



april 2002

News, Ideas and Growing Knowledge from Temple-Inland Forest Products Corporation



“ Rates could climb to the 7.25-7.50% range by year-end. ”

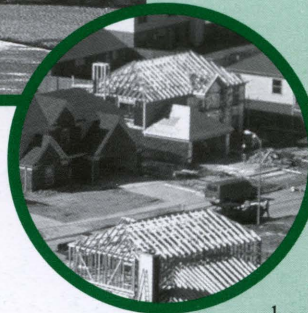
Mortgage rates and demographics fuel housing strength

Many first time and trade-up homebuyers are finding that the best time to buy or build a new home is right now. Mortgage rates are their lowest in years, thanks to the Feds lowering the prime rate a whopping 11 times since December 2000.

The rates home buyers paid for an average 30 year fixed rate mortgage by the end of February 2002 was 6.80 percent, according to Guaranty Bank Senior Vice president Greg Jackson. However, Jackson said, “Rates could climb to the 7.25-7.50% range by year-end. This is consistent with what the Mortgage Bankers Association of America; the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation are all predicting,” he said.

Some significant signs are beginning to appear that the recession that began in March 2001 may be abating. Combined with government spending, indications are that strong consumer purchases that have included autos and housing, have been a factor in cushioning the impact of the recent slowdown. Hopefully, as a number of industries work out their supply side imbalances, business investment will soon revive, adding to economic growth, and moving on to sustainable levels.

Resource Information Systems Inc. (RISI), an important source for economic forecasting and analysis of the forest products industry, is predicting that the U.S. economy will post strong real GDP growth rates in each quarter of 2002.



For 2003, RISI forecasts soft economic growth in the first half and a return to solid growth rates in the second half.

The housing sector so far for this year has been a bright spot. This following 2001, which was a record year for new and existing home sales with single-family housing starts up by nearly four percent. The New Year began with a 7.4 percent rise in January to a seasonally adjusted annual rate of 1,721 million units. Housing starts climbed another 2.8 percent in February to an adjusted annual rate of 1.77 million, its highest rate since December 1998.

What is in store for the industry over the long term?

There is still considerable room for growth with the Boomers continuing their run as the trendsetters they have been for the last 20 years. Now, their offspring, the Echo Boomers are gathering steam as an important segment of the housing market.

(Continued on next page)

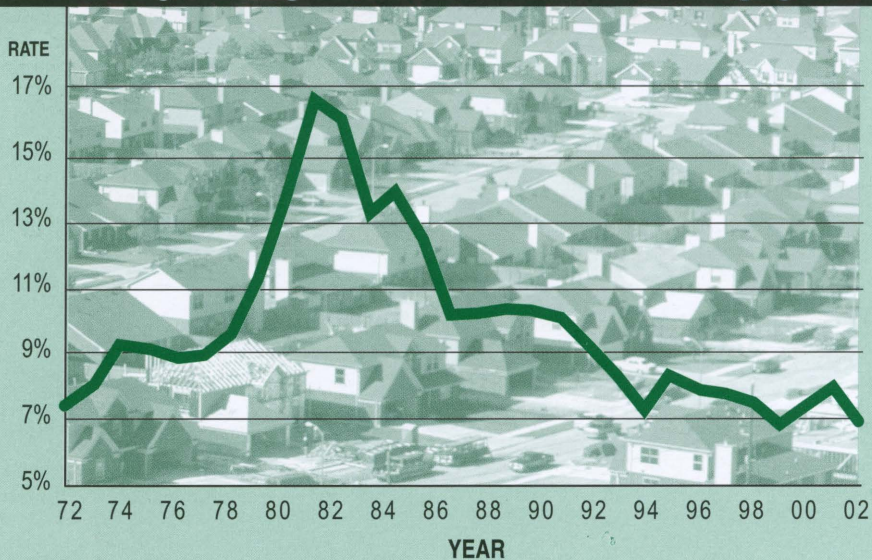
INTOUCH

(continued from previous page)

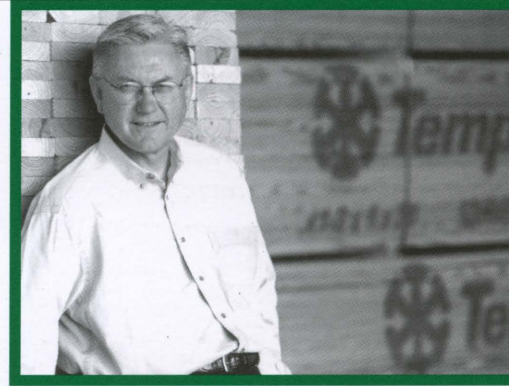
Among the past and future trends reported in *The State of the Nation's Housing, 2001*, of the Joint Center for Housing Studies of Harvard University:

- ▶ As the oldest of the echo boomers reach young adulthood, they will drive up demand for apartments and starter homes. The baby boomers, meanwhile, will be well within their peak earning years, strengthening demand for second and trade-up homes, as well as for luxury apartments. The number of households' aged 45 to 64 will climb by more than 10 million over the decade. The echo boomers will form about 20 million new households, bolstering demand.
- ▶ The fastest growing household type will be married couples without minor children living at home. Single-person households will be the second fastest growing household type. Of the nearly 5 million one-person households added over the decade, almost one-third will be over the age of 65. The number of single-parent households, and married couples with children, are expected to hold steady.
- ▶ The minority share of US households will likely grow from 25 percent in 2000 to about 29 percent by 2010. Minorities will account for about two-thirds of household growth over the next ten years. Much of this increase will come from the Hispanic population.
- ▶ Since 1995, the foreign-born have contributed fully a third of household growth in the nation, a trend with particular significance for the Northeast where their numbers account for more than half of household growth.
- ▶ Housing affordability problems may well worsen over the coming decade. Because of their lower average incomes and wealth, many minority households will face special challenges affording higher rents and achieving homeownership.
- ▶ Between 1993 and 2000 the inflation adjusted price increase for housing was 16 percent. Appreciation in housing prices outpaced general inflation for seven consecutive years. Owners' real incomes were up two percent in 2000, but real house prices rose four percent and typical after-tax monthly mortgage payments jumped 10 percent. In fact, tax adjusted housing costs as a share of income were 8 percent higher for buyers in 2000 than in 1999. As a result, buyers in 2000 saw higher housing costs consume nearly all their income gains.

Monthly Average 30-Year Fixed Rate Mortgages



Source: Freddie Mac



Jack Sweeny, president and chief operating officer of Temple-Inland Forest Products Corporation

A Letter From the President

As part of my first *InTouch* letter as president and chief operating officer, I want to take a moment to thank you for your commitment and effort to make our company so successful in the past. The tie that binds all of us together is the search for excellence in our business, our commitment to our customer, and the quality products we produce.

We work in a capital intensive and cyclical business, so we must focus on the strategies and operating fundamentals necessary to be successful in this environment over the coming years.

We now have the manufacturing system in place and the customer base necessary to exceed the peak earnings achieved in 1999. I am confident that we are capable of producing earnings of between \$250 and \$300 million during the next cyclical upturn in our business.

I plan to take every opportunity to share with you our strategic vision and provide insights on how we can become even stronger and more successful in the future.

Here are a few of the priorities I believe we should focus on:

- ◆ First we must continue to work to restore the earnings capacity of Temple-Inland Forest Products Corporation. It does appear the

economy is improving and some pricing power is returning to our product mix. However, we still operate in an environment of over-capacity in every product we produce and that will tend to be a constraint on future price increases.

◆ A second priority is to build a business culture based on continuous learning. I will expect our management team to communicate to every employee the elements necessary to build a learning organization.

◆ Finally, here are several priorities that I will spend my time working on over the coming months:

- Foster feedback, which will let people know how they are doing.
- Insist on accountability in all we do.
- Establish open and visible performance expectations.
- Develop leaders and successors to strengthen our organization for the future.

As in the past, our future success is based on our efforts. I know we are more than capable of meeting the challenges of the future and I look forward to working with you over the coming years.

--Jack Sweeney

Six Sigma: Adding the voice of the customer to CPI

Six Sigma. Say it fast and it sounds like the name of a fraternity. Take a look at its organizational structure with its champions, master black belts, and black, green and brown belts, and the program reminds you of the martial arts -- and this just might be closer to its purpose.

Six Sigma is bringing a new vision to Temple by focusing on improving the processes that the customer values most. It is also taking continuous process improvement into the 21st century while also moving the company to the next level as a learning organization.

According to Panel Products Vice President John McClain, "Six Sigma is probably the single most important effort Temple has taken on as a company. Our future and competitive existence depends on its success."



Pictured from left are Electrical Supervisor James Foster; CPI Engineer Robert O'Banion; Planer Operator Jim Crow; and Solid Wood CPI Manager Bill Fullmer, who are all members of a Six Sigma project team working at increasing uptime at Pineland Lumber Operation's planer mill. The goal of the project is to increase the volume of lumber products produced at the plant, and provide a more consistent flow of products and improve product-forecasting ability to meet customer requirements. Fullmer was the black belt for the project.

Because the program promises immediate results, it brings obvious advantages during difficult times. The new initiative is being implemented against the backdrop of tough markets for all Temple's products brought about by increasing foreign competition and overcapacity throughout the building products industry. Yet because of a resilient housing market, sustained by low interest rates, the market still holds many opportunities, which Six Sigma can help capture.

