



# Helping to Manage Credit Risk for Your Company

**2009 NAWLA Traders Market®**

**November 6, 2009**



## 2009 NAWLA Traders Market 1 Year Later...The Credit Markets Today

### Positives

- Capital markets recovery
  - Debt
  - Equity
- Significant returns realized
- Consumer deleveraging
- Stimulus?
- “Fear” diminished
- Systematic risk mitigated

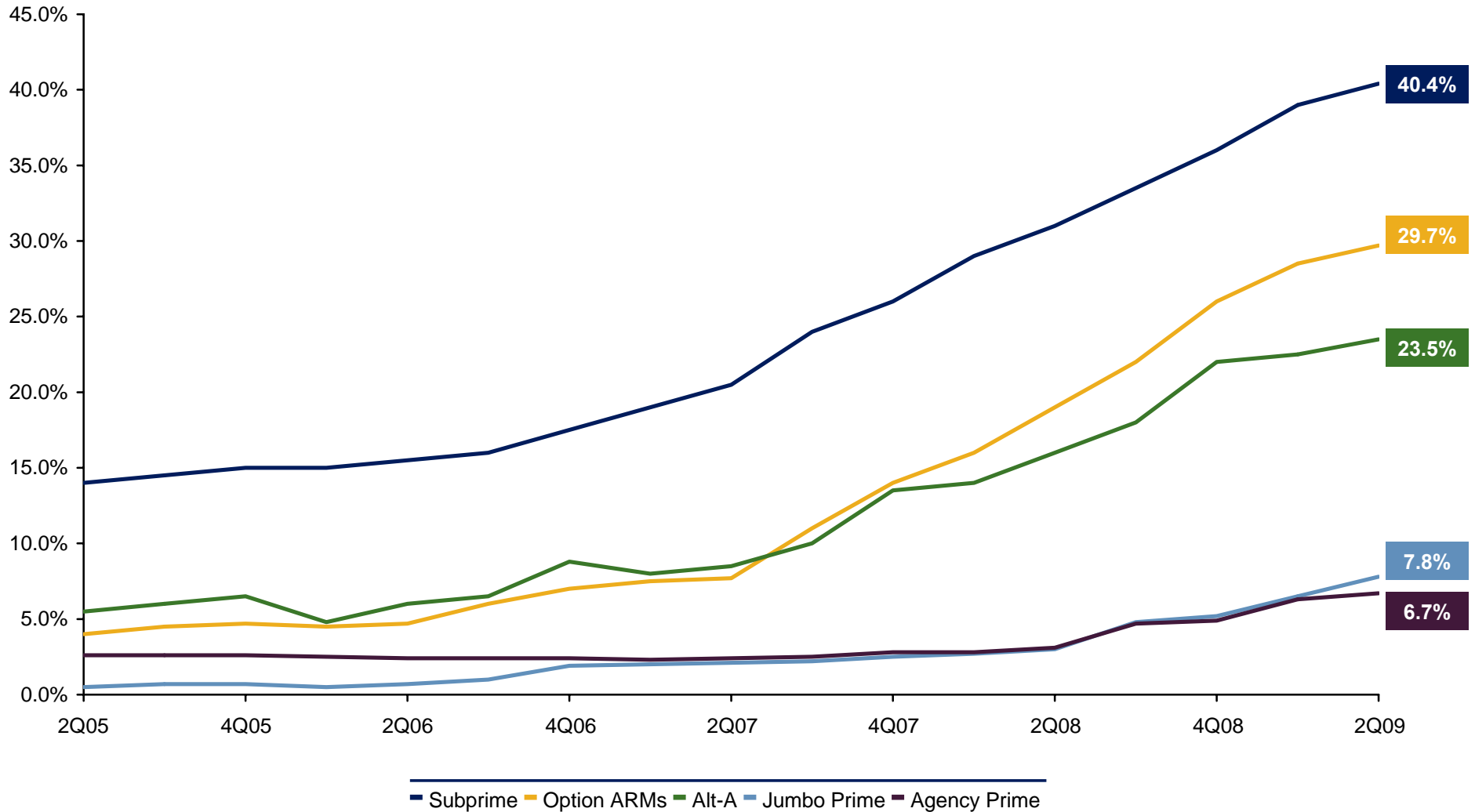
### Negatives

- Continuing credit losses
- Employment weakness
- Foreclosures elevated
- Bank credit markets “slowly” improving
- Recovery largely centered on “costs” equation
- Uneven housing data

