



FTA Revenue Estimating and Tax Research Conference

September 18, 2006

Joe Elling
Director, Pulp and Paper
Industry Analysis



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.

1



Objectives



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

2

l:\presentation\customer\2006\FTA 92006

 Weyerhaeuser
The future is growing™

Are housing markets in your state taking bubble baths?

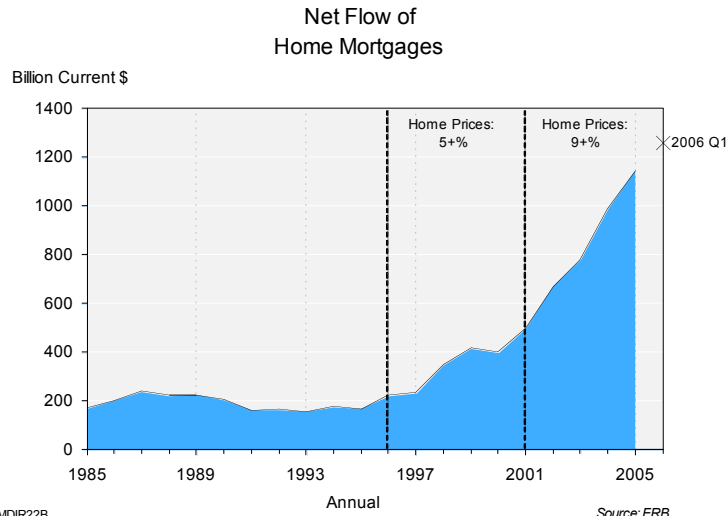


3

l:\presentation\customer\2006\FTA 92006

 Weyerhaeuser
The future is growing™

Easy money led to explosion in mortgage lending



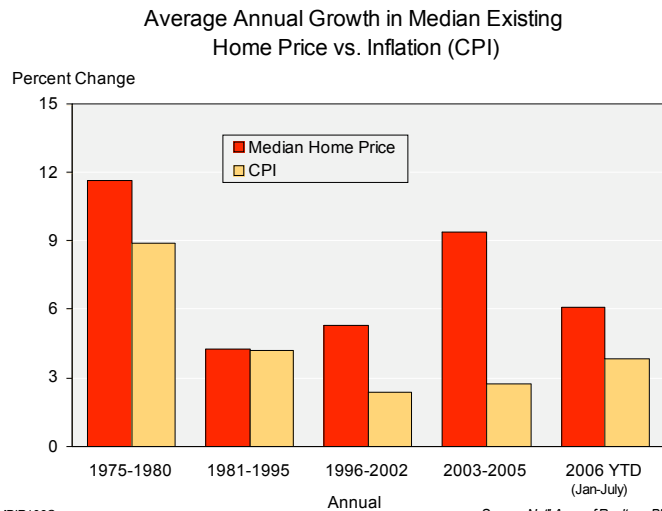
AMDIR22B

\\presentation\customer\2006\FTA 92006

Weyerhaeuser
The future is growing™

4

Return of the Mantra: Housing is the best investment possible



AMDIR106C

\\presentation\customer\2006\FTA 92006

