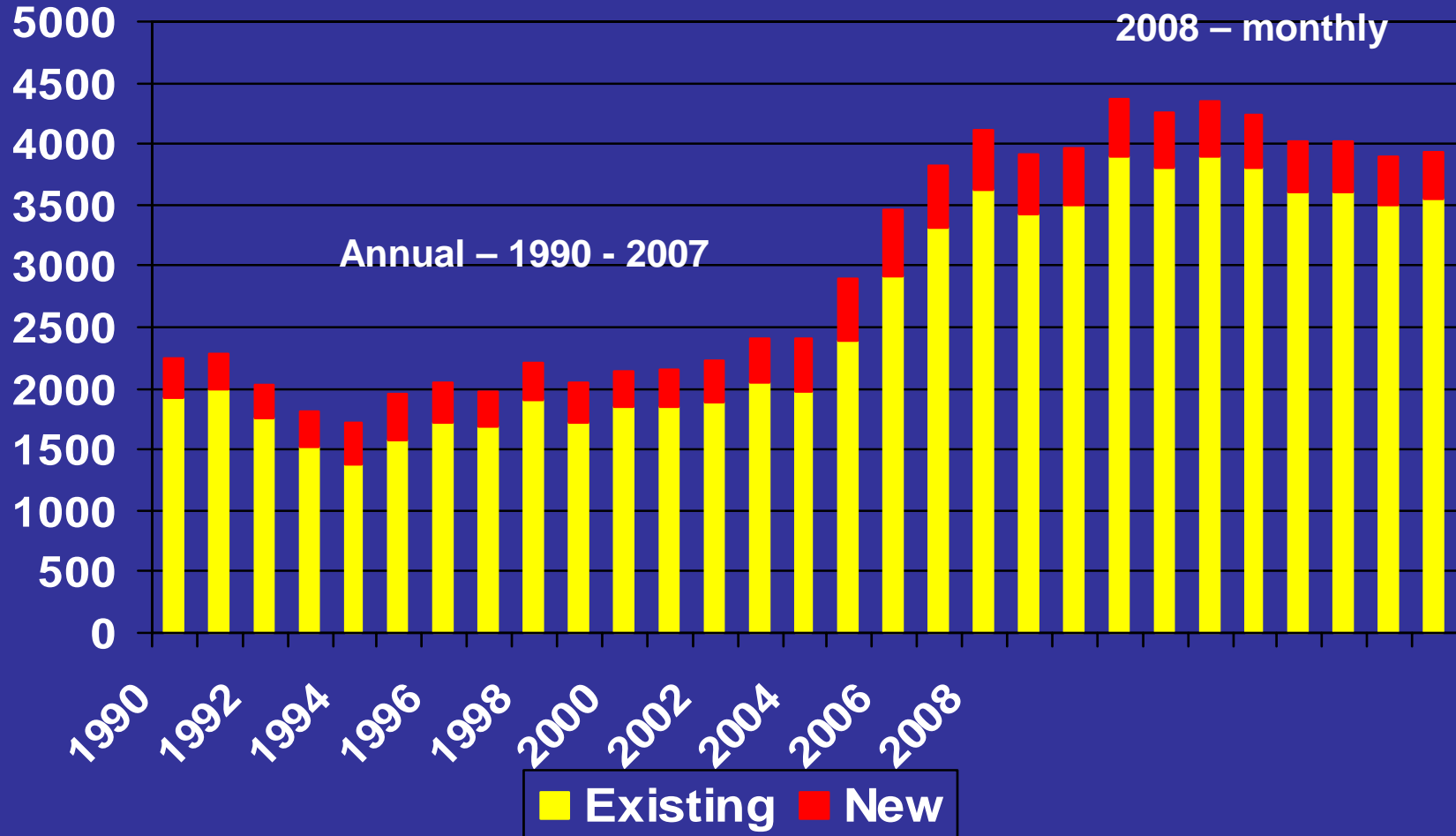


Housing Inventory

Still too large

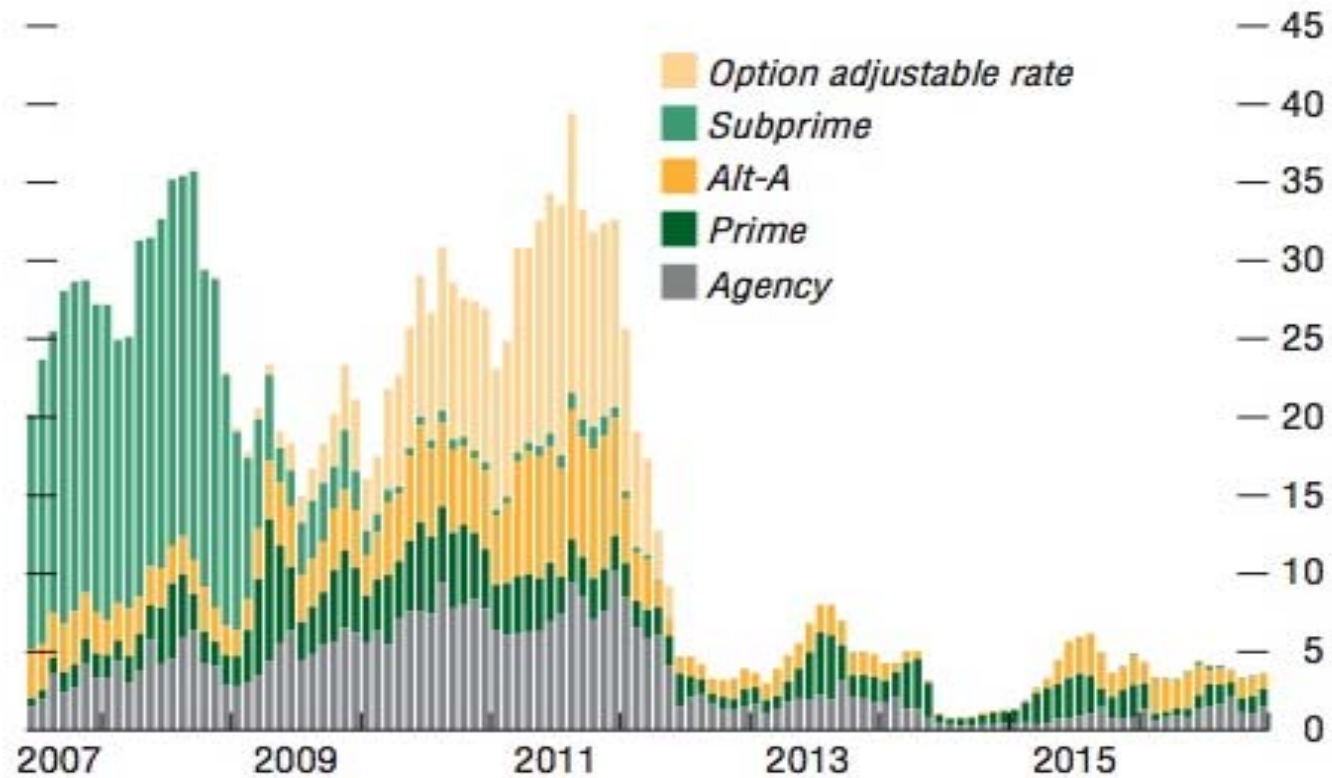
Thousand Units, Single Family



Adjustable and fixed Rate Mortgage Resets - -

To date, most of the problems came from subprime mortgages, however, over the next 4 years, there are toxic mortgage resets that exceed the subprime problem by 50% or \$500 billion

Figure 1.7. Monthly Mortgage Rate Resets
(First reset in billions of U.S. dollars)



