

ab

U.S. Homebuilders

David Goldberg
Building & Building Products Analyst
+1-212-713-9427
david-i.goldberg@ubs.com

Analyst Certification and Required Disclosures Begin on Page 30

UBS does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision. Customers of UBS in the United States can receive independent, third-party research on the company or companies covered in this report, at no cost to them, where such research is available. Customers can access this independent research at ubs.com/independentresearch or may call +1 877-208-5700 to request a copy of this research.

Investment Thesis...

- ◆ **Broader Housing Market.** Recovery is 12-18 months away
- ◆ **HB Stocks.** The stocks have run recently, reflecting a combination of 1) short covering; 2) over excitement regarding potential Government intervention

Looking for better entry points, as we expect stocks to pull back 20% or so from current levels

ab

2

Timing for a Trough in Housing

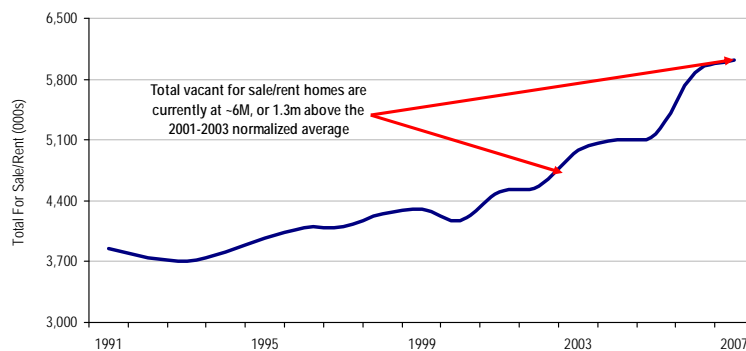
- ◆ Need to get supply and demand in balance
 - Supply: Rising inventories add to already excessive supply
 - Demand: Constrained mortgage liquidity eliminates potential buyers
- ◆ Tighter lending standards on residential construction loans will drive out weaker builders
 - Banks need to put more pressure on smaller, more leveraged companies that rely on shorter duration financing
 - Causes near-term instability but will lead to healthier market over the long-term

ab

3

Excess Supply Persists . . .

We estimate excess supply is currently 1.3 million homes



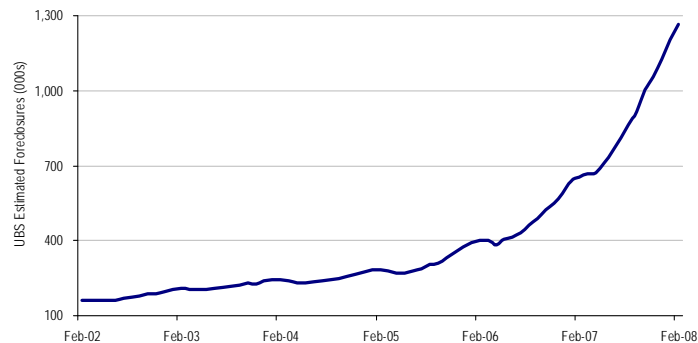
Source: Census Bureau

ab

4

... And Will Likely Grow in 2008

We believe that there are ~1 million additional homes that will end up in foreclosure vs. historical levels



Source: Loan Performance and UBS Estimates

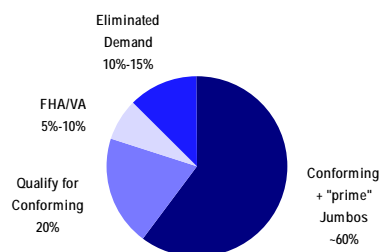
ab

5

Demand Constrained From Mortgage Illiquidity

We expect 10-15% reduction in demand over time as:

- Liquidity remains in place for Conforming and "prime" Jumbos
- ~1/2 of "Non Prime" borrowers qualify for conforming loans
- FHA/VA regain market share



Source: VA, FHA, HUD, Fannie Mae, Freddie Mac, MICA, Inside Mortgage Finance, and UBS estimates

