

SETTLEMENT AGREEMENT

This Settlement Agreement is entered into between the Department of Housing and Urban Development (“HUD”) and Fleetwood Homes of California, Inc. (“Fleetwood Homes of California”) on the “Effective Date” as set forth in this Agreement. This Settlement Agreement applies to Fleetwood Homes of California, its officers, directors, employees, successors, and assignees, (hereinafter collectively referred to as “Fleetwood Homes of California”). HUD and Fleetwood Homes of California together shall be referred to herein as the “Parties.”

RECITALS

WHEREAS, the Secretary of the Department of Housing and Urban Development is authorized to enforce the Manufactured Housing Construction and Safety Standards Act of 1974, as amended by the Manufactured Housing Improvement Act of 2000, (the “Act”), 42 U.S.C. § 5401 *et seq.*, and its implementing regulations (the “regulations”), 24 C.F.R. § 3280 and 3282 *et seq.*; and

WHEREAS, pursuant to 42 U.S.C. § 5409, it is a prohibited act to sell or lease a manufactured home that does not comply with the Act and the Manufactured Home Construction and Safety Standards, 24 C.F.R. § 3280, *et seq.* (the “Standards”); and

WHEREAS, it is a prohibited act to issue a certification required by 42 U.S.C. § 5415 to the effect that a manufactured home conforms to all applicable Federal manufactured home construction and safety standards if such person in the exercise of due care has reason to know that such certification is false or misleading in a material respect, 42 U.S.C. § 5409(a)(4); and

WHEREAS, each manufacturing plant must demonstrate that it is capable of producing homes in conformance with the Standards, and that the manufacturer’s quality control procedures will ensure that such conformance continues in order to obtain a certification of plant approval under 24 C.F.R. § 3282.362(b); and

WHEREAS, the Secretary is authorized under 42 U.S.C. § 5413(a) and (b) to conduct inspections and investigations and hold hearings, take testimony, require the attendance and testimony of witnesses and the production of records, and written answers to specific questions to determine whether any person has violated any provision of the Act or any rule or regulation prescribed pursuant thereto; and

WHEREAS, Fleetwood Homes of California is a manufacturer of manufactured homes; and

WHEREAS, HUD has conducted an investigation of Fleetwood Homes of California with respect to the design, production, and sale of certain manufactured homes manufactured at Fleetwood Homes of California's Plant #17 in Woodland, California ("Woodland plant"); and

WHEREAS, since 2005, HUD's audits have identified at least 77 alleged serious defects and defects in homes manufactured at the Woodland plant, many of which were repetitive items;

WHEREAS, by letter dated September 18, 2007 (attached as Appendix A), HUD sent a notice of proposed enforcement actions which documented numerous alleged violations of the regulations and standards; and

WHEREAS, HUD advised Fleetwood Homes of California of its rights to a presentation of views under the Act and regulations with respect to those matters which have been subject of HUD's investigation referenced above, and Fleetwood Homes of California has withdrawn its request and hereby waives its right to a presentation of views; and

WHEREAS, Fleetwood Homes of California denies the allegations that it violated the Act or the regulations; and

WHEREAS the Parties agree that this Settlement Agreement constitutes the settlement of disputed claims between the Parties, including claims under the Act and the regulations; and

WHEREAS the Settlement Agreement shall not constitute an admission of wrongdoing, liability, or legal fault on the part of Fleetwood Homes of California; and

WHEREAS the Parties desire to avoid formal proceedings, any further expense, and to finally resolve this matter under the terms and conditions set forth below; and

WHEREAS the terms of this Settlement Agreement are an appropriate disposition of this case and are in the public interest;

NOW, THEREFORE, in consideration of the mutual promises and representations set forth herein, and in further consideration of HUD's reliance upon the substantial accuracy and good faith of the representations and submissions made to it by Fleetwood Homes of California, the Parties, intending to be legally bound, agree as follows:

AGREEMENTS

1. This Settlement Agreement is effective on the date of signature of the last signatory to the Settlement Agreement (hereinafter the "Effective Date").
2. Based on Fleetwood Homes of California's assertions and compliance with this Settlement Agreement, HUD will terminate its investigation of Fleetwood Homes of California, and agrees to take no further enforcement action under the Act against Fleetwood Homes of California, with respect to any identified alleged violations brought against Fleetwood Homes of California or any of the practices or violations described or referenced in HUD's letters dated June 25, 2007 (attached as Appendix B), and September 18, 2007 (attached as Appendix A), or for which HUD received information about during this investigation, unless such practices recur, or unless Fleetwood Homes of California does not engage in class determination, notification and correction as set forth in Paragraph 10.
3. HUD agrees that, when referencing to or communicating about the terms, conditions, or existence of this Agreement, it will refer to Fleetwood Homes of California and not its parent companies.
4. Fleetwood Homes of California agrees to obtain a new certification of the Woodland, California plant pursuant to 24 C.F.R. §3282.362(b). This recertification process shall begin on January 28, 2008 and a representative from HUD shall be present throughout this process.
5. Fleetwood Homes of California agrees that the recertification of the Woodland plant will be done with the full participation and approval of the Department. No recertification will be valid until HUD has approved it. Recertification will be accepted when HUD makes a determination that Fleetwood Homes of California has demonstrated that a sustainable Quality Assurance program has been implemented in the Woodland plant. A sustainable Quality Assurance program is one designed to ensure that Fleetwood Homes of California can produce homes meeting the federal Standards, and that this program can withstand changes in production and key personnel.
6. HUD will conduct quarterly monitoring inspections for purposes of determining compliance with benchmarks that reflect the criteria typically used by HUD to determine the effectiveness of quality control programs in place at manufactured housing plants, as set out in Paragraph 7 of this Agreement, for a period of one year from the date of this Agreement.