← Rate Environment →



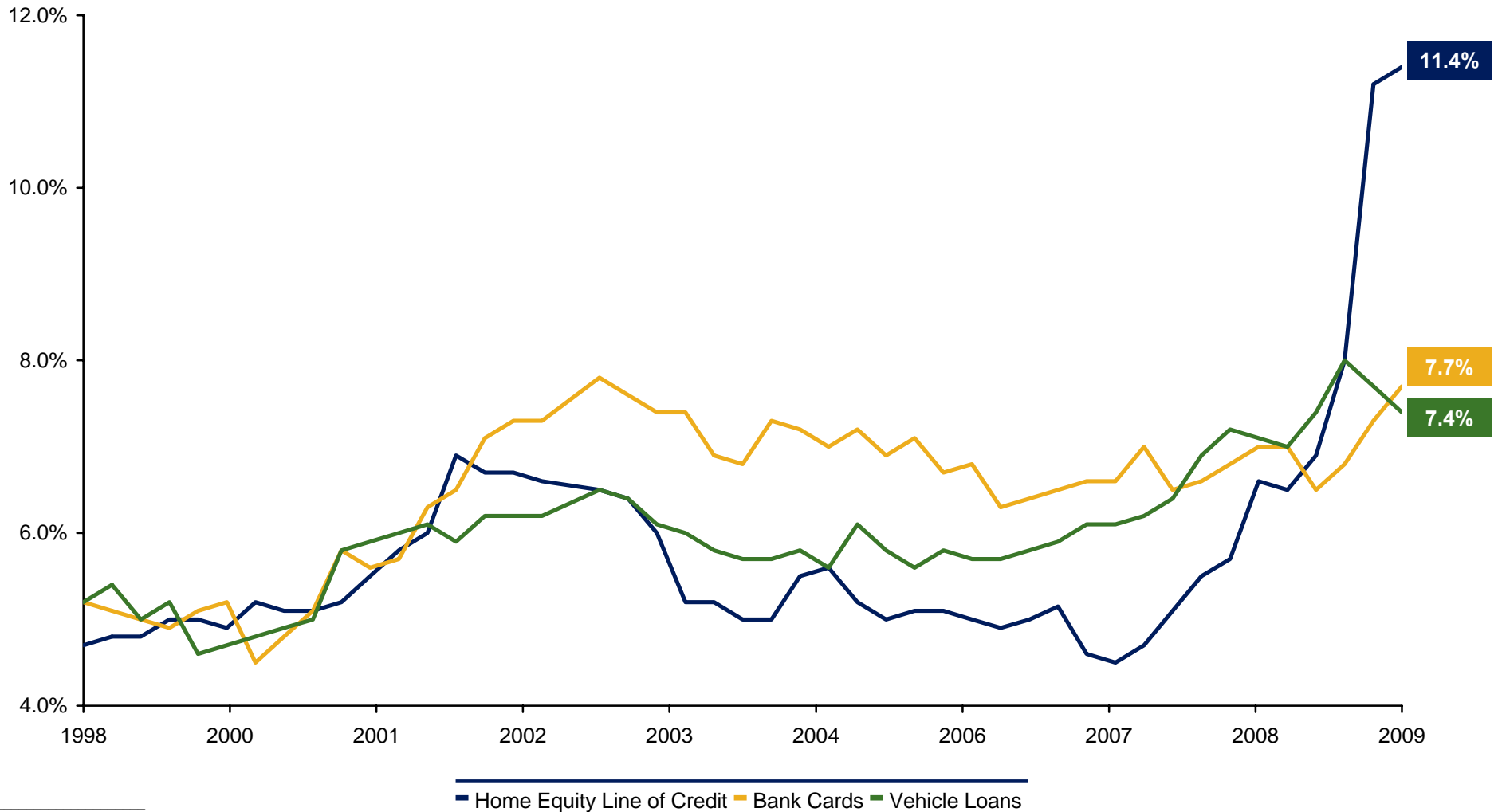
## First The Negatives... Modification Has Not Yet Worked – Non-Performing Mortgages



Sources: MBA, LPS Applied Analytics, RCG.



