RCT BULLETIN

RCT PRODUCT® UPDATE BULLETIN
2nd Quarter 2011

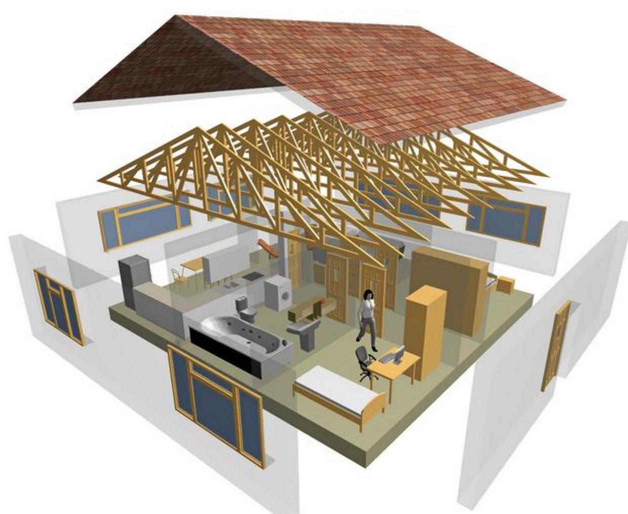
MSB is pleased to provide you with an overview of the updates and enhancements in the 2nd Quarter 2011 release of RCT®. This overview will provide you with an understanding of this quarter's changes in residential building costs as well as any enhancements to the RCT software.

To ensure that our clients receive the most current building material and labor costs, MSB continually researches labor, material, and equipment costs (hard costs) plus mark-ups, taxes, and fringes (soft costs) for reconstruction work performed for the insurance industry in the United States and Canada. Research professionals monitor data from nearly 3,000 unique economies in the United States and over 100 in Canada.

The process includes monitoring demographics and econometric statistics, government indicators, localization requirements, markets trends as well as:

- Wage rates for more than 85 union and non-union trades
- Over 100,000 line items of construction data
- Productivity rates and crew sizes
- Local cost concerns such as building code requirements and other localized variables

In addition, we validate cost data by analyzing field inspections records, contractor estimates, phone surveys, and partial and full loss claim information.



NOTE: The cost information in this bulletin is only intended to give you a *general sense* of reconstruction cost trends in North America. We do not advocate using these factors for adjusting renewal values for specific locations or across your book of business. The building material and labor cost trends presented in this bulletin are broad averages derived from our research of construction trades and building materials used in a typical, 2,400 square foot, single family, 2-story home and does not translate into the property specific localized, detailed results calculated by RCT.

For more information or explanation, please contact your sales consultant or account manager.

MSB® Marshall & Swift/Boeckh

RCT PRODUCT® UPDATE BULLETIN

2nd Quarter 2011

U.S.

QUARTERLY MATERIAL COST CHANGES

ROMEX® WIRE

6.2%

PLYWOOD

2.9%

LUMBER

1.0%

COPPER PIPE

4.1%

READY MIX

1.1%

FELT

0.6%

SHINGLES

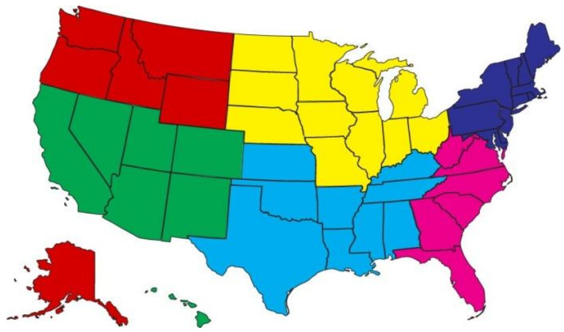
0.1%

INSULATION

4.5%

DRYWALL

0.5%



U.S. Regional Quarterly Cost Changes:
2nd Quarter 2011 compared to 1st Quarter 2011

Northwest	0.49%
Southwest	0.47%
Northeast	0.53%
Southeast	0.20%
North Central	0.50%
South Central	0.18%

National Average: 0.41%

U.S. Regional Weighted RCT Cost Changes

The 1st quarter of 2011 continued to see rising copper prices due to shortages in raw materials at the copper mines. Over the last quarter, Romex® and copper pipe were again among the largest increases at 6.2% and 4.1% respectively and 27.6% and 18.5% for the year. Shingle distributors are anticipating an increase in the 2nd quarter, as manufacturers' price increases start to hit the consumer market. The extension of warranties from 30-year to lifetime by most manufacturers will likely play a role, along with increasing crude oil prices. Raw material prices on steel have also been increasing, which is leading to higher prices on most steel products. Lumber prices remained stable this quarter, as foreign buyers kept the bottom from falling out of the market. The prices are being set by the foreign markets and not the North American market and, with no change in sight, this may continue to be the case until the U.S. can pull itself out of the construction slump.

