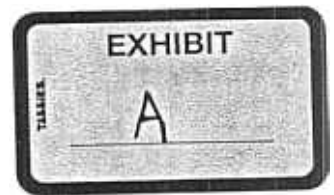




U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-8000



OFFICE OF HOUSING

SEP 18 2007

CERTIFIED MAIL – RETURN RECEIPT REQUESTED

Mr. Eric Bloemendaal
General Manager
Fleetwood Homes #17-1
18 N. Pioneer Avenue
Woodland, CA 95776

Re: Fleetwood Enterprises #17-1
MH Case No. 2007-47
Notice of Enforcement Actions

Dear Mr. Bloemendaal

This letter is to notify you that the Department intends to take enforcement action against Fleetwood #17-1 ("Fleetwood") for violations of the National Manufactured Housing Construction and Safety Standards Act, 42 U.S.C. § 5401, *et seq.* (the "Act"), and the Manufactured Home Construction and Safety Standards, 24 C.F.R. § 3280, *et seq.* (the "Standards"). As set forth more fully below, the Department intends to take this action due to the number, severity and repetitive nature of the failures to comply with the Act and the Standards at Fleetwood's Plant #17 in Woodland, California ("Woodland plant").

Factual Background

Since 2005, the Department has been documenting the continuous failure of Fleetwood to produce manufactured homes that comply with the Standards at the Woodland plant. As you are aware, the Woodland plant has been audited by HUD eight times over the past 2 ½ years. These audits have consistently identified multiple violations of HUD's construction and safety standards. During that time period, the audits revealed at least 77 serious defects and defects in homes constructed at the Woodland plant. See Exhibit A.¹

Many of the serious defects and defects were repetitive items that appeared in several audits indicating both a lack of quality assurance and the existence of classes of affected homes. For example, in Fleetwood's August 20, 2007, response to our letter of June 25, 2007, Fleetwood indicated that as many as 3400 homes may have been constructed in which the dishwasher and garbage disposal were on two separate branch circuits but terminated in the same box on the same device yoke. It is not known how many other homes may have been affected by the other serious defects discussed above.

Appendix A contains portions of the audit reports for the issues identified.

In addition, the Department's approved California State Administrative Agency ("SAA") discovered a home last November in Chico, California, that was built in the Woodland plant without furnace and water heater vents in the fixed portion of the roof. The California SAA has since determined that Fleetwood built at least forty-five homes in the same manner at the Woodland plant. This failure constituted an imminent safety hazard that could have caused asphyxiation deaths. Further, even in response to our most recent letter, Fleetwood has failed to perform an adequate class search for homes with similar problems.

The California SAA has also conducted several record review audits to determine whether the Woodland plant is in compliance with 24 C.F.R. § 3282, Subpart I, which sets forth class search, notification and correction requirements. The California SAA reports repeated failures of the Woodland plant to comply with these requirements, including incorrect determinations of defect severity, class searches that are either incomplete or not conducted, and failure to maintain required records. The California SAA also reports that they found many serious defects that the Woodland plant has likely built into classes of homes. See Exhibit B.

Intended Enforcement Action

Based on the number of issues discovered during the course of the Department's and California's investigations, it appears that there are systematic problems at the Woodland plant that have affected the durability and safety of a substantial number of homes. It appears that Fleetwood is not capable of building homes at the Woodland plant that conform to the Department's construction and safety standards. Therefore, the Department intends to take the following enforcement action:

1. Require recertification of the Woodland plant. As part of this process, the Department will instruct its approved primary inspection agency PFS that, beginning on October 8, it is to reclaim existing HUD certification labels and withhold new labels. Any recertification of the Woodland plant must be done with the full participation and concurrence of the Department. When the Department and the IPIA are satisfied that Fleetwood's Woodland plant can produce homes that meet the federal standards and do not contain serious defects and imminent safety hazards, a new certification can be issued pursuant to 24 C.F.R. § 3282.362(b);
2. Seek an injunctive order preventing Fleetwood from selling or leasing homes that do not comply with the Act and the Standards;
3. Seek an injunctive order requiring Fleetwood to engage in class identification, notification and correction of homes as required under Subpart I in Part 3282 of Title 24 of the Code of Federal Regulations ("C.F.R.");
4. Seek an assessment of civil penalties under Section 611 of the Act, 42 U.S.C. §5410(a), in the amount of up to \$1100 for each separate violation of the Act and the Standards.² Pursuant to Section 611, each violation of the Act and the Standards

² Pursuant to 72 Fed. Reg. 5586, February 6, 2007, the maximum penalty for each violation of the Act is \$1,100 up to \$1,375,000 for any related series of violations occurring within one year from the date of the first violation.

shall constitute a separate violation with respect to each manufactured home affected.