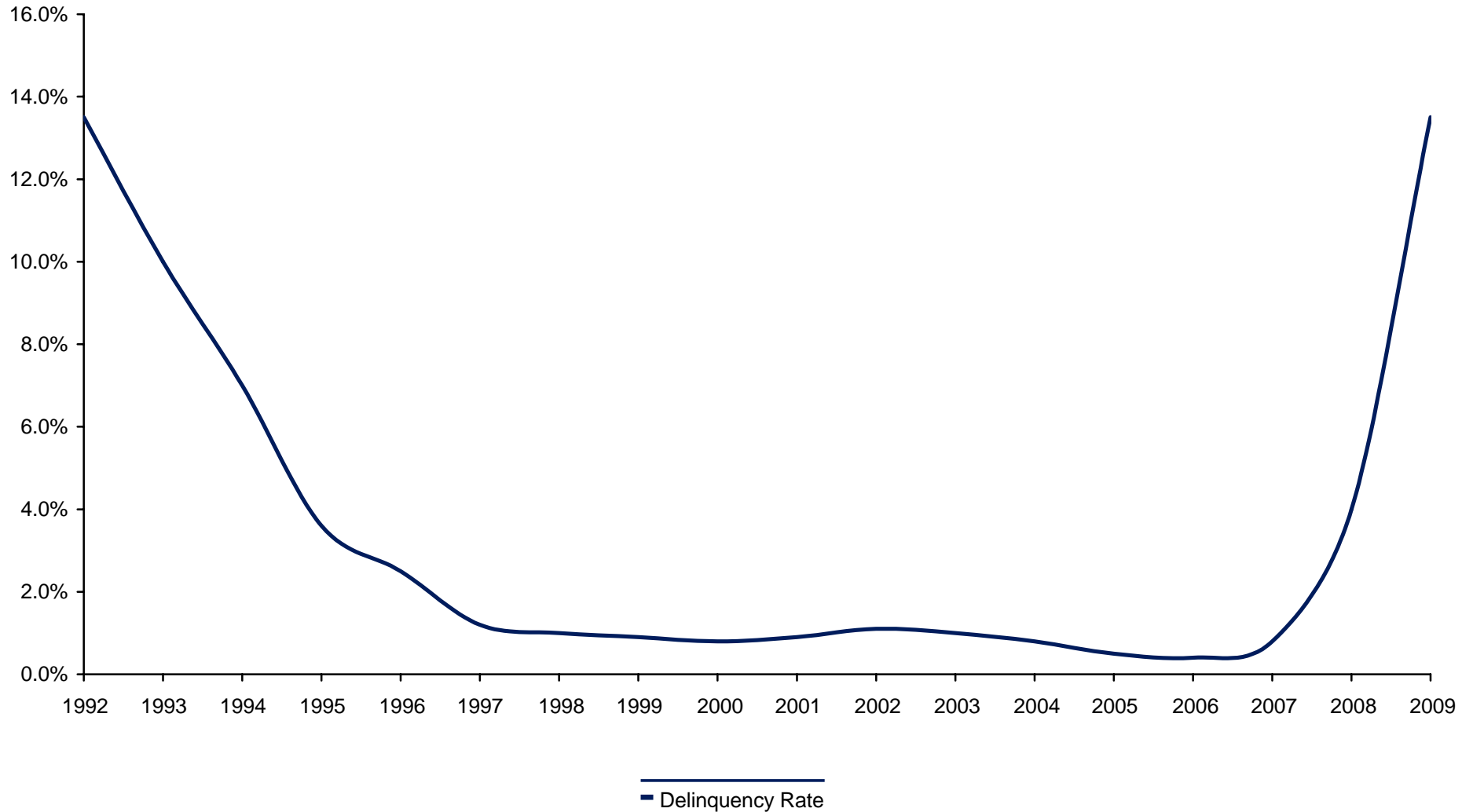
## First The Negatives... Credit Losses Will Continue – Debt Past Due or in Default



Sources: American Bankers Association, Equifax, RCG.  
Note: Latest data as of 2Q09.  
Note: Payments Past Due are those made more than 30 days late.



## First The Negatives... Delinquency RE Construction / Development Loans



Source: FDIC.  
Note: Latest data as of 2Q09. RCG.