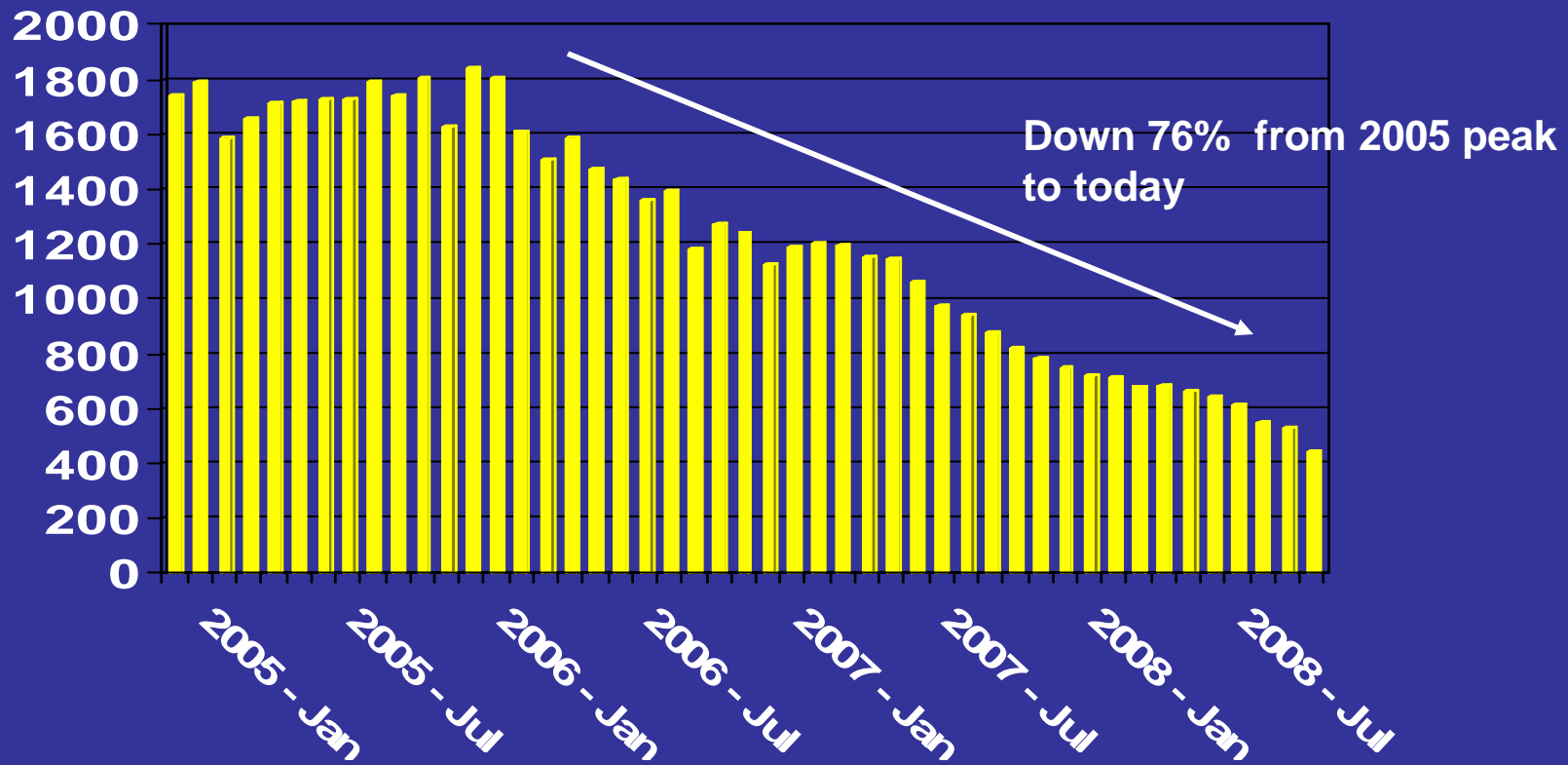
Source: Credit Suisse.

Subprime, Alt A, and Option Adjustable Arm Mortgages

- **Subprime** – loans to people with poor credit scores – FICO score less than 620. **These are the mortgages that caused the initial housing crisis!**
- **Alt A** – loans given to people with good credit scores, but you don't have to submit all of the documentation required for a straight loan
i.e., don't have to show or prove their income or ability to pay for the loan
- **Option adjustable rate mortgage** – adjustable rate mortgages with flexible payment options – two onerous options are interest only payment, and “minimum payment amount (doesn't even include full amount of interest due). Problem occurs when this mortgage resets
- Size comparison: (1) subprime \$1 trillion ; (2) Alt A \$1 trillion
(3) Option adjustable ARMS \$600 billion
- Problem – Alt A and Option ARMs will reset between 2009 – 2012
Default rates are high, so we could see a continuation of the housing crisis for another 4 years **UNLESS we solve the Foreclosure problems**