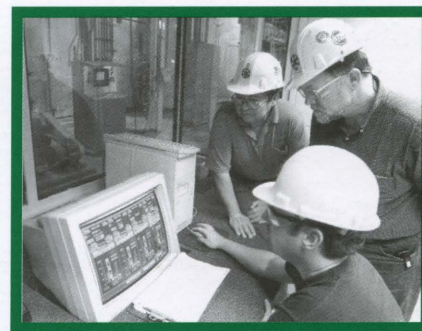
What's different about Six Sigma?

Deeper than traditional Continuous Process Improvement (CPI) programs, the goals of Six Sigma are tied directly to the needs of the customer and to the

company's financial results. Because of its need to get constant feedback from the customer, the program incorporates sales and marketing in its overall concept. Vice President Panel Products Marketing Jim Rush said, "This is not just a new project, but a way of doing business, and an attitude."

It also places a broader emphasis on knowledge based assessment with more rigorous training and higher levels of attainment. Gypsum Operations Manager Jim McNeer, Jr., said, "But the biggest difference is in its vision of focusing on what the customer wants and aligning our products and services to match."

What the program means for employees is increased knowledge, participation and empowerment in a team effort that helps add value for Temple's customers. With the program's reliance on fact based management, team members will be taught to use statistical process control and other tools in selecting and completing projects.



Diboll Fiber Products Kiln Operator Joe Ybarra and CPI Manager Mike Gipson (standing), watch as Kiln Operator Alan Burnett checks the temperature of the plant's kiln. Gipson is the black belt for a Six Sigma project that is investigating optimum kiln operating temperatures that will lead to improved product quality and less waste.

McClain said, "Employees are the key to the success of this program. One of the major changes," he said, "is that we will be working on a process basis instead of after the fact. Using this proactive concept means asking new questions to uncover the true performance of our processes and our business."

(continued on next page)

INTOUCH

(continued from previous page)

To date, more than 87 team members have received training. Now in its second phase, the program is being rolled out at the plants with a series of green belt training sessions planned for 2002.

"We expect to see immediate results. During training, black belt candidates are required to complete projects in order to become certified, so results of this program should come quickly," McClain said.



SPEC SHEET: Thomson Particleboard Operation

The 260,000 square foot Thomson Particleboard Operation is located in Thomson, Georgia. The facility produces industrial grade particleboard, marketed as TemStock™, which is used primarily in the manufacture of kitchen cabinets, countertops, furniture and store fixtures. The plant is able to produce up to 145 million square feet of 3/4 inch-based board annually.

Front Row: (l to r) : Steve Hardin, sales coordinator; Brad Thompson, safety manager; Glenn Stephens, finishing superintendent; Colin Cameron, CPI manager; Wayne Watkins, finishing supervisor

Back Row: Boyd Lake, human resources manager; Tony Amerson, electrical engineer; Mike McTier, forklift operator; Deon Boyd, forklift operator; Patti Ayer, maintenance planner; Steve Smith, production superintendent; Mark Shelton, M&D operator; Chris Aldred, environmental coordinator; Craig Chapman, general laborer; Leroy Moss, saw operator; Al Smith, press operator; and Sonya Ware, CPI engineer

PEOPLE ON THE MOVE

Promotions

Temple

Mktg., Credit & Transportation: C. Higgins, account manager; Vicky D. Johnson, account representative; Lawrence O. McMinimy, account representative; Jeff A. Styerwalt, account manager

Del-Tin Fiber L. L. C.: Jose A. Covas, production superintendent; Gary D. Griffis, plant manager

Mt. Jewett Particleboard: Rahul D Aganwal, CPI manager

Standard Gypsum LLC:

Cumberland: James M. Andrews, relief foreman

New Hires

Temple-Inland Investment:

Ronnie L Dinwiddie, systems admin. - Unix Inter.

Temple-Inland Forest Products:

Corporate: Dale W. Forsythe, computer operator – inter.; Curtis L. Hight, computer operator – inter.

Temple:

Del-Tin Fiber LLC: Garry E. Larson, finishing/shipping manager

Pembroke: Michael Ackman, plant engineer

Temple-Inland Forest: Raymond W Sims III, team leader, spatial dev.

InTouch is published monthly by the Corporate Communications Department of Temple-Inland Forest Products Corporation.

Carolyn C. Elmore, Director of Corporate Communications and InTouch Editor

Jay Brittain, Manager of Creative Services and InTouch designer/photographer

Debra M. Turner, Contributing Editor/Writer

For current Temple news and features check the intranet homepage or our websites: temple.com & templeforest.com

©2002 TEMPLE-INLAND FOREST PRODUCTS CORPORATION

TEMPLE AND TEMPLE-INLAND FOREST ARE REGISTERED TRADEMARKS OF TEMPLE-INLAND FOREST PRODUCTS CORPORATION



TEMPLE-INLAND
FOREST PRODUCTS CORPORATION

P.O. Drawer N • Diboll, TX 75941
936-829-1430

PRESORTED
STANDARD
U.S. POSTAGE
PAID
Permit No. 145
Lufkin, Texas
75901