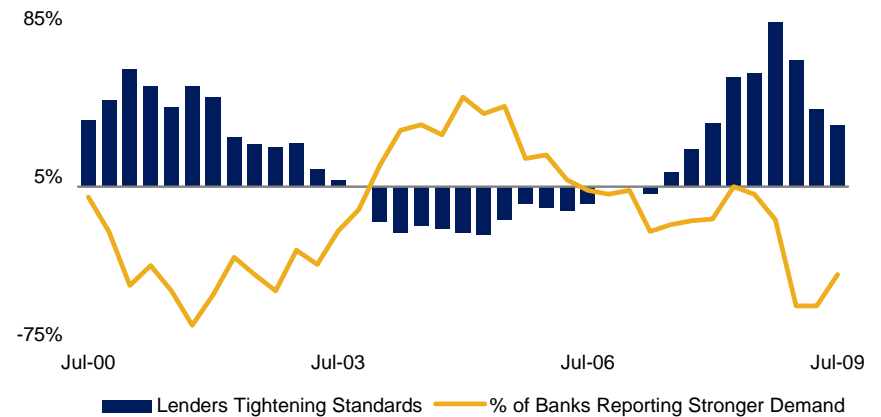
## First The Negatives...

As a Result...Bank Demand Slowly Recovering

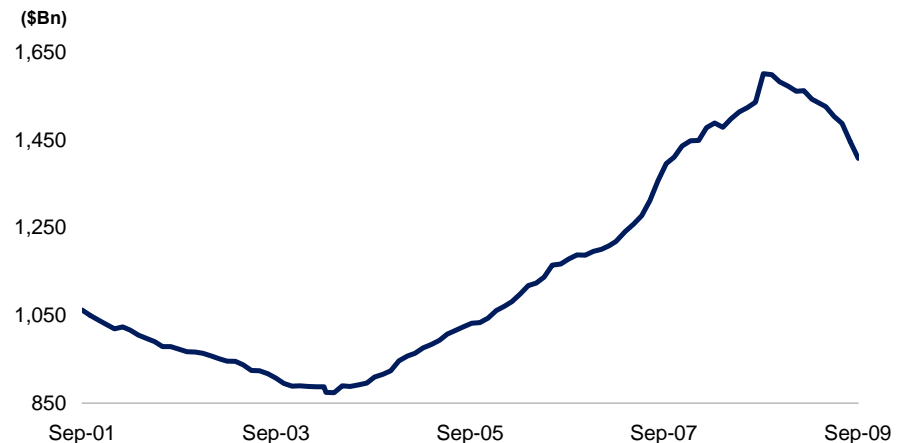
### Signs of Stabilization

- With stress tests and new capital injections completed, bank loan demand slowly re-emerging
- Higher bank spreads / pricing
  - All-in yield essentially unchanged
  - 3M Libor at ~30bps vs. 10 year average of ~350bps
- Structures moderating, but remain tight
- Consolidation of financial sector
  - Reduced lending capacity
- Additional regulation of financial markets