The average change for U.S. building materials was 1.5% for the quarter. For labor, the average wage rate increased 0.6% for the quarter based on construction trade contracts that expired and were renewed during the quarter. A snapshot of some of the most common elements MSB monitors is listed below:

US	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11
Romex® Wire	-23.8	0.4	11.5	3.5	10.9	3.8	4.5	6.2
1/2" Plywood	-8.3	-2.6	3.5	2.1	15.9	4.9	-3.0	-2.9
2x4 Lumber	-6.2	0.7	1.5	2.7	11.9	0.8	-3.6	1.0
1/2" Copper Pipe	-23.5	-2.1	5.3	3.1	6.1	3.3	3.8	4.1
Ready Mix	-0.3	-1.1	0.9	0.5	-2.0	-1.0	0.8	1.1
Asphalt Felt 15#	-2.9	-4.2	-3.7	-1.8	-3.2	-1.6	-1.6	-0.6
Asphalt Shingles 25 yr, 3 tab	5.1	2.5	-2.4	-0.4	0.5	0.6	-1.1	0.1
R-13 Fiber Batt Insulation	-7.6	-4.3	-1.0	1.0	-3.7	3.8	2.4	4.5
1/2" Drywall	-4.5	-3.4	-2.4	-0.9	1.2	2.6	1.3	0.5

*Aggregate Material Index of the nine most commonly used building materials – Residential

** This table represents the percent change from one quarter to the next period. It replaces the previous methods of reporting the rolling average for the previous three months.

TECHNICAL SUPPORT: 1-888-370-8324 7 a.m. to 7 p.m. CT ◆ **MSBHelpdesk@msbinfo.com**

Marshall & Swift/Boeckh

CANADA

QUARTERLY MATERIAL COST CHANGES

COPPER WIRE

4.3%

PLYWOOD

3.0%

LUMBER

1.5%

COPPER PIPE

2.8%

READY MIX

2.5%

FELT

0.3%

SHINGLES

0.7%

INSULATION

0.8%

DRYWALL

0.1%

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2nd Quarter 2011

Canada Regional Quarterly Cost Changes
2nd Quarter 2011 compared to 1st Quarter 2011

North	0.48%
West	0.54%
Central	0.53%
Atlantic	0.65%
National Average:	0.55%

Canada Regional RCT Cost Changes

The 1st quarter of 2011 continued to see rising copper prices due to shortages in raw materials at the mines. Copper wire and copper pipe were again among the largest increases at 4.3% and 2.8% respectively for the quarter and 12.1% and 13.5% for the year. The events in Japan will actually slow the demand for copper temporarily before ramping it up in the 3rd and 4th quarters when the wide-scale reconstruction begins.

The same is to be seen with lumber prices. As cleanup begins and a rebuilding effort is getting underway, plywood and narrows should be the first to swing upward from the disaster. Oil! Oil! Oil! This cry is ringing loud and clear with the prices of most construction materials. This is especially true for the heavily oil dependent shingle market. It is being hit not only with material increases, but added fuel surcharges as well. We can expect these material increases in the coming quarters as the current inventories are depleted.

