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Impact of Today's Credit Markets on the Economy

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First National Wealth Management

January 25, 2008



The Credit Markets We Know

- Credit Markets – Bond Markets
 - U. S. Treasury Bonds
 - Government Agency Bonds
 - Corporate Bonds and High Yield Bonds
 - Mortgage Securities
 - Municipal Bonds

The “New” Credit Markets

- CDO’s – Collateralized Debt Obligations
- CLO’s – Collateralized Loan Obligations
- CDS – Credit Default Swaps

Real Estate Bubble or Credit Bubble?

- This looks more like a credit bubble
 - Real estate is just one part of it.
 - Subprime is a symptom, not the entire cause
- Can see a bubble developing but hard to know when it will burst.

Low Interest Rates Earlier This Decade

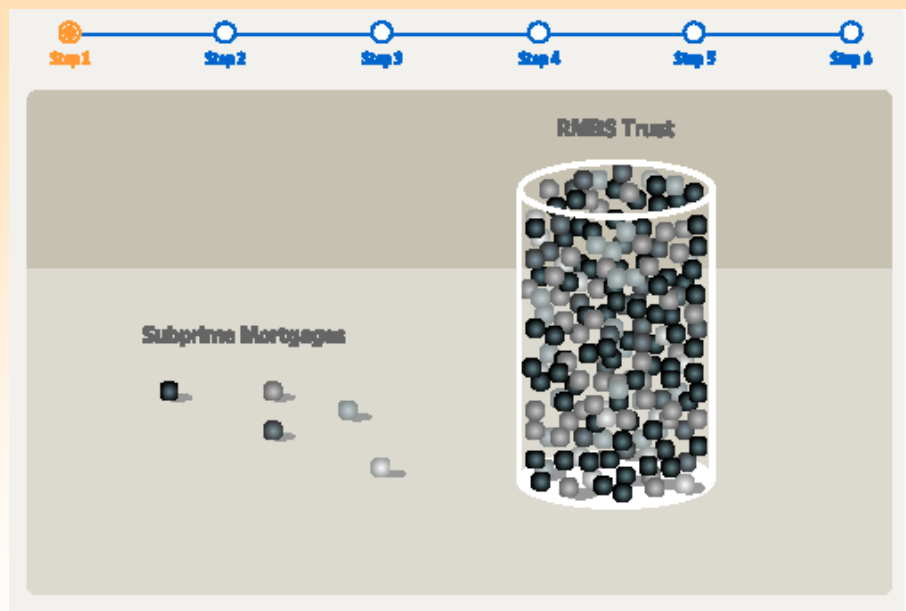
- Lenders needed to find higher yielding assets
 - Lowered lending standards
 - Lent money to borrowers with low credit scores (subprime)
 - Appraisals were inflated.
 - Mortgages were quickly sold rather than held by the originator
- Private equity deals were done easily pushing stock prices higher based on takeover speculation
- Hedge funds had easy access to cheap borrowing creating more leverage in the



Leverage Builds Up!

- Mortgage Lender loans money for mortgage or home equity loan
- Sells loans to another entity
 - GNMA, FNMA or FHLMC if within lending guidelines
 - OR
 - To a trust to create a mortgage-backed or asset backed deal