### Banks Continue to Tighten Standards



### U.S. Commercial Bank Outstandings



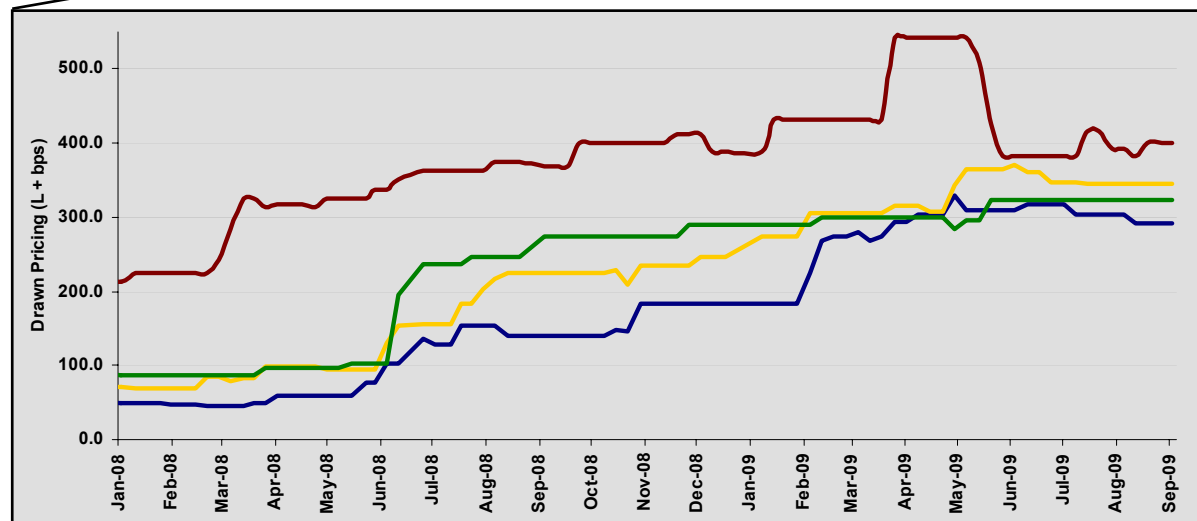
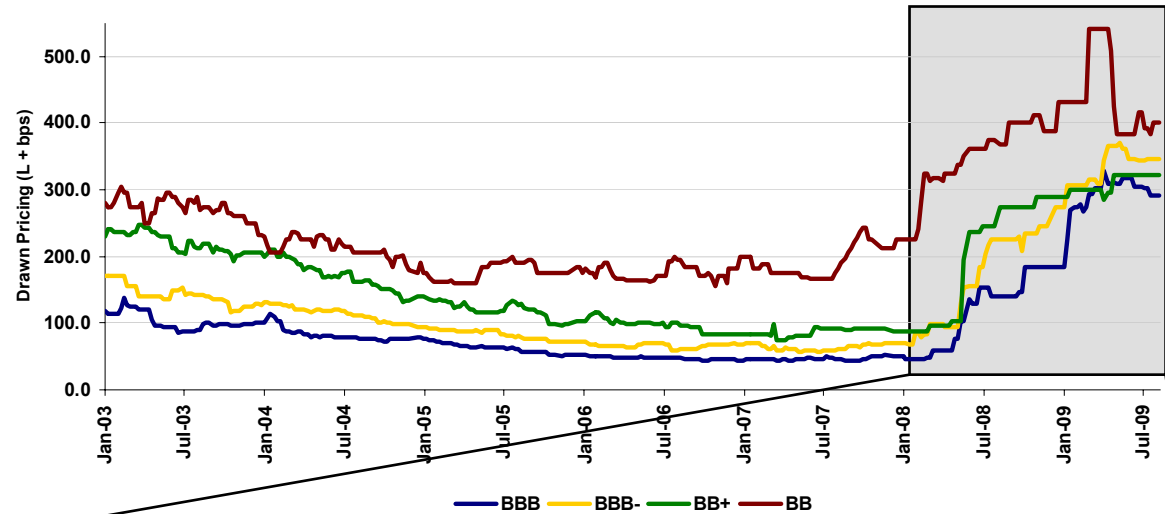


## First The Negatives...

Borrowing Cost in the Bank Market Stabilized at Elevated Levels

### Corporate Syndicated Loan Pricing Trends

- Absolute spreads have stabilized, albeit at elevated levels
- “BBB” Investment Grade loan spreads up 200%
  - 2003: ~100bps
  - Today: ~300bps



