year, dozens of lots had capture rates exceeding 70 percent, the records show.

Earlier this year, a Clayton retail vice president emailed fellow managers demanding that they explain why some stores fell short of their goals.

"I know some of you are frustrated with your capture rates, as well as [retail lots] not hitting their commitments," Mark Morgan wrote in the email, a copy of which was obtained by The Times and BuzzFeed News. "They will never get to where we need them to be if they don't buy in. We must help get them there."

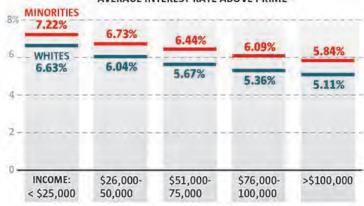
#### Papers not translated

Clayton has been especially effective at capturing minority borrowers — and not just Native Americans.

Vanderbilt and Clayton's other lending division, 21st Mortgage, originated 53 percent of all mobilehome loans to Native Americans; 56 percent of loans to Latino and Hispanic borrowers; and 72 percent to blacks, according to 2014 federal loan data from some 7,000 lenders.

# Lending rates are higher for minorities at all income levels

Even when accounting for income, Clayton's in-house lending division, Vanderbilt Mortgage, offers costlier loans to minorities. The difference can amount to thousands of dollars.



AVERAGE INTEREST RATE ABOVE PRIME\*

\*Federal data doesn't show the borrower's total interest rate, just the percentage points above prime. Prime rates for 24-year loans fluctuated between 3.41 and 5.2 over the period.

Source: Analysis of FFIEC data, 2010-14 GARLAND POTTS / THE SEATTLE TIMES

Among white borrowers who were not also identified as Latino or Hispanic, Clayton's market share was 31 percent.

Clayton was less reliant on lending to minorities in 2004, the first full year after Buffett's Berkshire Hathaway bought the company for \$1.7 billion. Around that time, then-marketing manager Robert Fox explained in a recent interview, Clayton was beginning to harness emerging research tools to help identify untapped markets.

After analyzing its Vanderbilt loan portfolio to understand the demographics of its customers, he recalled, Clayton then searched for areas where these market segments — people with similar characteristics — were clustered. For one presentation in 2005, Fox mapped Houston-area ZIP codes where these potential customers lived. Four of the five market segments he highlighted were identified as ethnically mixed.

"It was extremely cutting-edge for the manufactured-home industry," Fox said.

More recently, Clayton has drawn in minority borrowers with targeted marketing, such as sponsorship of a Lumbee Tribe powwow in North Carolina. Louisiana dealerships have advertised single-parent loan programs in a state where black families are more than twice as likely as white families to be headed by a single parent.

And in Texas, Clayton has blanketed parts of the state with ads, fliers and promotions in Spanish. One store promised to spare buyers the frustration of dealing with "Spanglish" speaking sales agents: "Stop suffering, come to Clayton Homes in Seguin, where we will attend to you 100% in SPANISH!!!!" its website said.

Another lot's Spanish-language ad addressed immigrants who have government tax ID numbers but no Social Security number: "No credit, no Social! Your ITIN and your promise is all we need!"

But when the time came to sign a legally binding loan, the company's Spanish language skills disappeared. Its practice was to provide loan documents, full of dense legal jargon, in English, In Texas. Clavton has blanketed parts of the state with ads, fliers and promotions in Spanish. One store promised to spare buyers the frustration of dealing with "Spanglish" speaking sales agents: "Stop suffering, come to **Clavton Homes in** Seguin, where we will attend to you 100% in SPANISH!!!!" its website said.

and not to provide interpreters, according to 12 Spanish-speaking borrowers who purchased homes in Texas over the past few years.

That's how Rocio Orozco, a single mother living in rural Willis, Texas, who speaks only enough English to carry on a simple conversation, said she ended up paying nearly double the interest rate she was promised — and losing \$500 of her down payment to her local Clayton-owned dealer before she'd even signed the contract.

After driving past Clayton's dealerships on her way to work each day, Orozco, a manager at Subway sandwich shops, stopped at a Claytonowned lot in early 2012 to "window shop," she said in an interview conducted through a translator. She said she told the sales reps that she didn't have good enough credit for a loan. Still, she recalled, the rep went to lunch with her, talked to her about their families and told her not to give up hope.