Single Family Housing starts

Thousand units



Source: U.S. Census

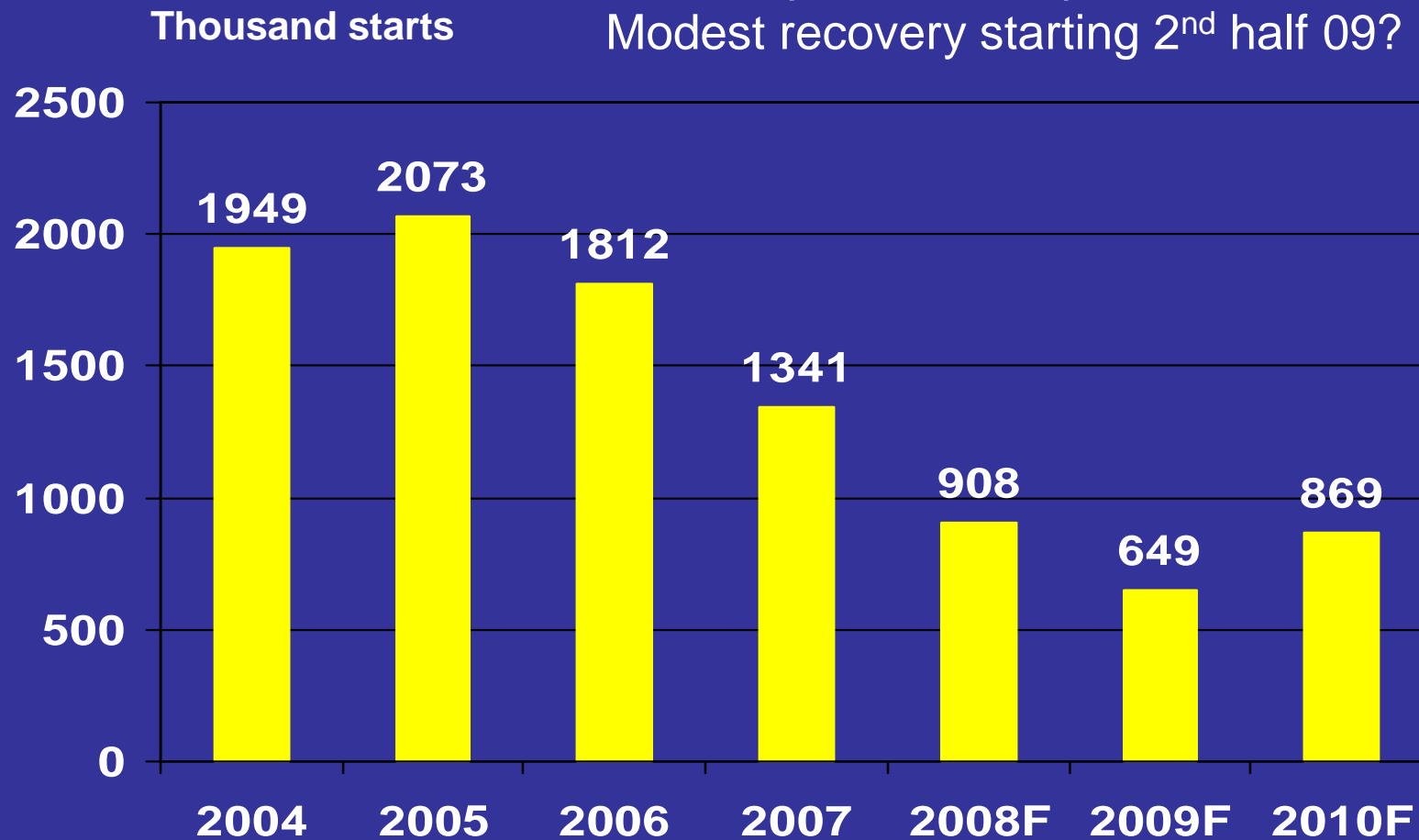
Forecast of Experts 2009 Housing Starts (thousands)

	Single Family	Multifamily	Total
Fannie Mae	513	285	798
NAHB	461	188	649
MBA	535	285	820
NAR	445	286	731
HIS global Insight	476	186	662
Average	486	246	732

Forecast dates: latest available
Jan 13 – 2009.