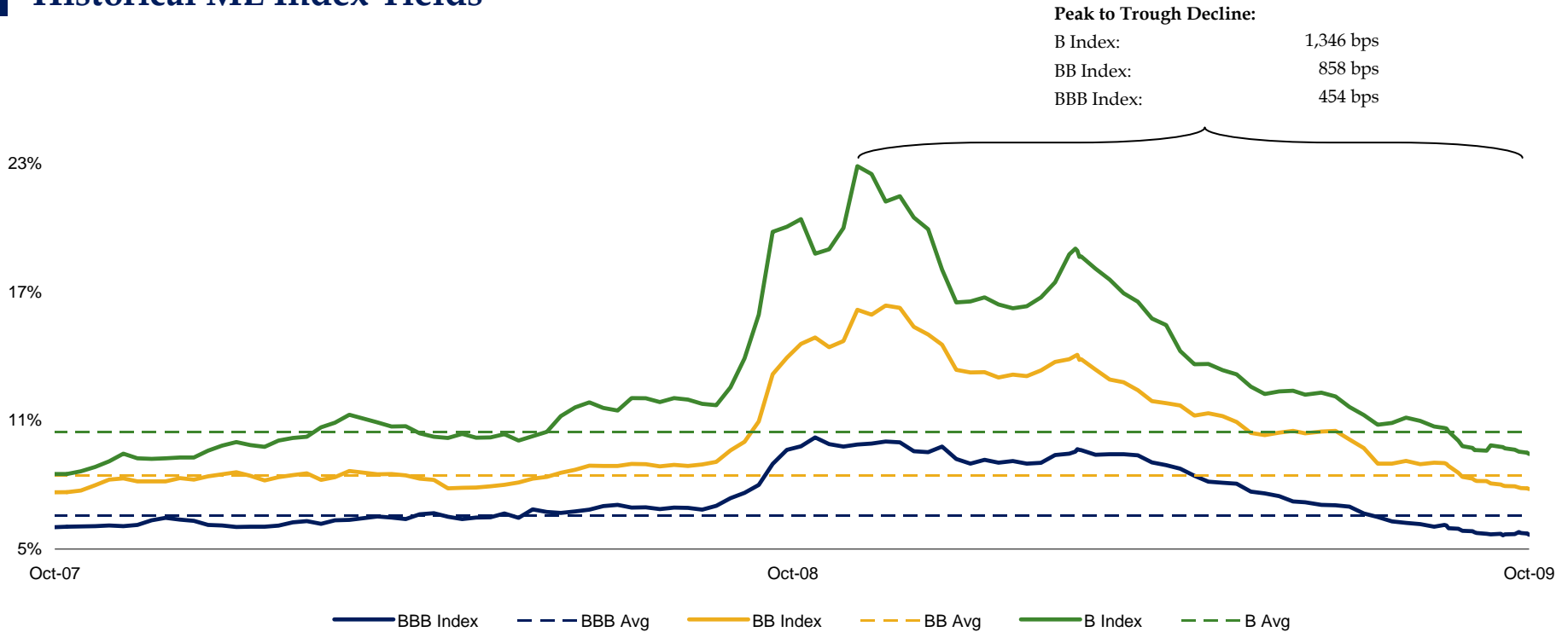


## And the Good News... Debt Capital Market Improved Considerably

### BBB, BB and B Index Historical Yields and Spreads

	Annually					Quarterly					Weekly					Current	Δ12/31/08	Δ 3/31/09	
	12/31/04	12/31/05	12/31/06	12/31/07	12/31/08	09/30/08	12/31/08	03/31/09	06/30/09	09/30/09	09/03/09	09/10/09	09/17/09	09/24/09	10/01/09				10/08/09
BBB Yields	5.06 %	5.66 %	5.98 %	6.28 %	9.65 %	7.88 %	9.65 %	9.40 %	7.20 %	5.68 %	6.05 %	5.97 %	5.85 %	5.75 %	5.68 %	5.69 %	5.67 %	(3.99) %	(0.02) %
BB Yields	5.90 %	7.48 %	6.79 %	8.30 %	14.60 %	10.45 %	14.60 %	12.95 %	10.46 %	8.06 %	9.04 %	8.88 %	8.37 %	8.18 %	8.06 %	7.95 %	7.80 %	(6.80) %	(0.26) %
B Yields	6.74 %	7.96 %	7.75 %	9.40 %	18.14 %	14.63 %	18.14 %	17.11 %	12.25 %	9.85 %	10.73 %	10.50 %	9.81 %	9.62 %	9.85 %	9.70 %	9.44 %	(8.70) %	(0.41) %
BBB Spreads	110 bps	122 bps	123 bps	242 bps	769 bps	446 bps	769 bps	713 bps	420 bps	299 bps	325 bps	318 bps	302 bps	295 bps	299 bps	295 bps	288 bps	(481) bps	(11) bps
BB Spreads	209 bps	305 bps	203 bps	461 bps	1,281 bps	721 bps	1,281 bps	1,088 bps	770 bps	567 bps	652 bps	640 bps	588 bps	571 bps	567 bps	555 bps	538 bps	(743) bps	(29) bps
B Spreads	320 bps	355 bps	300 bps	577 bps	1,641 bps	1,149 bps	1,641 bps	1,519 bps	957 bps	780 bps	852 bps	832 bps	764 bps	750 bps	780 bps	763 bps	737 bps	(904) bps	(44) bps