Within 10 days of receipt of this letter, Fleetwood may petition the Secretary for a presentation of views pursuant to 24 C.F.R. § 3282.154. Upon receipt of any such request, the Secretary shall determine whether the proceeding will be a Formal or an Informal Presentation of Views, issue a notice in the Federal Register, and set a date for the presentation of views. 24 U.S.C. § 3282.152. The Department requests that Fleetwood notify the Department of its intended course of action, including a petition for a presentation of views, within 10 days of receipt of this letter. On all correspondence to this Office, please include the above-referenced case number and send to the following address:

William W. Matchneer III
Associate Deputy Assistant Secretary for Regulatory
Affairs & Manufactured Housing
U.S. Department of Housing and Urban Development
451 7th Street, SW, Room 9164
Washington, DC 20410-0500

If you have any questions, please contact our program counsel, Kirsten Ivey-Colson, at (202) 708-4184. Thank you for your anticipated cooperation.

Sincerely,



William W. Matchneer III
Associate Deputy Assistant Secretary
for Regulatory Affairs

Enclosures

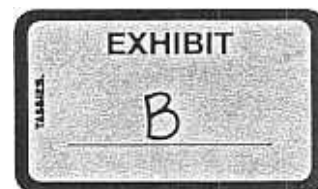
cc:
Kevin Cimini, SAA Administrator
Department of Housing and Community Development
Manufactured Housing Section
1800 Third Street, Suite 260
Sacramento, CA 95814-6900

Mr. Leonard McGill, Vice President
Fleetwood Homes of CA, Inc.
7007 Jurupa Avenue
Riverside, CA 92504

Mr. James A. Rothman, Executive Vice President
PFS Corporation
1507 Matt Pass
Cottage Grove, WI 53527



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-0500



OFFICE OF GENERAL COUNSEL

JUN 25 2007

CERTIFIED MAIL – RETURN RECEIPT REQUESTED

Mr. Eric Bloemendaal
General Manager
Fleetwood Homes #17-1
18 N. Pioneer Avenue
Woodland, CA 95776

Re: Fleetwood Enterprises #17-1
MH Case No. 2007-47

Dear Mr. Bloemendaal:

The Department sent Fleetwood a letter on December 19, 2006 regarding the California Department of Housing and Community Development's ("California") Preliminary Determination concerning homes constructed by Fleetwood without furnace or water heater vents in the non-hinged portion of the roof. This construction has created an imminent safety hazard. The Department has since learned that California has issued a recall and that at least one unit (serial number 28626) has been identified with the following violations:

- The exhaust from the bathroom vented directly into the roof cavity;
2. The furnace vent pulled down to the furnace;
 3. The vent was misaligned and not mechanically secured to the furnace;
 4. The circulation air system duct was not secured to the furnace; and
 5. The furnace compartment was fire stopped incorrectly.

The existence of such homes is extremely serious and causes the Department tremendous concern. HUD is also concerned that in another recent enforcement case (MH 2007-15), the Department received two inadequate responses from Fleetwood that failed to provide even the most basic information such as a proper class determination. In addition to the issues raised above, the purpose of this letter is to notify Fleetwood that as a result of several recent audits, the Department has also learned that there are also possible classes of homes constructed by Fleetwood in a manner inconsistent with federal manufactured housing construction and safety standards with the following alleged violations:

- a. The knockout inside the garbage disposal for the dishwasher drain was not removed

as required, thereby not meeting the standards detailed in 24 CFR § 3280.607.- The unit identified at the plant is serial number 29987A (HUD label number PFS995017). *See enclosed In-Plant Audit Report dated January 23 and 24, 2007.*

- b. The dishwasher and garbage disposal were on two separate branch circuits but terminated in the same box on the same device yoke, thereby not meeting the standards detailed in 24 CFR § 3280.801, which incorporate the National Electrical Code by reference (NEC 210.7). This is a serious defect. The units identified in the plant are serial numbers 29987A (HUD label number PFS995017) and 29996. The unit identified at a retailer lot is serial number 29822A/B (HUD label number PFS985851). *See enclosed In-Plant Audit Report dated February 5, 2007.*
- c. The ground wires from two circuits in the same box were not tied together, thereby not meeting the standards detailed in 24 CFR § 3280.801, which incorporate the National Electrical Code by reference (NEC 250.148). The two units identified at the plant are 29990A and 29987A (HUD label number PFS995017). The unit identified at a retailer lot is serial number 29822A/B (HUD label number PFS98551). *See enclosed In-Plant Audit Report dated January 23 and 24, 2007 and Off Site Follow-Up Audit Report dated January 25, 2007.*
- d. Ventless range exhaust systems were installed, thereby not meeting the standards detailed in 24 CFR § 3280.103. This is a serious defect. The two units identified at the plant are serial numbers 29791 and 29787A. *See enclosed In-Plant Audit Report dated September 19th and 20th 2006.*

The Department is closely reviewing each of the problems identified above. Because Fleetwood has received information about each of these problems, it should have conducted the necessary investigations and inspections and made the determinations required under 24 CFR § 3282.404, and should also be maintaining records of the determinations. In accordance with the requirements of 24 CFR § 3282.414 for homes that have not been sold to the first purchaser for purposes other than resale, Fleetwood should have corrected all of its homes, whether in the manufacturing facility or on retailer lots, that contain these problems or instances of noncompliance. Furthermore, for homes that have been sold to consumers, Fleetwood must meet its obligations under 24 CFR §§ 3282.404 and 3282.406 for notification and correction as applicable.