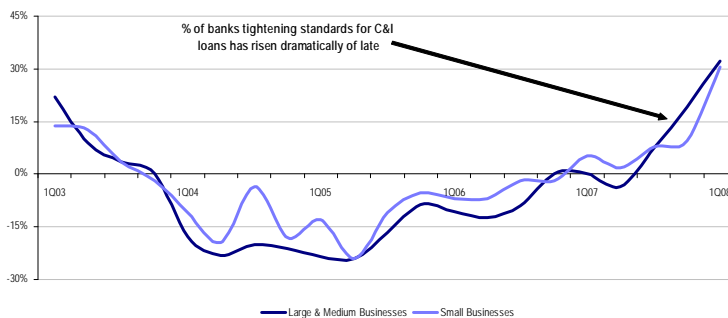
That said, liquidity constraints remain in place today, delaying the timing for nonprime loan constraints to ease

ab

6

Driving Out Weaker Builders

- ◆ Tighter lending standards will drive out less liquid private builders



Source: Federal Reserve

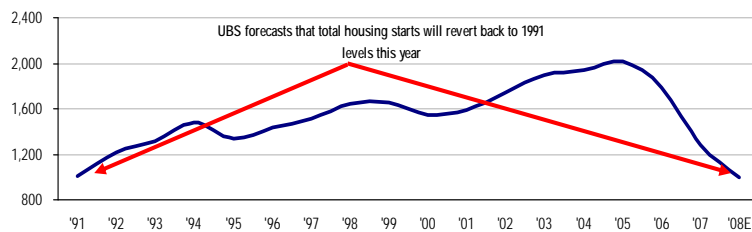
- ◆ We're already starting to see the impact of this unfold with builders like Kimball Hill, Neumann Homes, and Turner & Associates

ab

7

But It's Not All Bad News

- ◆ We're getting more confident in a 2009 trough for fundamentals, as starts are lagging long-term demand



Note: Units/000s

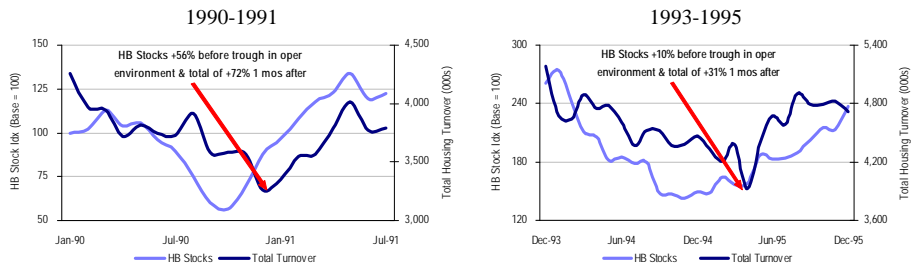
Source: Census Bureau and UBS estimates

ab

8

Why Not Wait It Out?

The stocks turn quickly & before fundamentals

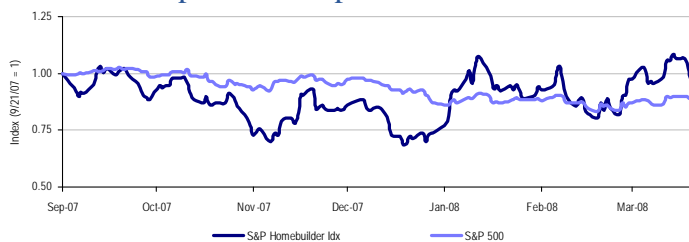


ab

9

Will the Recent Move Hold?

YTD, the HB stocks +25% vs. S&P 500 -9% ;
We expect this outperformance to reverse . . .