The average change for Canadian building materials was 1.0% for the quarter. For labor, the average wage rate increased 1.4% for the quarter based on the construction trade contracts that expired and were renewed during the quarter. A snapshot of some of the most common elements MSB monitors is listed below:

CANADA	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11
Copper Wire	-11.2	-5.7	-1.0	1.6	4.6	0.2	2.4	4.3
1/2" Plywood	-3.2	4.0	4.3	0.5	1.8	0.7	-3.0	-3.0
2x4 Lumber	-5.2	1.3	1.7	1.7	4.8	2.0	-2.9	-1.5
1/2" Copper Pipe	-3.0	-5.0	0.1	4.6	6.4	2.5	1.3	2.8
Ready Mix	1.2	0.0	0.8	2.1	-1.8	-0.7	2.8	2.5
Asphalt Felt 15#	3.2	5.2	0.6	0.1	-0.3	-2.2	-1.0	-0.3
Asphalt Shingles 25yr, 3-tab	-0.8	-1.8	0.1	-0.1	-0.8	-0.9	-0.8	0.7
R-13 Fiber Batt Insulation	-1.5	-1.5	-0.6	-0.5	0.9	0.8	-2.0	-0.8
1/2" Drywall	-1.3	-1.9	-0.7	0.4	2.1	0.1	-1.5	0.1

*Aggregate Material Index of the nine most commonly used building materials – Residential
**This table represents the percent change from one quarter to the next period. It replaces the previous methods of reporting the rolling average for the previous three months.

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U.S.

ANNUAL MATERIAL COST CHANGES

ROMEX® WIRE

27.6%

PLYWOOD

14.5%

LUMBER

9.9%

COPPER PIPE

18.5%

READY MIX

1.2%

FELT

6.9%

SHINGLES

0.1%

INSULATION

7.0%

DRYWALL

5.6%

RCT Software Updates for this Quarter

NOTE: **MSB recommends a full program install whenever possible to ensure that you have the latest data and program enhancements.**

Cost Data Changes

Main Street, Mobile Manufactured Housing and High Value
The second quarter 2011 cost data update reflects reconstruction cost changes in both labor and material. Standardized costs in this release reflect localized, updated costs, which represent the impact of emerging markets on construction cost trends, as required by economic trends. As part of the 4Q2010 Cost Updates, MSB provided Knowledge Table updates for states which had passed building code regulations requiring interior sprinklers in residential properties. Subsequently, the states of South Carolina and Pennsylvania have reversed their positions concerning sprinkler systems, which had been approved and mandated in earlier legislation. This 2Q2011 update removes the Knowledge Table entries, which supply interior sprinklers for the states of South Carolina and Pennsylvania. This update affects only new valuations created after this update is implemented.

Material Updates

The following new materials and definitions have been added:
High Value
  Trim/Molding, Gingerbread 18” (Percent) (Exterior Walls, Wall Specialties)
  Trim/Molding, Gingerbread 24” (Percent) (Exterior Walls, Wall Specialties)
  Trim/Molding, Gingerbread 36” (Percent) (Exterior Walls, Wall Specialties)

The following material definitions have been updated for clarity:

Mainstreet
  Built-In Garages
  Basement Garage
  Basement Finish Percentage
  Poured Concrete (Exterior Wall Construction)

High Value
  Standard Finish (Foundation\Basement)
  Custom Finish (Foundation\Basement)

High Value Min/Max Entry Value Changes
Changes have been made to the Maximum entry value for 148 RCT High Value materials. The material maximum entry value has been increased to have a higher maximum entry limit to cover a larger quantity for the material selection. This change has no affect or impact on calculations or replacement cost values.

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2nd Quarter 2011

CANADA

ANNUAL MATERIAL COST CHANGES

COPPER WIRE ↑ 12.1%

PLYWOOD ↓ 3.5%

LUMBER ↑ 2.2%

COPPER PIPE ↑ 13.5%

READY MIX ↑ 2.8%

FELT ↓ 3.7%

SHINGLES ↓ 2.0%

INSULATION ↓ 1.0%

DRYWALL ↑ 0.7%

Software Enhancements

Main Street, Mobile Manufactured Housing and High Value
The California Department of Insurance (DOI) has adopted new regulations which require homeowners are provided with a copy of the replacement cost estimate. In compliance with California DOI insurance section 2695.183(g)(1)(2), MSB has added a new report to the RCT Express and Desktop platforms.

A new executable file (DLL) has been added to the RCT Calculation Engine software package, which generates values used to create the homeowner notification report. Documentation for creating a homeowner notification report for both RCT Calculation Engine and Mainframe platforms are available from your MSB Account Manager or from MSB Technical Support.

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