The Secretary of Housing and Urban Development ("Secretary") has the authority to establish appropriate federal manufactured home construction and safety standards (42 USC § 5403(a)), and may conduct investigations and inspections in order to enforce these standards. 42 USC § 5413(a). In carrying out HUD's responsibilities under the National Manufactured Housing Construction and Safety Standards Act of 1974 (42 USC §§ 5401-5426) ("Act"), the Secretary may hold hearings, take testimony, require the attendance and testimony of witnesses and the production of records, and written answers to specific questions. 42 USC § 5413(c).

In order to determine whether violations of the Act or HUD's regulations have occurred, we ask that you provide the documents and information requested in the attached Information Request within 10 days from receipt of this letter. Please make sure to respond to each item in

the attached Information Request. In addition, for the issue relating to the furnace or water heater vents in the non-hinged portion of the roof issue, please submit Fleetwood's consumer notification, plan of notification and correction. Also, complete and submit the enclosed Declaration of Compliance attesting that all of the answers given are truthful, and that all of the requested documents were produced. If you are not authorized to respond to this request, please forward this request to the appropriate party. On all correspondence to this Office, please include the above referenced case number and send responses to the following address:

U.S. Department of Housing and Urban Development
Office of General Counsel
Attention: Kirsten Ivey-Colson, Esq.
451 7th Street, SW, Room 9253
Washington, DC 20410-0500

If you have any questions, please contact our program counsel, Kirsten Ivey-Colson, at (202) 402-4150. Thank you for your anticipated cooperation.

Sincerely,



William W. Matchneer III
Associate Deputy Assistant Secretary
for Regulatory Affairs

Enclosures

cc:

Mr. Richard Weinert, SAA Administrator
Department of Housing and Community Development
Manufactured Housing Section
P.O. Box 31
Sacramento, CA 95812-0031

Mr. James A. Rothman
Executive Vice President
PFS Corporation
1507 Matt Pass
Cottage Grove, WI 53527-8962



Fleetwood Homes of California, Inc.
Woodland, Ca. / Plant #17
Plan of Corrective Action
(P.O.C.A.)

Based upon the results of recent internal and external audits, Management of Fleetwood Homes – Woodland, California, has recognized and concluded that some basic principles are not functioning in the current quality assurance program.

Fleetwood's quality assurance program is based upon the premise that the production associate knows the requirements and thus performs work that conforms to the DAPIA design and applicable codes. Auditing has revealed that a number of the production associates are not completely knowledgeable of their responsibilities.

Management of Fleetwood Homes – Woodland, California, proposes the following Plan of Corrective Action (POCA) to address this issue. This POCA spells out the action and steps Fleetwood believes will restore a functioning quality assurance program that will produce consistently conforming homes.

1. A training/education team ("Team") will be formed. It will have the following characteristics:
 - a. It will consist of:
 - i. One facilitator/trainer
 - ii. One or more trainers as needed
 - b. The members of the team will possess the following abilities and skills:
 - i. Bi-Lingual (English and Spanish)
 - ii. Leadership Skills
 - iii. Self Motivated
 - iv. Quickly learn technical details
 - v. Instruct either one-on-one or in small groups
 - c. It will report to the QAM and GM.
2. The Team will undertake the following actions:
 - a. Provide all new associates with DAPIA training on the requirements of the job responsibilities that they are being assigned prior to beginning work on the production line.
 - b. Identifying individuals and/or departments where knowledge of the code-related issues is lacking
 - c. Identify the areas of knowledge that are required
 - d. Determine whether the production associate/group leader lacks the knowledge, does the immediate supervisor have similar knowledge gaps.
 - e. Provide training to the associate/group leader or supervisor as required. (If the supervisor possess the appropriate knowledge, and is judged to also have the required abilities and skills listed above for the Team, then it is preferable for the supervisor to administer the training and the Team monitor its effects.