### Historical ML Index Yields

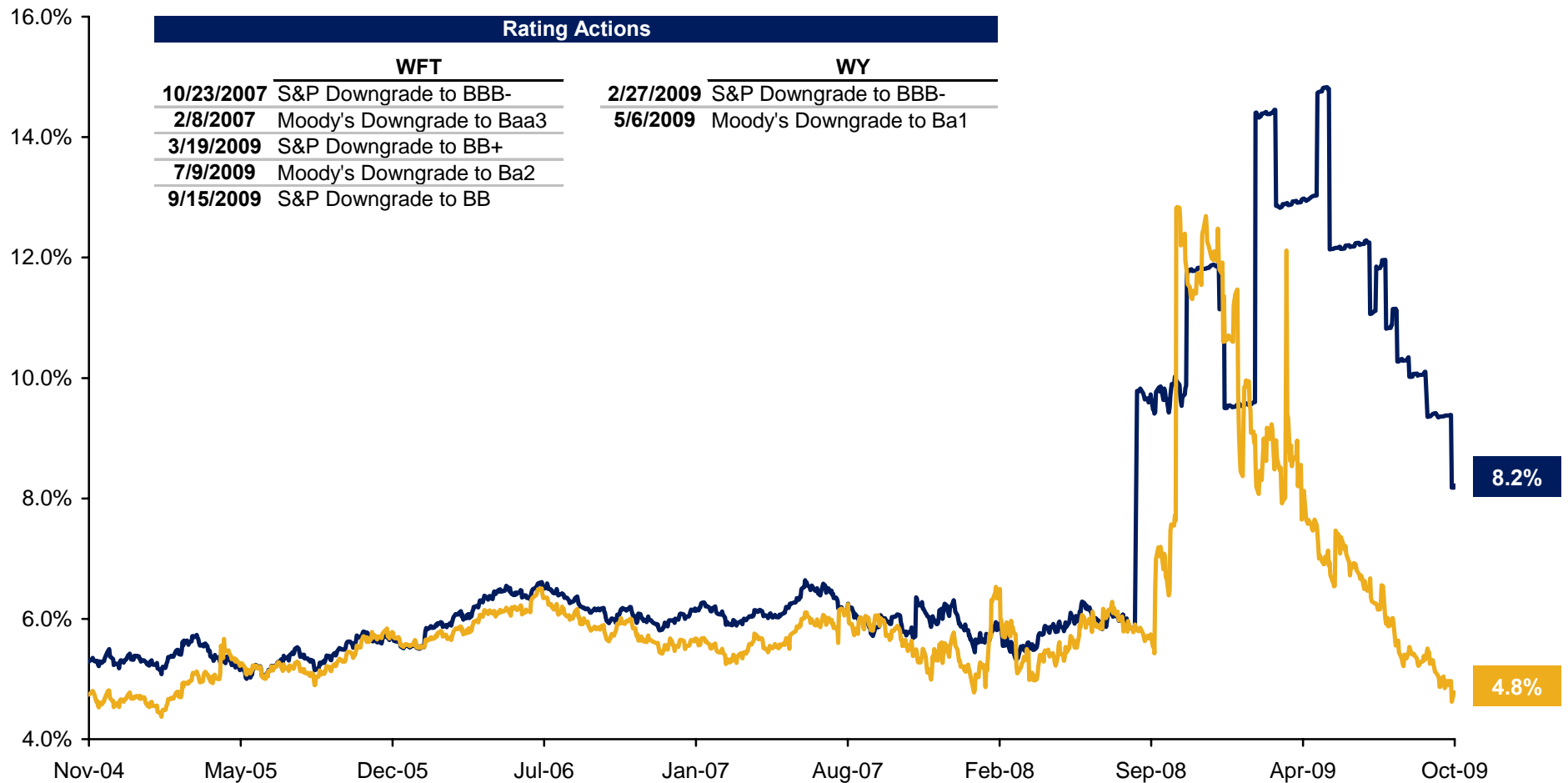




## And the Good News...

Specifically, Lumber Producers Have Seen Improved Public Borrowing Costs

### Yield to Worst



■ West Fraser Timber \$300mm 5.200% Notes due October 15, 2014    ■ Weyerhaeuser \$1.4bn 6.750% Notes due March 15, 2012