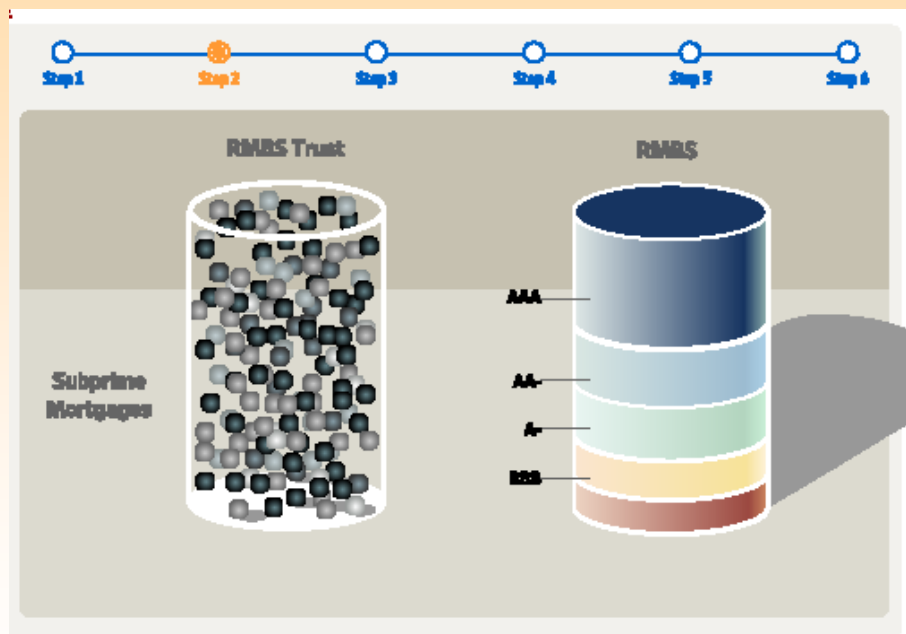
Step 1 – Mortgages put into Trust



And Then.....

- Trust creates various complex bonds
 - CMO or CDO collateralized by these loans
 - Deal has different tranches – or pieces – some rated AAA and some lower rated subordinated pieces
 - The highly rated tranches have the first call on the cash flow, the lower rated tranches get the losses first.
- Bought by banks, insurance companies, hedge funds, foreign investors and SIV's