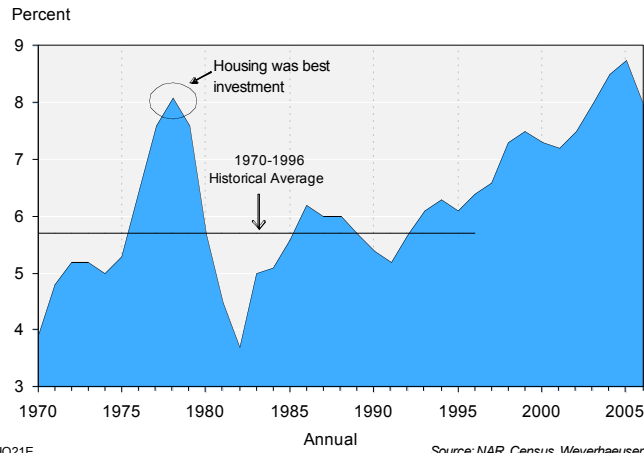
Weyerhaeuser
The future is growing™

5

Record turnover rate



Estimated Turnover Rate of
Owner-Occupied Housing Stock



AMDHO21E

Source: NAR, Census, Weyerhaeuser

6

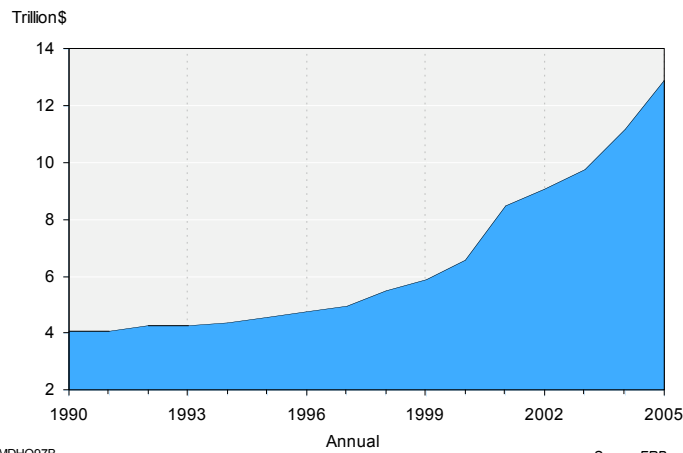
\\presentation\customer\2006\FTA 92006



Helped fuel consumer spending growth



Homeowner Equity in Real Estate



AMDHO97B

Source: FRB

7

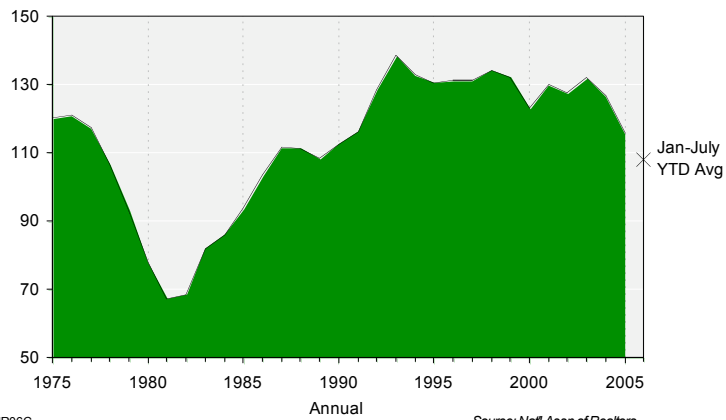
\\presentation\customer\2006\FTA 92006



Favorable buying conditions for last 15 years



U.S. Housing Affordability Index



AMDIR06C

Source: Nat'l Assn of Realtors

8

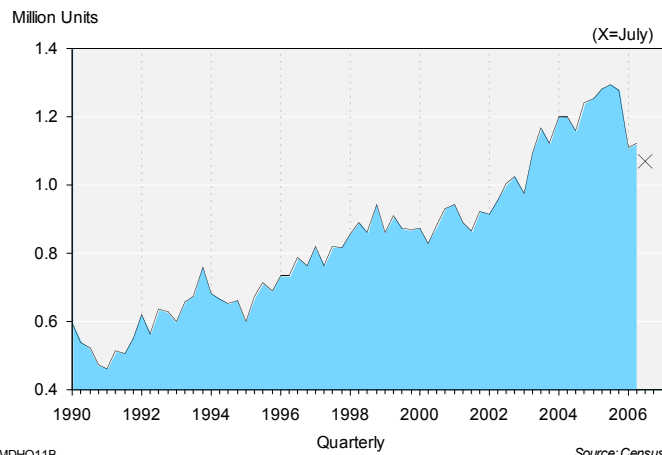
\\presentation\customer\2006\FTA 92006



Effective sales down more than reported



U.S. New Homes Sold
(Seasonally Adjusted Annual Rate)