Before Vanderbilt would process her application, Orozco recalled, she was asked for a \$500 deposit, delivered on a blank money order. The loan for a double-wide came through, but the \$500 disappeared. Documents indicate it was not credited against the cost of her home. In fact, the loan balance was inflated by \$5,866 in fees and Clayton-brokered insurance, nearly as much as her down payment. She hadn't noticed the additional charges until a reporter pointed them out.

She expressed further dismay when the reporter noted that she is paying a 14.2 annual percentage rate on the 20-year loan. The saleswoman had told her she was approved at 8 percent, Orozco said. At the loan closing, the title agent referred by Clayton rushed her through the process, showing her only the blanks on pages requiring her signature, Orozco said.

"I said I couldn't understand them, but they told me it was all simple, just stuff the bank required," Orozco said. On the way out the door, she said, she was handed a stack of documents that she had never had a chance to review.

Among them was a loan application, prepared

The company's practice was to provide loan documents, full of dense legal jargon, in English, and not to provide interpreters, according to 12 Spanish-speaking borrowers who purchased homes in Texas over the past few years.

I'm so stupid. I thought I could understand it myself, and trust them, because they were so nice. But that all changed the second I signed that paper."

ROCIO OROZCO A Spanish-speaking Clayton Homes customer who signed loan documents in English

# THE MOBILE-HOME TRAP

by Clayton, stating that she made \$4,770 a month — far more, she said, than her actual take-home salary.

Joan Norman, Orozco's saleswoman, said she couldn't imagine a case where retail workers would ask for a money order to be left blank. Norman, who no longer works for Clayton, could not explain why the \$500 deposit was reflected on some documents but never applied against the cost of Orozco's home.

Now facing monthly payments of about \$1,000 that overwhelm her budget, Orozco said she is almost certain to lose the home.

"I'm so stupid," she said. "I thought I could understand it myself, and trust them, because they were so nice. But that all changed the second I signed that paper."

Gwen Schablik said stories like that make her blood boil. Schablik was one of a handful of Spanish speakers working in collections at Clayton back in 2012. Every week, she said, she took calls from people whose weak command of English led them to sign loan documents they couldn't understand.

Schablik and another former employee said several Vanderbilt staffers had raised the issue with their superiors. Managers eventually told Schablik that there was no need to translate the documents, she said.

She continued to raise concerns, writing in an email to Clayton's director of marketing that when she spoke to new borrowers "there were many things they were not made aware about during the sale." Managers and executives, she said, dismissed her concerns; she recalled one replying, "It doesn't really matter as long as we get the money."

More than a dozen Spanishspeaking borrowers in Texas said they initially dealt with friendly, Spanish-speaking retail staff, only to be rushed through loan closings that the borrowers didn't understand, conducted entirely in English. Many said they were surprised to find that the loan terms were much more costly than they'd been told.

#### Vanderbilt piles on

Blacks, Latinos and Native Americans tend to have lower median incomes and lower credit scores than white Americans. As a result, the loans they receive — for houses, cars or virtually anything else — often have higher interest rates. So Vanderbilt is not alone in charging minority customers more, on average, to finance their mobile homes. What sets the company apart is just how much more.

The gap between Vanderbilt's disclosed interest rates for whites and those for minorities — more than 0.7 percentage points on the annual rate — is the largest among big mobile-home lenders. That difference can amount to thousands of dollars over the life of an average loan. The disparity persists even after adjusting for income: Minority borrowers earning between \$75,000 and \$100,000 on average pay interest rates slightly higher than those paid by Vanderbilt's white borrowers making only \$25,000 to \$50,000,



DONOVAN QUINTERO / SPECIAL TO THE SEATTLE TIMES

Sheila Begay leans against a fence protecting a water line where her three-bedroom home once stood in Chinle, Ariz. Her home was repossessed after she was injured, lost her job and couldn't make payments.

> according to a Seattle Times-BuzzFeed News analysis of recent federal loan data.

Some Clayton sales people try to foist Vanderbilt's costlier loans on customers — in particular poor, minority borrowers — who may have less familiarity with financial documents or who may be less likely to question large tacked-on fees, said three former Clayton workers, including Morris "Cubby" Stone, one of the white Baton Rouge employees who reported being fired after defending a colleague who faced racial abuse.

For decades, until federal fairhousing laws were introduced in the 1960s, banks routinely engaged in "redlining" — literally drawing red lines on maps around minority communities where they would refuse to make loans or open branches.