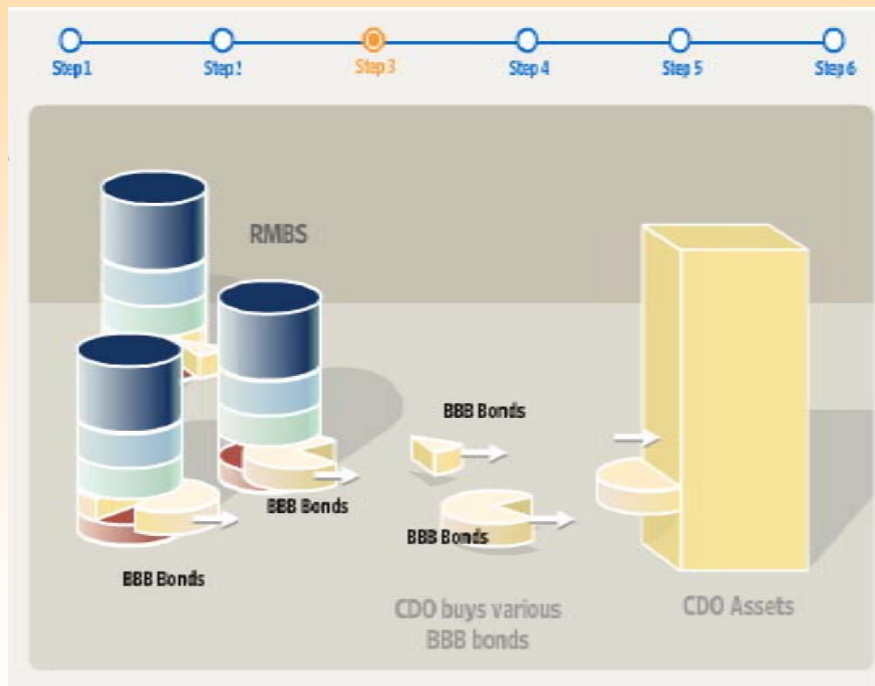
Trust Cut up into Pieces



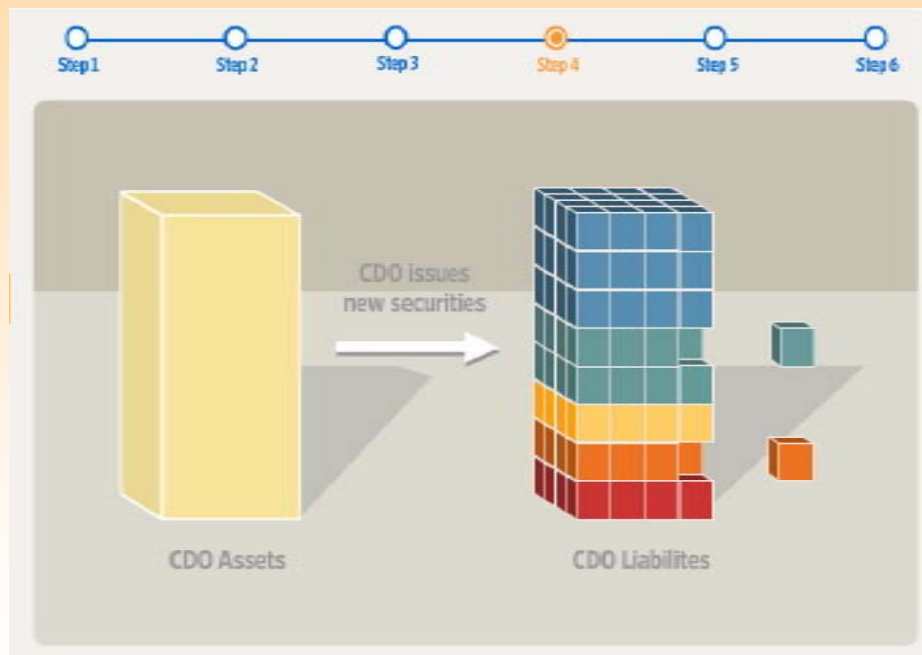
Humpty Dumpty Securities

- Then the lower rated, subordinated tranches were put into another new deal
 - A CDO or CLO collateralized by these tranches
 - Deal has different tranches – or pieces – some rated AAA (using insurance from Ambac, MGIC, etc.) and some lower rated subordinated
 - The highly rated tranches have the first call on the cash flow, the lower rated tranches get the losses first.
- Bought by banks, insurance companies, hedge funds, foreign investors and SIV's