NAHB's Latest Forecast

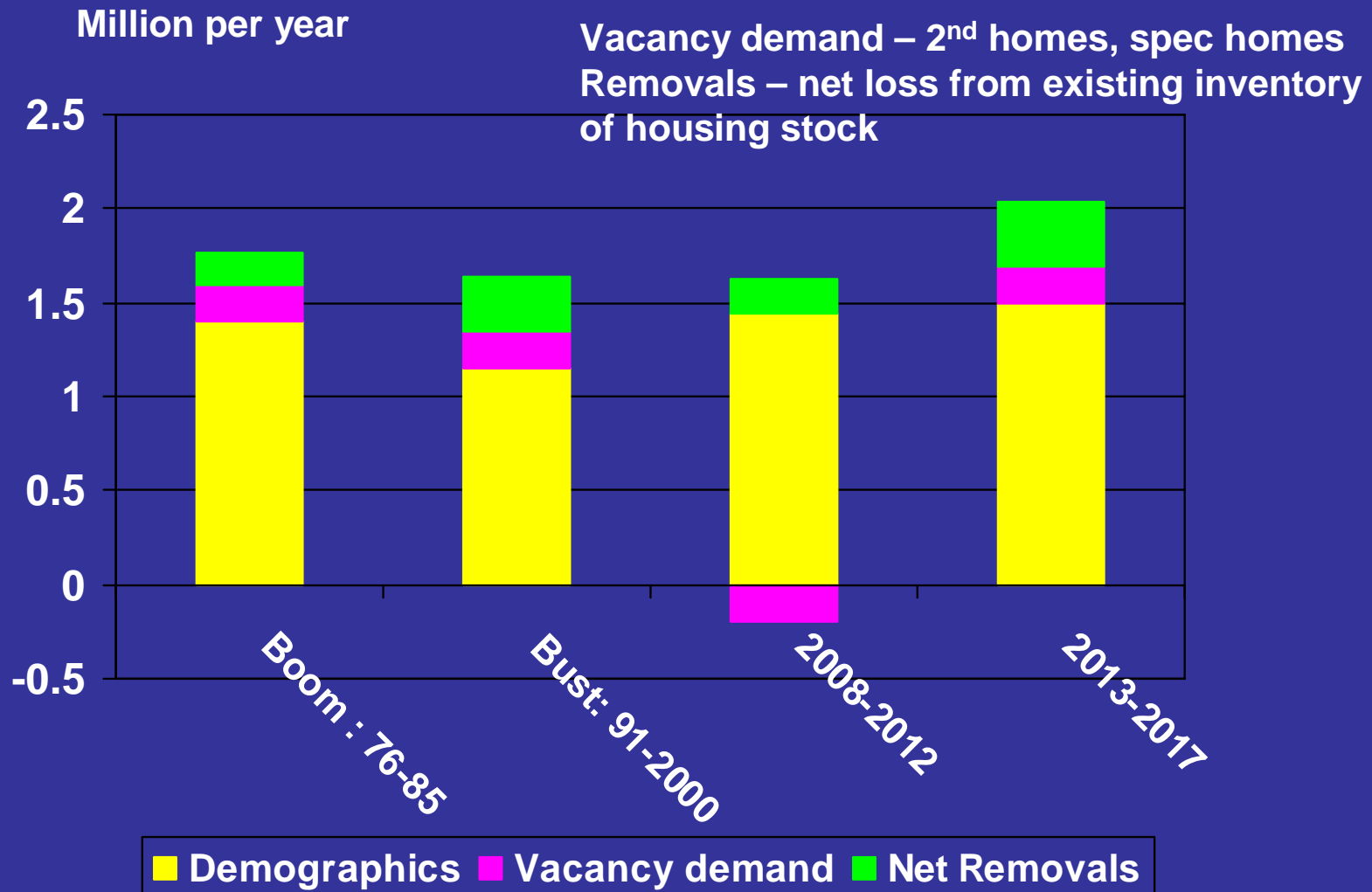
67% drop from 2005 peak to 2009 bottom
Modest recovery starting 2nd half 09?