Clayton appears to have engaged in reverse redlining, seeking out minorities and charging them higher rates, according to a review

# THE MOBILE-HOME TRAP

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• A look at Berkshire Hathaway's response to mobile-home investigation (April 6, 2015)

• U.S. House OKs cutting safeguards for mobile-home buyers (April 14, 2015) of company documents, interviews, and an analysis of federal loan data. "Absolutely classic reverse redlining," attorney John Relman called it.

The practice may violate the federal Fair Housing Act or the Equal Credit Opportunity Act, said Relman, who represented the city of Baltimore in a suit against Wells Fargo for reverse redlining. (The bank, which did not admit wrongdoing, settled, agreeing to spend millions of dollars on housing initiatives.)

(In its news release after this article's publication, Clayton said that "we do not 'target' minority markets or engage in 'reverse-redlining.")

In Louisiana, where Clayton controls 80 percent of the market for mobile-home loans to black people, the company sold Helen Shorts, a disabled grandmother, a loan she had virtually no chance of repaying.

Shorts, who is black, said she lost her previous home to a fire in 2013, leaving her and her family with almost nothing but the clothes they were wearing. Barely able to afford food, she said, they relied on handouts from churches and slept on friends' floors.

When her insurance check finally arrived early last year, Shorts recalled, she and her husband, Leroy, were desperate to turn it into permanent housing for the three grandchildren they look after. She and a girlfriend drove more than 50 miles to a Clayton sales lot in Gonzales, La., that, she said, had advertised homes for as little as \$7,000.

Shorts went into the store looking for payments of \$300 to \$400 a month, she said, something she could afford on her \$749 in monthly disability benefits.

The saleswoman, she recalled, later told her that she was lucky to qualify for a loan on a bigger, used mobile home priced at \$55,000. Clayton financed it for her with a

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## THE MOBILE-HOME TRAP

Vanderbilt loan at a 15.77 annual percentage rate, after a down payment of \$7,000.

When she and Leroy returned for the closing, they said that, like many other buyers, they were rushed through it. Agents quickly turned over page after page, saying, "You need to sign right here, sign here, sign here," recalled Leroy, who said he has been unable to work since he went blind in his right eye.

The monthly payments were \$851 — about \$100 more than the amount she received from her fixed disability payments. Shorts, who said she didn't realize how much she would have to pay every month, made just two payments, then defaulted in June 2014. Clayton filed to seize the home that October.

Even when loans go bad quickly, the sale can be profitable for Berkshire Hathaway. Clayton often marks up new homes about 70 percent over invoice, company documents show. After a 20 percent down payment and thousands of dollars in fees added into the loan, Clayton can recoup more than half the wholesale price of the home in a year.

When borrowers stop paying, the company can repossess and resell the home, again with another markup.

#### Threats, mockery

Arriving at Clayton's Maryville, Tenn., headquarters each morning, collections workers and their colleagues shuffle past a poster of Warren Buffett pointing to his "rule of thumb."

"I want employees to ask themselves whether they are willing to have any contemplated act appear the next day on the front page of their local paper — to be read by their spouses, children and friends — with the reporting done by an informed and critical reporter," it reads.

"I'd pass by that and I was just, like, 'Are you kidding me?'" said Schablik, the Spanish-speaking employee who, until last year, worked as a Clayton collector and handled borrowers' bankruptcies.

At first, Vanderbilt collection agents — often young, white college students or recent grads — are trained to do things by the book, Schablik and four current and former collectors said. But when these new agents begin working the phones, they said, managers pressure them to be "mean" or "condescending," for example telling customers behind in their payments to cut back on groceries or forgo medical care.

Much of collectors' take-home pay comes from bonuses tied to how many delinquent accounts they bring up to date. As a result, Schablik and several of her former colleagues said, many collectors resorted to tactics of questionable legality: making groundless threats, calling relatives or employers to apply pressure, or berating borrowers until they either cried or figured out how to get some money. Collectors typically were less abusive to white borrowers,

they said.

Even when managers were within earshot, white agents openly ridiculed black borrowers, mimicking stereotypical black vernacular on the phone, then referring to them as "n——s" after hanging up, Schablik and other current and former Clayton employees said. Two collectors recalled English-speaking co-workers talking to Latino borrowers, repeatedly saying, "No dinero, no casa." One collector said she overheard a colleague ask a black borrower if she'd spent all of her money on a hair weave.

On the Navajo reservation, a customer named Sheila Begay said Vanderbilt collection agents told her that Navajo people are "too stupid" to understand loan terms. Her stepfather, Daniel Teller, said they told him Navajos were so poor that they never have money in their pockets. A neighbor, Wallace Archer, recalled a collector asking whether his family had spent all of its money on alcohol.