QMDHO11B

Source: Census

9

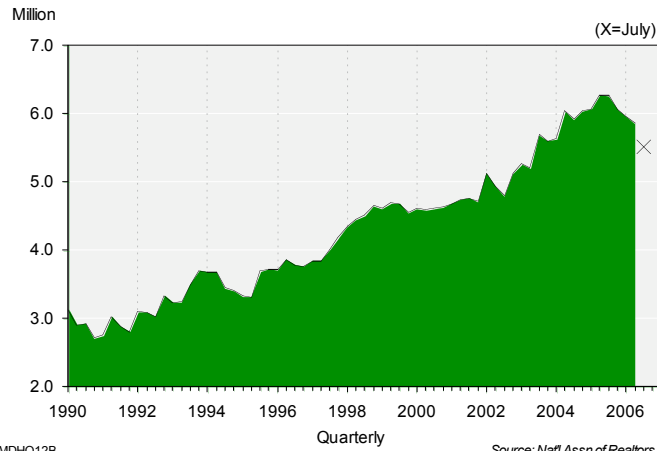
\\presentation\customer\2006\FTA 92006



Composition of decline important



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



QMDHO12B

Source: Natl Assn of Realtors

10

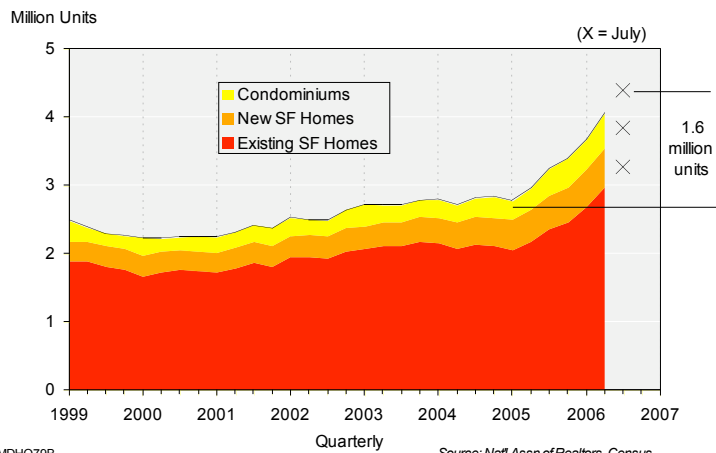
\\presentation\customer\2006\FTA 92006

Weyerhaeuser
The future is growing™

Increase equals more than one year of single-family starts



Inventory of Homes and Condominiums
for Sale



QMDHO79B

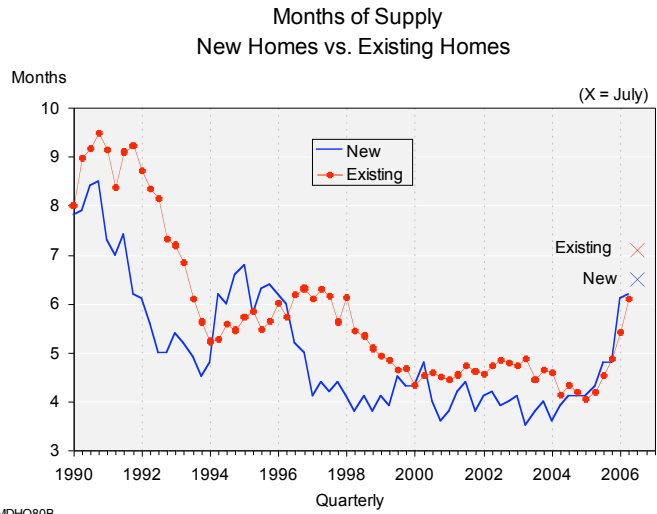
Source: Natl Assn of Realtors, Census

11

\\presentation\customer\2006\FTA 92006

Weyerhaeuser
The future is growing™

Highest levels in 10 years



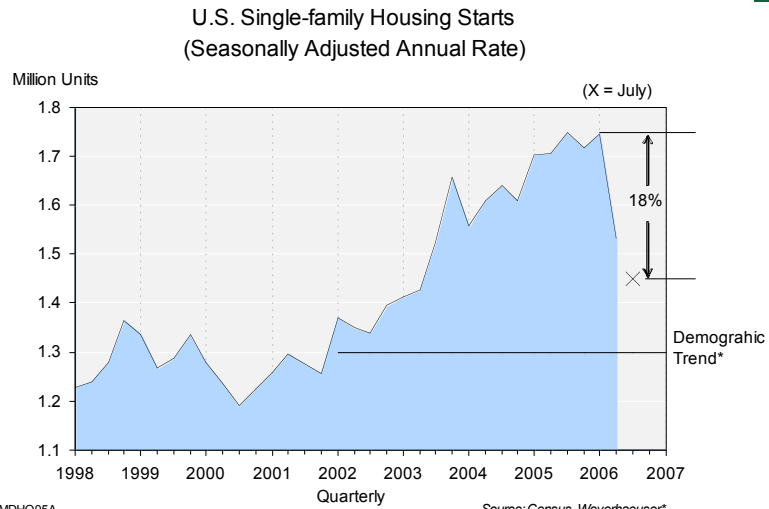
QMDHO80B

12

\\presentation\customer\2006\FTA 92006

Weyerhaeuser
The future is growing™

Given supply situation, starts will continue to fall



QMDHO05A

Source: Census, Weyerhaeuser*

13

\\presentation\customer\2006\FTA 92006

Weyerhaeuser
The future is growing™

Mortgage news clippings

How Toxic Is Your Mortgage?

Deceptive loans.
Phantom profits.
And coming soon:
A wave of defaults.



Risky home loan standards tightening

Federal regulators proposed guidance to make it harder to qualify for exotic home loans.