Source: NAHB, January 13, 2009

Long Term Housing Demand Drivers

Longer term outlook is solid based on demographics
(household formations plus net immigration)



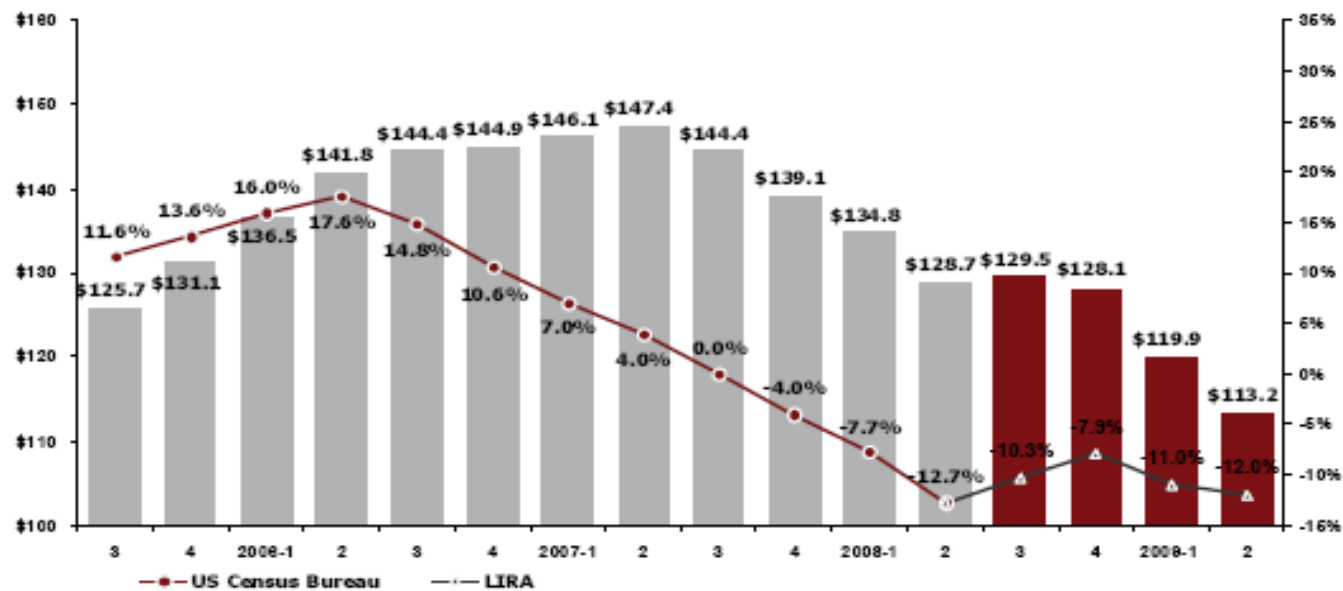
Source: NAHB, June 2008

Remodeling Market - - Pulling back in response to poor economy