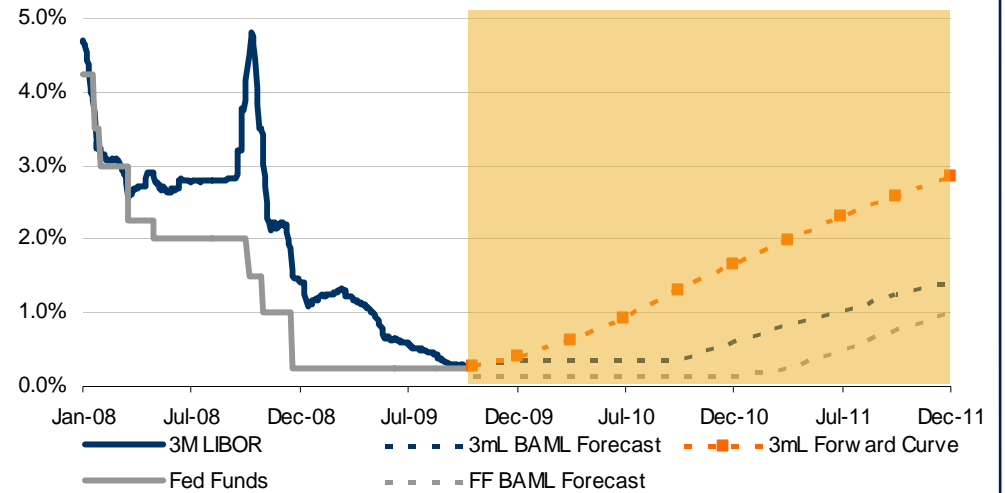
## Going Forward...

### Rates to Rise on Improved Economic Outlook

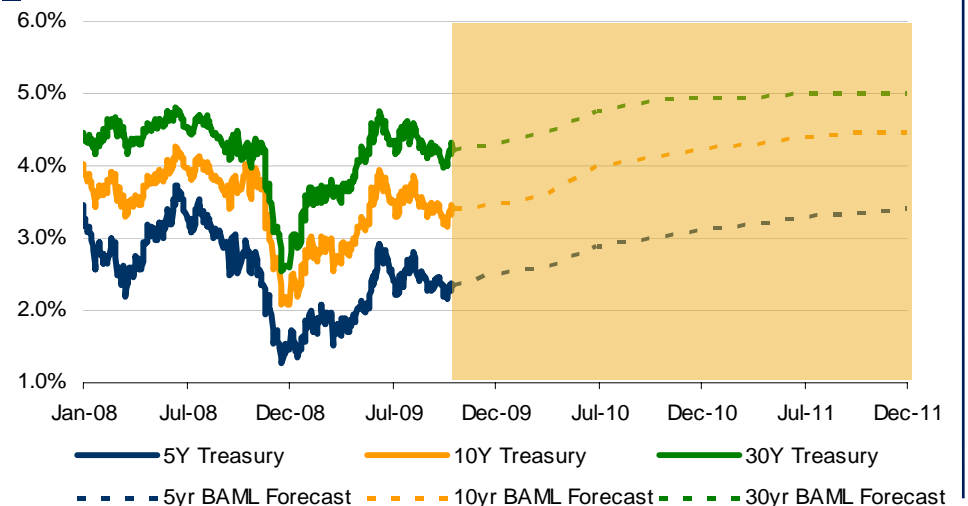
#### Treasury Yields to Rise Going Into 2010...

- In general, economists believe that a sustainable recovery is at hand
  - The Fed will likely raise interest rates in 2011 when core inflation is expected to increase
    - Expectation of 4 hikes of 25 bps each over the course of 2011
- Treasury yields are projected to rise in 2H09 and throughout 2010
  - Front end yields are expected to increase nearly 100 bps by the end of next year
  - The 10-year yield is estimated to reach 4.40% gradually over the course of 2010

#### Implied Fed Funds and 3M LIBOR Rates



#### Treasury Rates: Historical vs. Forecast





## Core Considerations & Recommendations

*Liquidity is Strategic - Current Environment Requires New Approach*

- Remain nimble and move between capital sources
  - Asset-based lending
  - Leasing
  - Traditional bank facilities
  - Capital Markets
  
- Evaluate visibility and strength of bank partners
  - Anticipate higher costs and shorter tenors
  - Understand the credit culture and requirements / metrics for credit extension
  - Maintain multiple contacts within each financial partner



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