Risky Mortgages Might Receive Tighter Regulation

Hedge funds betting on shaky mortgages

Lenders Try to Keep Mortgage Boom Alive

BY MARK WHITEHOUSE AND GREGORY ZUCKERMAN
The Wall Street Journal

Cracks are appearing in the foundation of the U.S. mortgage market. Homeowners' credit starts to look shaky — for example, the result of a drop in home prices, if the home is in a neighborhood where prices have fallen. When dealmakers come to market, they often find that the standard contract credit default swap is not working as well as it once did.

Changing Course, Banks Push Borrowers To Switch to Adjustable Loans for Fixed-Rate Ones

Consumers May Be Starting to Bend, Judging by Those Subprime Mortgages

For Home Loan Broker, Troubles Come With Creative Refinancing

Park Place Funding gives borrowers a cut of bounties for high-rate mortgages. For a while, everyone was happy.

14

\\presentation\customer\2006\FTA 92006



“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 2006.2

15

\\presentation\customer\2006\FTA 92006



“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%

16

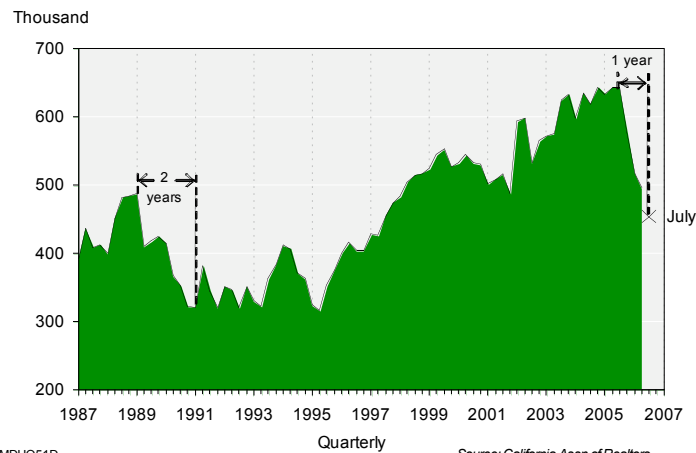
l:\presentation\customer\2006\FTA 92006

 Weyerhaeuser
The future is growing™

Sharper decline in sales versus 1989-91



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



17

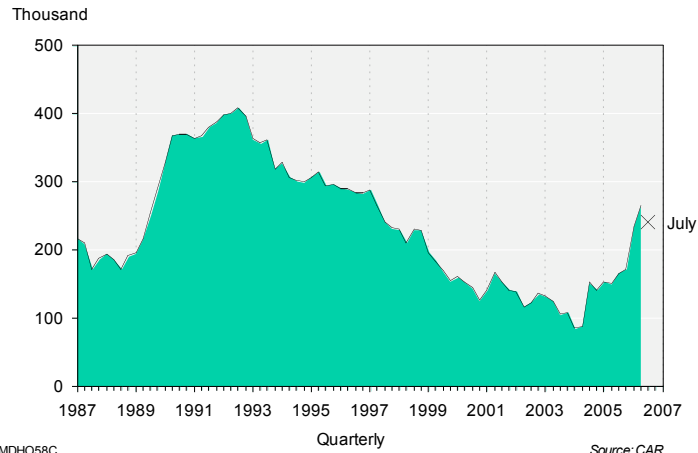
l:\presentation\customer\2006\FTA 92006

 Weyerhaeuser
The future is growing™

How much higher?



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



QMDHO58C

Quarterly

Source: CAR

18

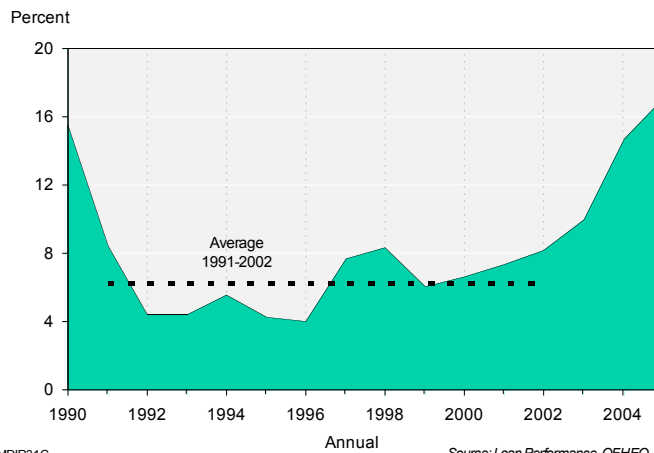
\\presentation\customer\2006\FTA 92006



10% higher than trend



Investor Share of Prime Conventional Conforming Purchase Originations in California