Leading Indicator for Remodeling Activity - Third Quarter, 2008

Homeowner Improvements
Four-quarter moving totals in Billions of \$

Four-Quarter Moving
Rate of Change

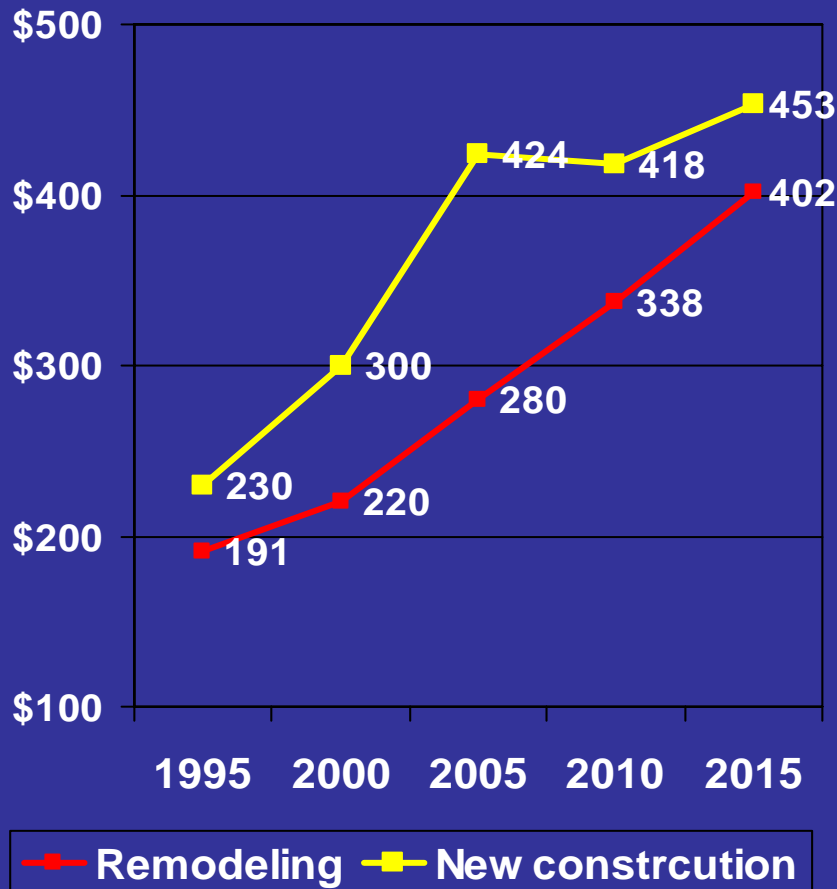


Source: Joint Center for Housing Studies.

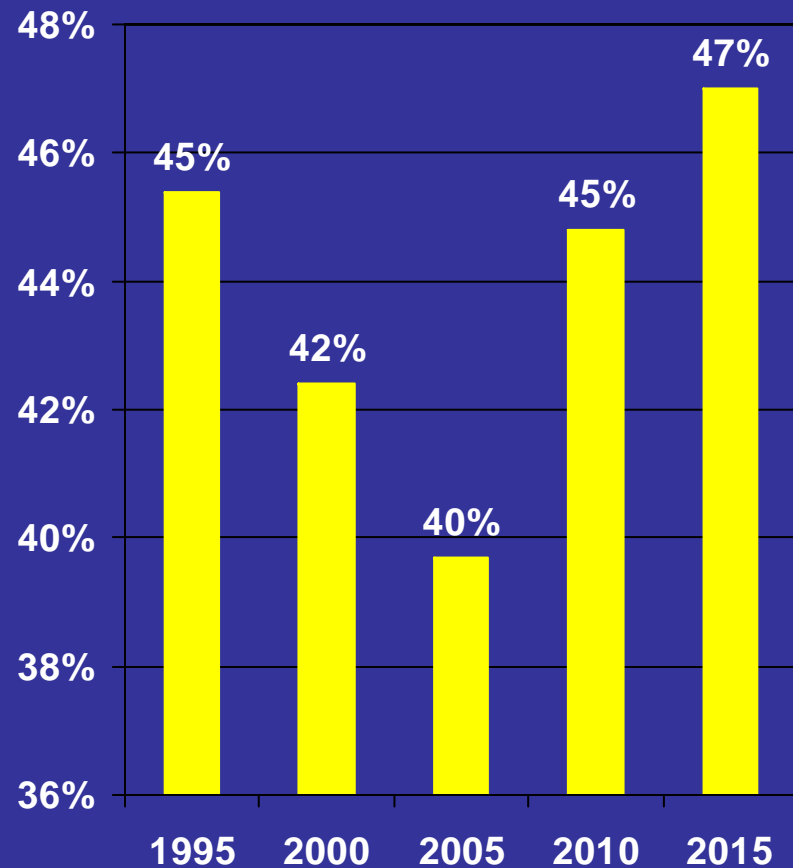
Long Term - New Construction vs Remodeling