Tim Williams, the head of one of Clayton's lending subsidiaries, 21st Mortgage, said in a brief interview that his collectors are trained to treat customers with respect. He said accusations that they demeaned borrowers were "very, very unlikely" to be true.

"Believe it or not, not all customers are honest," he said.

At the tail end of the Mississippi Delta, southeast of New Orleans, Jennifer Encalade said she was receiving calls from Clayton's collection agents multiple times a day this summer. One afternoon, while a reporter was visiting, an agent named Jeremy called and began asking questions about her personal life, her financial status and her family. She put the call on speakerphone.

Dissatisfied with her offer to send money after her next payday, Jeremy began to bat around ideas: Is there anyone she could borrow the money from? Was there anything she could pawn or sell? Why didn't she try something?

As her 5-year-old son played quietly on the carpet, Jennifer asked:

"What would you suggest?"

"Uh, donate plasma?" Jeremy replied. "Or donate blood?"

#### Family legacy taken

In minority communities across the American South where Clayton has established dominance, the company seizes homes and land and resells them in a churn that strips individuals of their assets and communities from holding and building wealth.

On the Navajo reservation, geographically larger than the state of West Virginia, there are fewer than 50,000 occupied housing units of any kind. Clayton has sought to seize homes at least 691 times on the reservation in the past decade, according to a review of records from eight of the Navajo Nation's 11 court districts.

In the rural farming town of Opelousas, La., Kevin Thibodeaux is trying to keep Vanderbilt from taking a piece of land on Lazard

Lane that has been in his family for at least four generations. Along the lane are the homes of his mother, aunts and uncles.

"When you turn down that road, it's all family back here," Thibodeaux said. "It goes deep, man."

Like many black families in the area, the Thibodeauxs see owning land as a tangible expression of family roots stretching back to Reconstruction and an economic toehold gained despite the legacy of slavery and the hardships of Jim Crow. In this community beset by poverty, land is many families' most meaningful asset.

In 2009, Thibodeaux was working at Wal-Mart and his wife at a pharmacy as they raised three children. He figured their weak credit would make it impossible to buy a home. When he visited a Clayton-owned retail lot, however, the sales reps told him they could get him a loan — if he put up a piece of land.

Thibodeaux had a parcel he'd bought from his aunt informally, years earlier. Employees at the Clayton-owned lot helped with the paperwork needed to make him the land's official owner, he said, and he signed it over as collateral.

Thibodeaux said he was excited about a Clayton home model called "YES," priced at \$39,000. A Clayton saleswoman, he recalled, said she was trying to get him a government-insured loan. Nearly three months later, he said, she called and told him that Vanderbilt would be his lender. She did not mention that the same company that owned the retail lot also owned the lender, he said. His annual percentage rate ended up at 11.26.

In the months he waited for the loan to come through, the home's price went up — to a little over \$45,000, plus more than \$7,000 in fees and insurance brokered by Clayton.

Within a couple of years, his wife had left him, leaving him with the kids, and he lost his job.

In light of his two years of steady payments, he asked Vanderbilt to adjust his monthly obligation until he got back on his feet. But, he said, "They gave me nothing. I tried everything talking to these people."

Vanderbilt moved to seize Thibodeaux's home in January 2014. He filed for bankruptcy protection and has been paying down his debts. With his new job as a school janitor, Thibodeaux hopes he can hold onto the house and land, but there are no guarantees.

Today, Thibodeaux shares the home with his girlfriend, Linda Lazard, and their children. Lazard, whose sister previously lost family land to Vanderbilt, can rattle off the names of nearby friends and relatives whose lives have been disrupted by the company's aggressive lending and frequent repossessions.

"Boy, for Thanksgiving and holidays, we'll hear something about Vanderbilt or somebody walking up and saying, 'Oh, I got

my house, and Vanderbilt financed me,'" Lazard said. "Everybody look like, 'Lord Jesus, do you know what you just got yourself into?'"

With dusk falling over Lazard Lane's majestic trees one recent evening, Thibodeaux's extended family gathered on his wide, patchy lawn for a cookout featuring fried turkey wings. As high school-aged daughters practiced their cheersquad drills, Thibodeaux talked about his troubles with Clayton Homes and Vanderbilt Mortgage.

"They sold me a dream," he said, pacing back and forth. "Everything changed after I bought the home."

UPDATE: This story has been updated to reflect a response from Clayton Homes issued after this article was published.

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