Forward-Looking Statement

Information in this presentation is derived principally from publicly available information, forest products and building industry publications and websites, data compiled by market research firms, and similar sources. Although we believe that this information is reliable, we have not independently verified any of this information and we cannot assure you that it is accurate. This presentation also contains forecasts regarding future economic conditions, demand, commodity prices and similar matters. The accuracy of such forecasts is subject to a number of risks, uncertainties and assumptions that may cause actual results to differ materially from those projected, including, but not limited to, the effect of general economic conditions, including the level of interest rates, housing starts and exchange rates; the relative strength of various U.S. and global business segments; energy prices; raw material prices; transportation disruptions; the effect of governmental actions; natural disasters; and the outbreak of terrorism, war and other hostilities.
Objectives

- Discuss the current situation
- Provide an overview of the issues for consideration as the housing bubble deflates

Are housing markets in your state taking bubble baths?

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"I think we should be able to list this for about $550,000, but I paid $700,000 for it!"

"...no, I'm afraid she can't talk right now; she's taking a bubble bath."
Easy money led to explosion in mortgage lending

Return of the Mantra: Housing is the best investment possible
Record turnover rate

Estimated Turnover Rate of Owner-Occupied Housing Stock

- Housing was best investment
- 1970-1996 Historical Average

Record turnover rate

Helped fuel consumer spending growth

Homeowner Equity in Real Estate

- Source: NAR, Census, Weyerhaeuser
- Source: FRB
Favorable buying conditions for last 15 years

U.S. Housing Affordability Index

Effective sales down more than reported

U.S. New Homes Sold
(Seasonally Adjusted Annual Rate)
Composition of decline important

U.S. Existing Homes Sales
(Seasonally Adjusted Annual Rate)

Increase equals more than one year of single-family starts

Inventory of Homes and Condominiums for Sale
Highest levels in 10 years

Given supply situation, starts will continue to fall
Mortgage news clippings

“How Toxic Is Your Mortgage?” (Business Week)

- $389 billion in Option ARMS originated in 2004-05
  - 1.3 million loans, average loan was $300,000
  - $77 billion in 2006
“How Toxic Is Your Mortgage?” (Business Week)

- $389 billion in Option ARMS originated in 2004-05
- Brokers paid more to originate
- Lender can claim full monthly payment as revenue
- Up to 80% of Option ARMS making just the minimum payment (Fitch Ratings)
- Deferred interest accounting for growing share of lender income
- Over 20% of Option ARMS originated in 2004 and 2005 are upside down
  - 10% home price fall will move number to 40%

Sharper decline in sales versus 1989-91

Number of Existing Homes Sold in California
(Seasonally Adjusted Annual Rate)

Quarterly

1 year

Source: California Assn of Realtors

200
300
400
500
600
700

1987 1989 1991 1993 1995 1997 1999 2001 2003 2005 2007

Thousand

Number

July

2 years

Source: California Assn of Realtors
How much higher?

Number of Existing Homes Available for Sale in California (Seasonally Adjusted)

10% higher than trend

Investor Share of Prime Conventional Conforming Purchase Originations in California
“Bailers” will add to inventory

- Highly leveraged buyers and people who refinanced
- Cannot meet higher mortgage payments
- Negative equity

Buyers/lenders taking more risk

California Home Mortgage Characteristics

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<th>2003</th>
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<td>First-time buyers</td>
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<td>First-time buyers</td>
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<td>Repeat</td>
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Source: California Association of Realtors
Who was watching the store?

Share of California Home Buyers with Zero Down Payment

Record low affordability

Percentage of Households Able to Afford the Median Priced Home in California
Driver of move-up and move-out

Median Net Cash to Existing Home Sellers in California

What should you consider in your state?

- Fewer home sales and at lower prices
- Downside risk to consumer spending from drop in real estate values
- Inventory correction likely to run through at least 2008
- Homeowners looking for property tax relief
Develop your own logical, plausible scenario for how your state markets will perform

- Consider the unthinkable
- Point forecasts will not be the main event
- Create a dynamic story
- Develop signposts and a tracking system so you can forewarn policy makers