Remodeling becoming increasingly important & is the key market for wood products

Billions 2005 dollars



Remodeling share of residential investment



Source: Harvard JCHS 2007

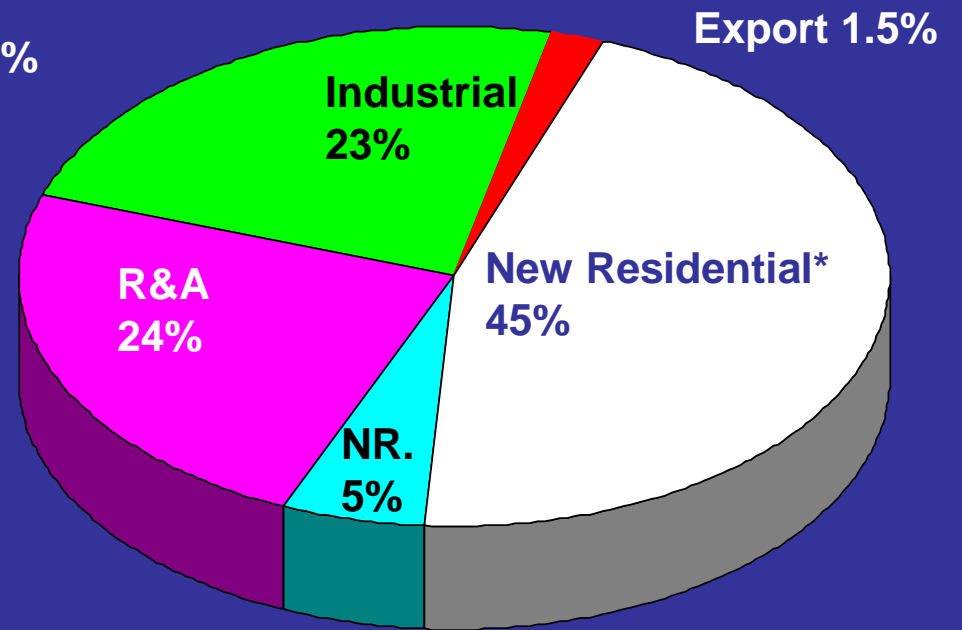
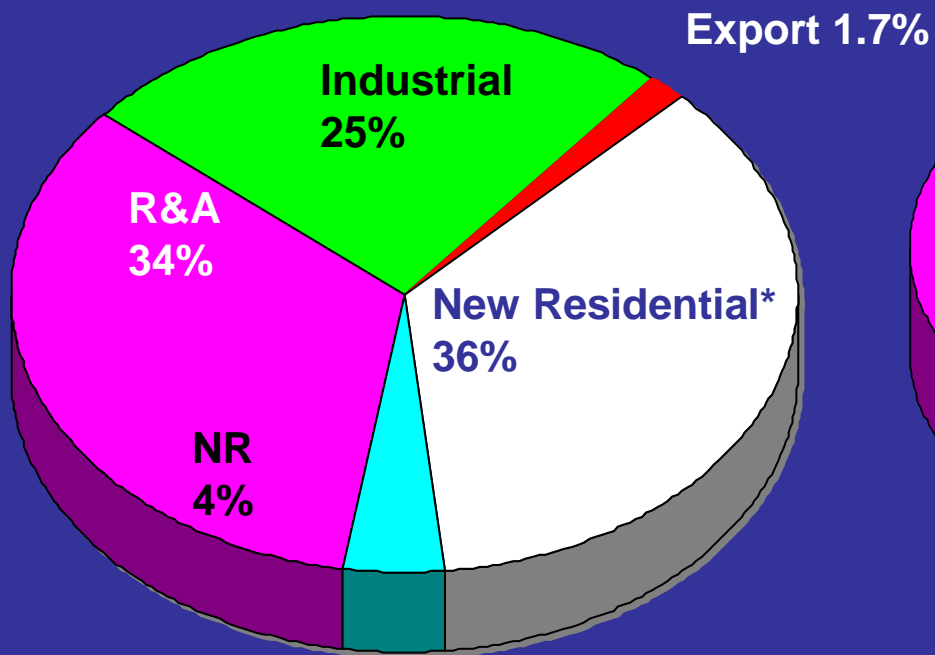
Softwood Markets

2007 U.S. Softwood Lumber

55 BBF (144 million Cubic Meters)

2007 U.S. Structural Panels

35.2 BSF(3/8) (36 million Cubic Meters)



*New Residential incl. SF, MF, and Mobile Homes

Source: RISI, 2008

Lumber and Panel Prices Follow Housing and, ... stumpage prices track lumber prices