Stocks turn 5-6 months before a change in fundamentals

Fundamentals unlikely to change until mid '09

**Stocks will drift down over the next few months,
resulting in attractive entry points**

ab

10

Government Action: Necessary but Not Sufficient

- ◆ Actions taken thus far:
 - Most notable was increasing loan limits for GSE and FHA mortgages, which may provide some liquidity for higher end buyers
 - Changing capital requirements for the GSEs to encourage lending
 - Recently, the White House moved to expand the FHASecure program
- ◆ Proposed legislation currently under debate
 - Stimulus Plan currently being debated in the House and the Senate

ab

11

Legislation in the Pipeline, Part II

- ◆ Most controversial aspects:
 - **Extended NOL carry-back provision for 2008/2009 losses.** Allowing to carry back losses for 4 years vs. 2 today
 - **Revisions to the bankruptcy rules.** Allows a bankruptcy judge to change the terms of a mortgage in a Chapter 13 proceeding.
 - **Congressmen Frank's/Senator Dodd's plans.** Setting aside \$300billion/\$400 billion to fund a full scale bailout through the FHA
- ◆ We believe:
 - Short term actions are insufficient, issue is too massive for quick fix
 - As home prices decline further, a full scale bailout more likely

ab

12

Additional disclosures

For a complete set of disclosure statements associated with the companies discussed in this report, including information on valuation and risk, please contact:

UBS Securities LLC
1285 Avenue of Americas
New York, NY 10019, USA
Attention: Publishing Administration

ab

13

Global Disclaimer

This report has been prepared by UBS Securities LLC, an affiliate of UBS AG. UBS AG, its subsidiaries, branches and affiliates are referred to herein as UBS. In certain countries, UBS AG is referred to as UBS SA.

This report is for distribution only under such circumstances as may be permitted by applicable law. Nothing in this report constitutes a representation that any investment strategy or recommendation contained herein is suitable or appropriate to a recipient's individual circumstances or otherwise constitute a personal recommendation. It is published solely for information purposes, it does not constitute an advertisement and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments in any jurisdiction. No representation or warranty, either express or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein, except with respect to information concerning UBS AG, its subsidiaries and affiliates, nor is it intended to be a complete statement or summary of the securities, markets or developments referred to in the report. UBS does not undertake that investors will obtain profits, nor will it share with investors any investment profits nor accept any liability for any investment losses. Investments involve risks and investors should exercise prudence in making their investment decisions. The report should not be regarded by recipients as a substitute for the exercise of their own judgement. Any opinions expressed in this report are subject to change without notice and may differ or be contrary to opinions expressed by other business areas or groups of UBS as a result of using different assumptions and criteria. Research will initiate, update and cease coverage solely at the discretion of UBS Investment Bank Research Management. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. The analyst(s) responsible for the preparation of this report may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, synthesizing and interpreting market information. UBS is under no obligation to update or keep current the information contained herein. UBS relies on information barriers to control the flow of information contained in one or more areas within UBS, into other areas, units, groups or affiliates of UBS. The compensation of the analyst who prepared this report is determined exclusively by research management and senior management (not including investment banking). Analyst compensation is not based on investment banking revenues, however, compensation may relate to the revenues of UBS Investment Bank as a whole, of which investment banking, sales and trading are a part.

The securities described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. Options, derivative products and futures are not suitable for all investors, and trading in these instruments is considered risky. Mortgage and asset-backed securities may involve a high degree of risk and may be highly volatile in response to fluctuations in interest rates and other market conditions. Past performance is not necessarily indicative of future results. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument mentioned in this report. For investment advice, trade execution or other enquiries, clients should contact their local sales representative. Neither UBS nor any of its affiliates, nor any of UBS' or any of its affiliates, directors, employees or agents accepts any liability for any loss or damage arising out of the use of all or any part of this report. Additional information will be made available upon request.