7. During the quarterly monitoring inspections discussed in Paragraph 6 of this Settlement Agreement, HUD will evaluate the Woodland plant on the following benchmarks:
 - a. No more than 5 in-plant CCI failures to comply in a single-day audit, wherein each type of failure to comply will be counted as 1 CCI failure;
 - b. No more than 1 manufacturer Quality Systems Issue in a single-day audit;
 - c. No more than 6 total in-plant failures to conform in a single-day audit, wherein each affected home will count as one failure to conform; and
 - d. For each retail lot visited by IBTS, an average of not more than 2 CCI failures to conform per home that were introduced into the home during the manufacturing process since the effective date of the recertification.
 - e. If the quarterly monitoring inspections extend past a single-day audit, the total number of failures for each benchmark criteria set forth above shall be divided by the number of audit days to achieve an average daily number for each benchmark. This average daily number for each benchmark shall be used to determine whether Fleetwood Homes of California has met each benchmark.
8. If Fleetwood Homes of California fails to meet any of the benchmarks described in Paragraph 7 during any two (2) quarterly monitoring inspections, Fleetwood Homes of California will be found to be in noncompliance with the terms of this Settlement Agreement, will be required to forfeit the \$125,000 monetary settlement described in Paragraph 13 of this Settlement Agreement, and must submit a new certification under the procedures described in Paragraph 5 of this Settlement Agreement.
9. If Fleetwood Homes of California fails to meet any of the benchmarks described in Paragraph 7 during the last quarterly monitoring inspection within the one-year period covered by this Settlement Agreement, but has met all of the benchmarks in all previous quarterly monitoring inspections, HUD will conduct one additional quarterly monitoring inspection. If Fleetwood Homes of California fails to meet any of the benchmarks during this additional quarterly monitoring inspection, this failure shall constitute Fleetwood Homes of California's second failure to meet the benchmarks, and a noncompliance determination will be rendered in accordance with Paragraph 8 of this Settlement Agreement.

10. Fleetwood Homes of California agrees to engage in class determination, correction and notification as required by 24 C.F.R. § 3282, Subpart I ("Subpart I"), with respect to the issues identified in HUD's letters included as Appendices A & B. For purposes of fulfilling its Subpart I responsibilities under this paragraph, Fleetwood Homes of California will accept HUD's classification of the problems with the furnace vent and the ventless range as identified in Appendix B. Fleetwood Homes of California will furnish HUD with a written report of the status of these actions within thirty (30) days from the effective date of this Settlement Agreement.
11. Fleetwood Homes of California agrees that it will implement the Plan of Corrective Action attached herein as Appendix C at the Woodland plant by the effective date of this Settlement Agreement.
12. Fleetwood Homes of California asserts that it has added the training portion of its Plan of Corrective Action to its Quality Assurance Manual as of October 15, 2007.
13. Fleetwood Homes of California agrees to pay a civil penalty under Section 611 of Act, 42 U.S.C. §5410(a), of seventy-five thousand dollars (\$75,000). Fleetwood Homes of California will remit the \$75,000 civil penalty to HUD within (30) days of the Effective Date of this Agreement by check made payable to the United States Treasury, and delivered to counsel for HUD at the following address: Office of Program Compliance, 451 7th Street, SW, Room 9253, Washington, DC 20410. Fleetwood Homes of California also agrees to pay a monetary settlement in lieu of additional civil penalties in the amount of one hundred and twenty five thousand dollars (\$125,000) to HUD as follows: payment shall be waived by HUD upon a determination that: (1) Fleetwood Homes of California successfully met the benchmarks relating to the quarterly monitoring inspections as detailed in Paragraphs 8 and 9 of this Agreement; and (2) that Fleetwood Homes of California has complied with all terms and conditions of this Settlement Agreement. This determination of compliance shall be made after one (1) year following the date of execution of this Settlement Agreement, except as may be modified pursuant to the benchmark provisions in Paragraphs 8 and 9 of this Agreement. Fleetwood Homes of California agrees to post a surety bond to provide assurances to HUD of future payment of the \$125,000 monetary settlement. If HUD makes a noncompliance determination, payment under the surety bond will be automatically triggered

and the funds will be delivered to HUD. If HUD makes a compliance determination, the surety bond shall be promptly released by Fleetwood Homes of California with HUD's good faith assistance.

14. It is understood and agreed that, except as otherwise stated herein, this Settlement Agreement expresses the complete settlement of Fleetwood Homes of California's liabilities in connection with HUD's investigation upon which this Agreement is based.
15. Each of the Parties shall bear its own costs and attorney's fees.
16. This Settlement Agreement applies to and binds each of the persons or entities identified in the first paragraph of this Agreement, and their respective predecessors, successors, directors, officers, employees, agents, representatives and assigns.
17. Each person who signs this Settlement Agreement in a representative capacity warrants that his or her execution of this Settlement Agreement is duly authorized, executed, and delivered by and for the entity for which he or she signs.

On Behalf of Fleetwood Homes of California:



Date: January 14, 2008

Signature

Leonard J. McGill

Print Name

Sr. Vice President - General Counsel & Secretary

Title

On Behalf of the U.S. Department of Housing and Urban Development in Settlement with Fleetwood Homes of California:



Date: 1/22/08

Assistant Secretary for Housing-Federal
Housing Commissioner