- f. Develop and implement procedures and protocol for evaluating the effectiveness of above noted training and education. The evaluation process will be conducted jointly by the QA manager and the Team.
3. Quality Assurance Manager (QAM) – in addition to the normal functions described elsewhere the QAM would also assist the Team with finding the appropriate sections of the DAPIA-approved drawings, HUD standards, product installation instructions, and other technical documents needed for instruction.
4. Management Team (General Manager, Production Manager, Purchasing Manager, Quality Assurance Manager) will conduct daily or semi-daily reviews of production orders to address special issues of construction, materials, purchasing, and engineering to resolve problem before the home gets into a production stage.
5. The Production and Assistant Production manager will be responsible for evaluating and identifying training needs to ensure production supervisors and designees are performing their responsibilities as outlined in Fleetwood's "Standard QA Program."

It is expected the process of developing this team, implementing the program, and evaluating its effectiveness will take up to six months. In the interim, the quality assurance program will be enhanced by supplemental inspections by production department supervisors of various levels, department group leaders of various levels, and Ready-To-Move (RTM) inspectors of the quality assurance staff.

Fleetwood is confident this process will result in a workforce with the basic knowledge to produce conforming homes in accordance with the existing Q. A. procedures.

Objective: To improve HUD code compliance through the continued development of our communication and education systems to all employees in assuring continued product conformance and the practice of continuous improvement of their job requirements.

1. Training/Communication

A. Management – All Plant Management

- a. All management will receive formal training on Fleetwood's quality assurance program and the responsibilities each manager has within the program.

B. Department Supervisor - All Production Departmental Supervisors

- a. Supervisors and RTM inspectors will receive formal training on Fleetwood's quality assurance program and the responsibilities each supervisor has within the program.
- b. Supervisors and RTM inspectors will receive training on Fleetwood's DAPIA construction manual. The training will be based on their departmental needs.

- c. Supervisors will conduct training meetings prior to production each morning. This training will focus on cited CCI and Systems items identified by RTM, IPIA and IBTS. Once the plant has returned to a normal inspection cycle, this training will be ongoing during the course of a production day as needed.
- d. A router will be attached to the Production Card that includes items cited during the last 2 IPIA inspections, any items cited by IPIA more than once in last 10 inspections, the last IBTS audit items, and any repetitive items from the RTM inspections. This router will require the sign-off after compliance to target items is verified. The appropriate Supervisor or Group Leader signature will be necessary.

C. Department Group Leader - All Production Departmental Group Leaders

- a. Group leaders will receive formal training on Fleetwood's quality assurance program and the responsibilities each group leader has within the program.
- b. Group leaders will receive training on Fleetwood's DAPIA construction manual. The training will be based on their departmental needs.
- c. Training will be provided on component installation instructions, DAPIA/IPIA requirements and supervisory skills. (The Q.A. Manager, the Production Manager or the General Manager will provide training.)
- d. Primary training will be focused on non-conformances per the IPIA report or our repeat status report in order to learn and determine ways to prevent these non-conformances from recurring.
- e. Continued training on the DAPIA requirements, so that all associates will understand the requirements and conform to those requirements.
- f. Continued training on the component installation instructions so that all associates will understand the requirements and conform to those requirements.
- g. Training provided to the group leader on an individual basis (by department supervisor, Production Manager, or quality assurance)

D. Line Associate (production Personnel)

- a. The supervisor of the department is responsible for insuring that each associate understands their job requirements, component installation instructions, and DAPIA requirements.
- b. All new associates will receive DAPIA training on the requirements of the job responsibilities that they are being assigned prior to beginning work within the plant.
- c. Training will be offered to associates in their area of production. The associate will sign a training log to verify their comprehension of DAPIA training. The Q.A. Manager will maintain a master training matrix for future reference.
- d. Once completion of the training has been accomplished, a follow-up ~~certification~~ will be performed to validate the associate's performance in conforming to requirements.

2. Quality Assurance Department – Inspections/Training/Changes

- A. RTM inspectors of the Quality Assurance department will increase their inspections of repetitive, cited items to verify deficiencies are eliminated.
- B. The Q.A. Manager will review IPIA inspection reports at daily management staff meetings and daily supervisor meetings.
- C. The Q.A. Manager will maintain DAPIA manuals and provide timely notification to production management of all changes.
- D. The Q.A. Manager will maintain and provide copies of CCI log, IPIA inspection reports to the General Manager, Production Manager, and department supervisor on the repeat items. This reporting will provide a tracking of all nonconformances involved in the last 2 IPIA inspections, any items cited by the IPIA more than once in last ten inspections, the last IBTS audit items, and any repetitive items from the RTM inspections.
- E. The Q.A. Manager will maintain and provide copies of RTM inspection reports to the General Manager, Production Manager, and department supervisor on any the RTM repeat items.

3. Discipline

- A. The department supervisor has the ultimate responsibility to see that all items in his/her area conform to all requirements. That responsibility may be delegated to the department group leader, as described in the QA Manual.
- B. When an associate has the same item on repeat status, the department supervisor will take disciplinary action.

Calhoun
10/15/07