AMDIR31C

Annual

Source: Loan Performance, OFHEO

19

\\presentation\customer\2006\FTA 92006



“Bailers” will add to inventory



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

20

l:\presentation\customer\2006\FTA 92006

 Weyerhaeuser
The future is growing™

Buyers/lenders taking more risk



California Home Mortgage Characteristics (%)

	1998	2003	2004	2005
ARM Share	7	11	31	43
First-time buyers	7	13	36	52
Repeat	7	11	30	36
Buyer w/second mortgage	9	33	29	38
First-time buyers	9	36	57	56
Repeat	9	19	19	27

Source: California Association of Realtors

21

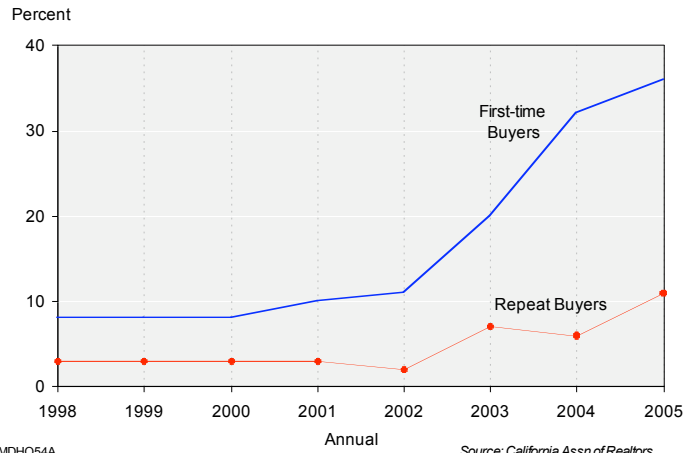
l:\presentation\customer\2006\FTA 92006

 Weyerhaeuser
The future is growing™

Who was watching the store?



Share of California Home Buyers with Zero Down Payment



AMDHO54A

Source: California Assn of Realtors

22

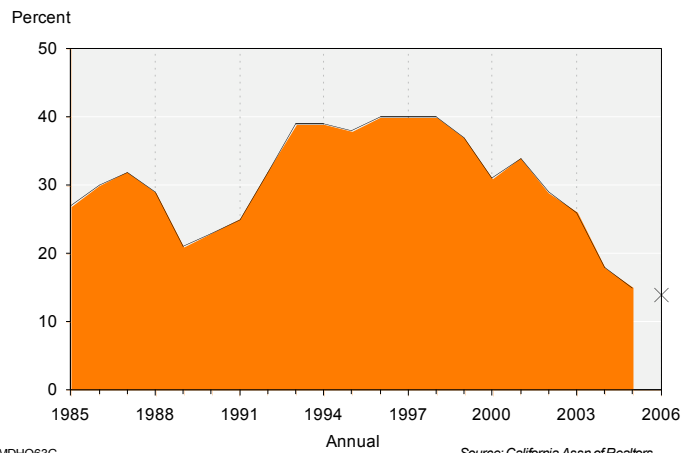
\\presentation\customer\2006\FTA 92006



Record low affordability



Percentage of Households Able to Afford the Median Priced Home in California



AMDHO63G

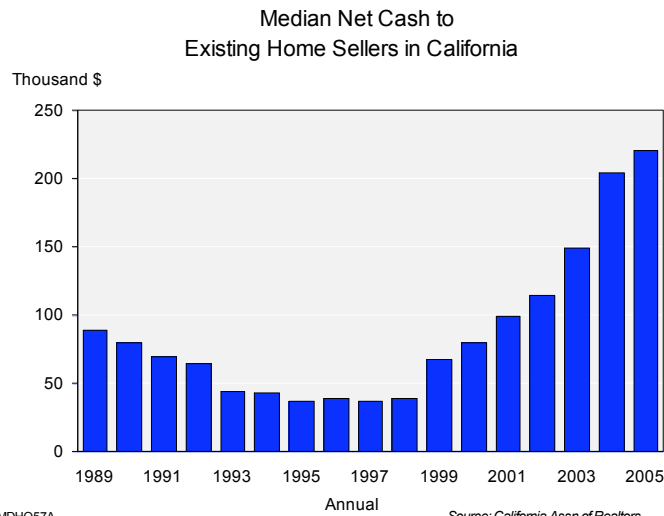
Source: California Assn of Realtors

23

\\presentation\customer\2006\FTA 92006



Driver of move-up and move-out



AMDHO57A

24

\\presentation\customer\2006\FTA 92006

 Weyerhaeuser
The future is growing™

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

25

\\presentation\customer\2006\FTA 92006

 Weyerhaeuser
The future is growing™

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

26

L:\presentation\customer\2006\FTA 92006