INEQUALITY

A look at Berkshire Hathaway's response to 'mobile home trap' investigation

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After *The Seattle Times* and The Center for Public Integrity published their investigation of **Berkshire Hathaway's mobile-home business**, Berkshire sent a statement to a newspaper it owns, calling the story "misleading." It did not point to any factual inaccuracies.

Mobile home purchased by Kirk and Denise Pitts of Knoxville, Tennessee in 1997. They still owe more than $39,000 on the home and land, which were valued at $33,100 in 2013.
Daniel Wagner/Center for Public Integrity

For months, Berkshire Hathaway and Clayton Homes, its mobile-home subsidiary, had ignored or declined reporters' requests to discuss the company's treatment of consumers.

Here's a look at the **company's statement**, published by the Omaha World-Herald, and the credibility of its claims:

CLAIM: "Clayton Homes' policies, procedures and training are designed to ensure that customers have a choice of lenders. A list of all available lenders is posted and provided in company-owned retail locations."

FACTS: Customers historically have not been given a choice of lenders, according to customers interviewed for this report. In early 2015, a reporter visited Clayton-owned and -affiliated dealerships in eastern Tennessee, and saw large, house-sized banners promoting Clayton loan products. There were no comparable signs related to other lenders. Promotional materials related to other lenders at one dealership consisted of small, trifold brochures located on a side table in one room of the dealership.

CLAIM: “Customers are encouraged to select more than one lender so they can compare options – and select the loan program that best serves their needs.”

FACTS: Numerous customers interviewed for this story said they were told that Clayton lenders were the only option or the best option. Some did not realize, nor were they told, they said, that the home dealers and lenders were part of the same company. They said they were never encouraged to explore alternatives.

CLAIM: “The retailer selling the home receives no financial incentives from the lender the customer chooses.”

FACTS: Two former dealers interviewed for this story said they received financial incentives, which they called “kickbacks,” to finance buyers through Clayton lenders or sell Clayton insurance products in the years after the Berkshire Hathaway merger. A third former manager, who worked for the company until 2013, described ongoing pressure from his supervisor to put at least 80 percent of borrowers in Clayton financing.

CLAIM: The New York Times recently wrote that Clayton’s financing division was distinguished by a lack of predatory or exploitative consumer practices and that its collections activities were “cited as best practices.”

FACTS: The item was not written by a New York Times staffer. It appeared on its website as a guest blog labeled “Another View,” and was written by George Washington University Professor Lawrence Cunningham. A former corporate lawyer, Cunningham is a longtime Buffett acolyte whose most recent book was called “Berkshire Beyond Buffett: The Enduring Value of Values.” The blog post itself was adapted from that book.

CLAIM: “Our lending policy and procedures help ensure that we evaluate each customer’s reasonable ability to repay the loan for which they have applied.”

FACTS: Loan documents reviewed for this story indicate that borrowers with very low credit scores received loans whose payments consumed a large majority of their monthly incomes. Rising premiums on Clayton-brokered insurance caused monthly payments to become unaffordable for some borrowers, especially those on fixed incomes. Several borrowers said their incomes were not verified.

CLAIM: “Appraisals are ordered from an unaffiliated third party on all loans secured by land that we finance, and a copy is provided to the customer prior to closing of the loan.”

FACTS: In 2014, 65 percent of Clayton's loans were not secured by land and therefore would not be subject to the procedure described. Moreover, Clayton has pressured federal financial regulators against proposals that would require appraisals on more of the company's transactions. And the company succeeded in preventing rules that would have required full appraisals, including inspections, on loans for new homes secured by land.

CLAIM: Loans over the past year had an "average total down payment of just under 19 percent."

FACTS: Clayton is not referring to down payments in the traditional sense. The company promotes "$0 CASH DOWN" loans and allows customers to put up land that they own instead. Land collateral is fundamentally different from a cash down payment, mainly because it does not reduce the balance of the loan or increase the borrower's equity in the purchased asset.

The "just under 19 percent" refers to a combination of cash down payments and the value of land. The Times and CPI reviewed more than 20 loans originated since the Berkshire merger that included no cash down payment, and one from 2010 that included a $1 down payment.

CLAIM: "The only 30-year loans being offered by our lenders are through the government FHA title II loan program."

FACTS: Reporters reviewed numerous loan files of conventional (non-FHA) 30-year loans originated by both Vanderbilt and 21st Mortgage since the Berkshire acquisition. A brochure available in early 2015 at a Clayton store mentions 30-year financing options in the course of advertising biweekly payment plans that reduce the length of the loan.

Until this story was posted, Clayton-owned Vanderbilt Mortgage's **online loan calculator** used a 30-year loan term as its default setting.

CLAIM: "Interest rates on manufactured homes can be higher than loans for site-built homes."

FACTS: Clayton's loans are particularly expensive, even among its peers. Among new loans considered "higher-priced" by the federal government in 2013, Clayton's averaged 7 percent above prime, compared with an average of 3.8 percent above prime for all other mobile-home lenders.

CLAIM: Clayton's retail locations operate under different names because it produces numerous brands of homes and wants to emphasize a "broader selection for customers."

FACTS: The brands of homes available at a given Clayton store do not always correspond to the trade name of that store. For example, lots called Clayton Homes may sell a full range of models, not just those branded as “Clayton.”

Numerous customers reported that they thought they were shopping with different companies when they visited Clayton dealers operating under different brand names.

CLAIM: “Clayton Homes’ retail locations make up approximately 12% of the industry’s retail locations.”

FACTS: Clayton owned 326 dealerships at the end of 2014, but counted 1,336 independent retailers as affiliates in its latest annual disclosure. Affiliates work closely with the company to sell its homes and finance them through 21st Mortgage, one of Clayton’s lenders.

CLAIM: “The overwhelming majority of Clayton Homes’ customers report high levels of satisfaction with their home purchase and mortgage.”

FACTS: Clayton’s customer satisfaction data is based on research the company funded.