For financial instruments admitted to trading on an EU regulated market: UBS AG, its affiliates or subsidiaries (excluding UBS Securities LLC and/or UBS Capital Markets LP) acts as a market maker or liquidity provider (in accordance with the interpretation of these terms in the UK) in the financial instruments of the issuer save that where the activity of liquidity provider is carried out in accordance with the definition given to it by the laws and regulations of any other EU jurisdictions, such information is separately disclosed in this research report.

ab

14

Global Disclaimer (cont'd)

United Kingdom and the rest of Europe: Except as otherwise specified herein, this material is communicated by UBS Limited, a subsidiary of UBS AG, to persons who are eligible counterparties or professional clients and is only available to such persons. The information contained herein does not apply to, and should not be relied upon by, retail clients. UBS Limited is authorised and regulated by the Financial Services Authority. **France:** Prepared by UBS Limited and distributed by UBS Limited and UBS Securities France SA. UBS Securities France S.A. is regulated by the Autorité des Marchés Financiers (AMF). Where an analyst of UBS Securities France S.A. has contributed to this report, the report is also deemed to have been prepared by UBS Securities France S.A. **Germany:** Prepared by UBS Limited and distributed by UBS Limited and UBS Deutschland AG. UBS Deutschland AG is regulated by the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin). **Spain:** Prepared by UBS Limited and distributed by UBS Limited and UBS Securities España SV, SA. UBS Securities España SV, SA is regulated by the Comisión Nacional del Mercado de Valores (CNMV). **Turkey:** Prepared by UBS Menkul Değerler AS on behalf of and distributed by UBS Limited. **Russia:** Prepared and distributed by the Moscow Representative Office of UBS Cyprus Moscow Limited. **Switzerland:** Distributed by UBS AG to persons who are institutional investors only. **Italy:** Prepared by UBS Limited and distributed by UBS Limited and UBS Italia Sim S.p.A. UBS Italia Sim S.p.A. is regulated by the Bank of Italy and by the Commissione Nazionale per le Società e la Borsa (CONSOB). Where an analyst of UBS Italia Sim S.p.A. has contributed to this report, the report is also deemed to have been prepared by UBS Italia Sim S.p.A. **South Africa:** UBS South Africa (Pty) Limited (Registration No. 1995/011140/07) is a member of the JSE Limited, the South African Futures Exchange and the Bond Exchange of South Africa. UBS South Africa (Pty) Limited is an authorised Financial Services Provider. Details of its postal and physical address and a list of its directors are available on request or may be accessed at <http://www.ubs.co.za>. **United States:** Distributed to US persons by either UBS Securities LLC or by UBS Financial Services Inc., subsidiaries of UBS AG, or by a group, subsidiary or affiliate of UBS AG that is not registered as a US broker-dealer (a "non-US affiliate"), to major US institutional investors only. UBS Securities LLC or UBS Financial Services Inc. accepts responsibility for the content of a report prepared by another non-US affiliate when distributed to US persons by UBS Securities LLC or UBS Financial Services Inc. All transactions by a US person in the securities mentioned in this report must be effected through UBS Securities LLC or UBS Financial Services Inc., and not through a non-US affiliate. **Canada:** Distributed by UBS Securities Canada Inc., a subsidiary of UBS AG and a member of the principal Canadian stock exchanges & CIPF. A statement of its financial condition and a list of its directors and senior officers will be provided upon request. **Hong Kong:** Distributed by UBS Securities Asia Limited. **Singapore:** Distributed by UBS Securities Pte. Ltd or UBS AG, Singapore Branch. **Japan:** Distributed by UBS Securities Japan Ltd to institutional investors only. **Australia:** Distributed by UBS AG (Holder of Australian Financial Services Licence No. 231087) and UBS Securities Australia Ltd (Holder of Australian Financial Services Licence No. 231098) only to 'Wholesale' clients as defined by s761G of the Corporations Act 2001. **New Zealand:** Distributed by UBS New Zealand Ltd. **China:** Distributed by UBS Securities Co. Limited.

The disclosures contained in research reports produced by UBS Limited shall be governed by and construed in accordance with English law.

UBS specifically prohibits the redistribution of this material in whole or in part without the written permission of UBS and UBS accepts no liability whatsoever for the actions of third parties in this respect. © UBS 2007. The key symbol and UBS are among the registered and unregistered trademarks of UBS. All rights reserved.

ab

15

Contact Information

UBS Securities LLC
1285 Avenue of the Americas
New York, NY 10019

Tel: +1-212-713-2000

www.ubs.com

UBS Securities LLC is a subsidiary of UBS AG.

ab

16