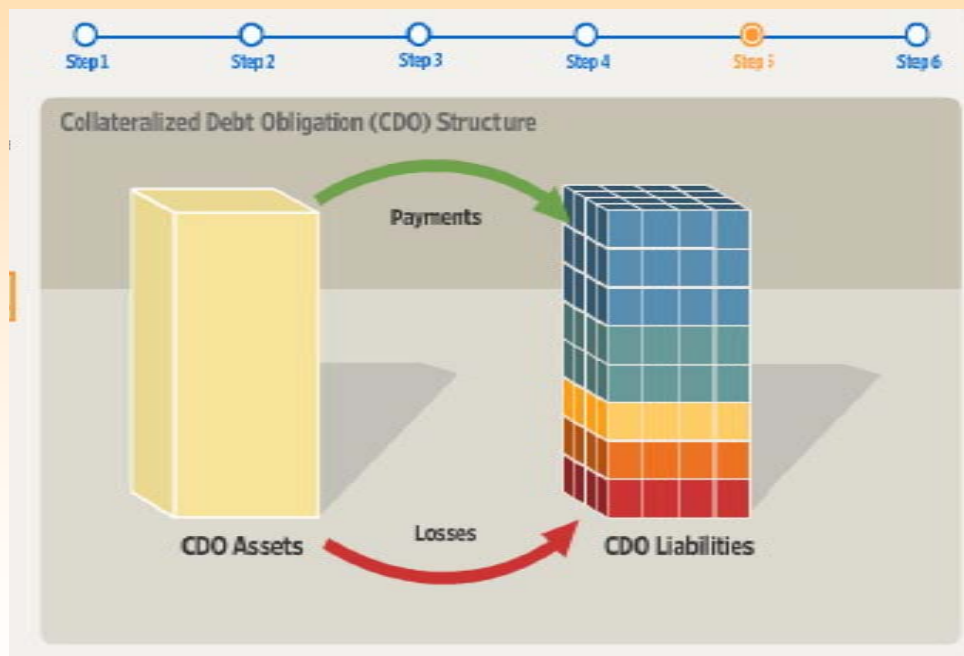
Pieces of Various Deals into CDO



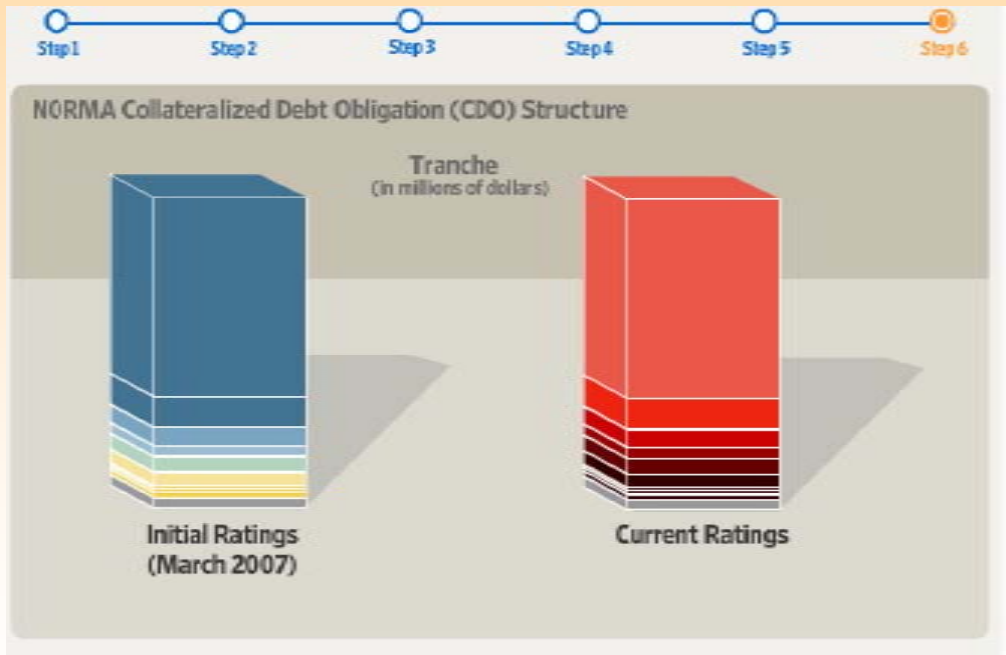
CDO then Cut Up Into Pieces



Priority of Payments



Ratings Downgrades



What are SIV's?

- Structured Investment Vehicles
 - Off balance sheet (think Enron)
 - Managed – for a fee - by the entity that created them
 - Raised capital by issuing:
 - Capital notes which participate in the profits and losses
 - Commercial Paper and medium term notes
- Bought by money market funds, banks, insurance companies, hedge funds, foreign investors and other SIV's

What are Credit Default Swaps?

- “Insurance policies” on a credit being downgraded.
 - Originally money center banks used to reduce credit exposure to large loans.
- Today the CDS market is a shadow market 8 times the size of the national debt!

Where do we go from here?

- There is still a large amount of leverage in the system.
- Banks that created SIV's been selling or bringing the assets onto their balance sheets
- Some hedge funds unwinding positions as investments fall in value and borrowed funds are repaid.

Central Banks Provide Liquidity

- Lower Discount Rate
- Lower Fed Funds Rates
- TAF program
- Coordinating with foreign central banks

Where Are We Now?

- Market conditions
 - Money market funds
 - Lower rates as Fed eases
 - Bond markets
 - Flight to quality
 - Stock markets
 - Reacting to earnings reports

Market Outlook

- T Rowe Price – “...the financial market’s current environment is the most uncertain and perilous than at any time in recent years.”

Lynn Mander, CFA, CFP

Senior Vice President

Chief Investment Officer

484-881-4083



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The U.S. Economy

Presented by:

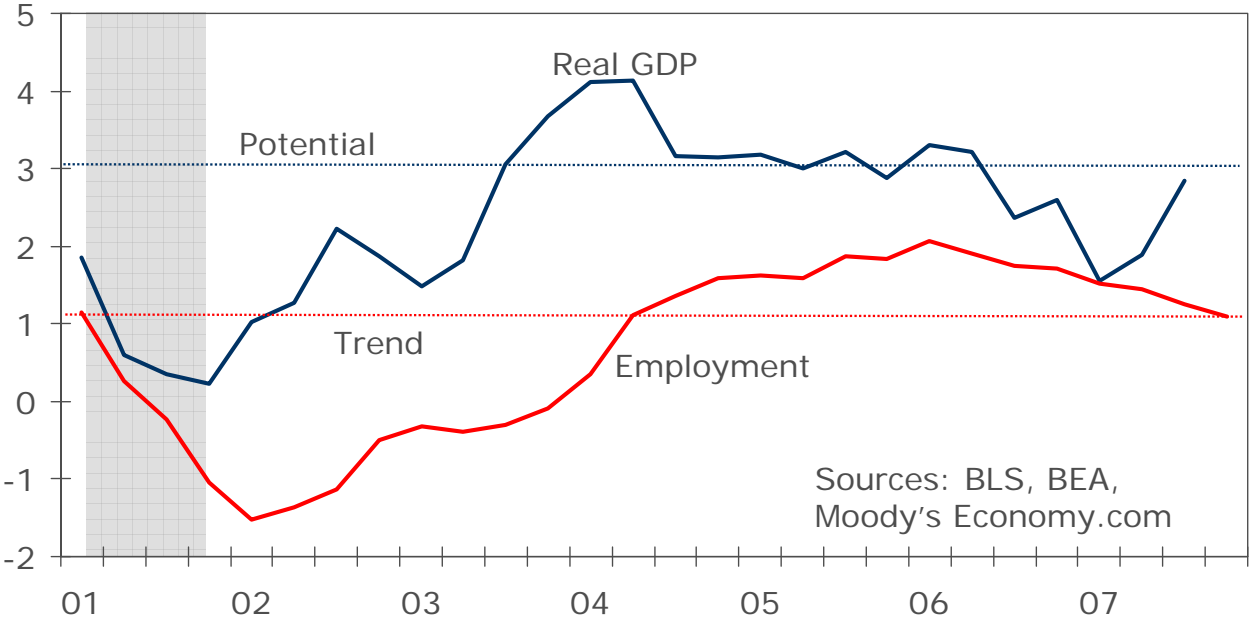
Ryan Sweet,
Economist

January 25, 2008



The U.S. Economy Is on The Edge of Recession

% change year ago



Sources: BLS, BEA, Moody's Economy.com

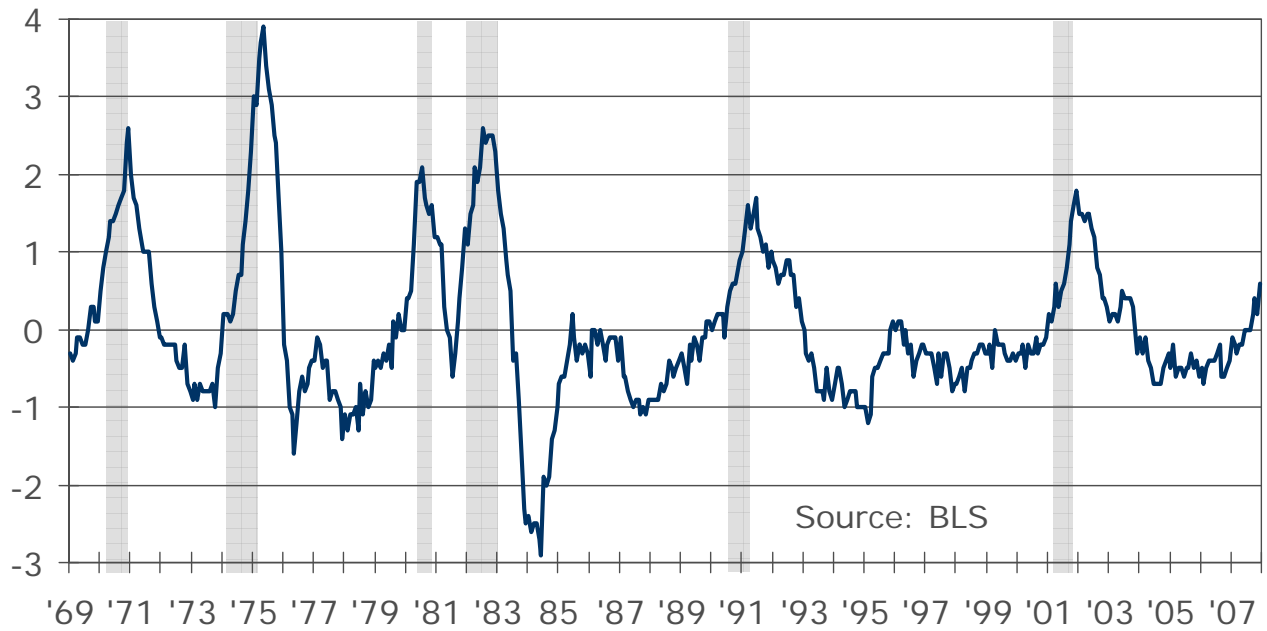
In Uncomfortable Territory

Difference between Fed funds target and 2-yr Treasury bill



Rising Unemployment Signals Recession

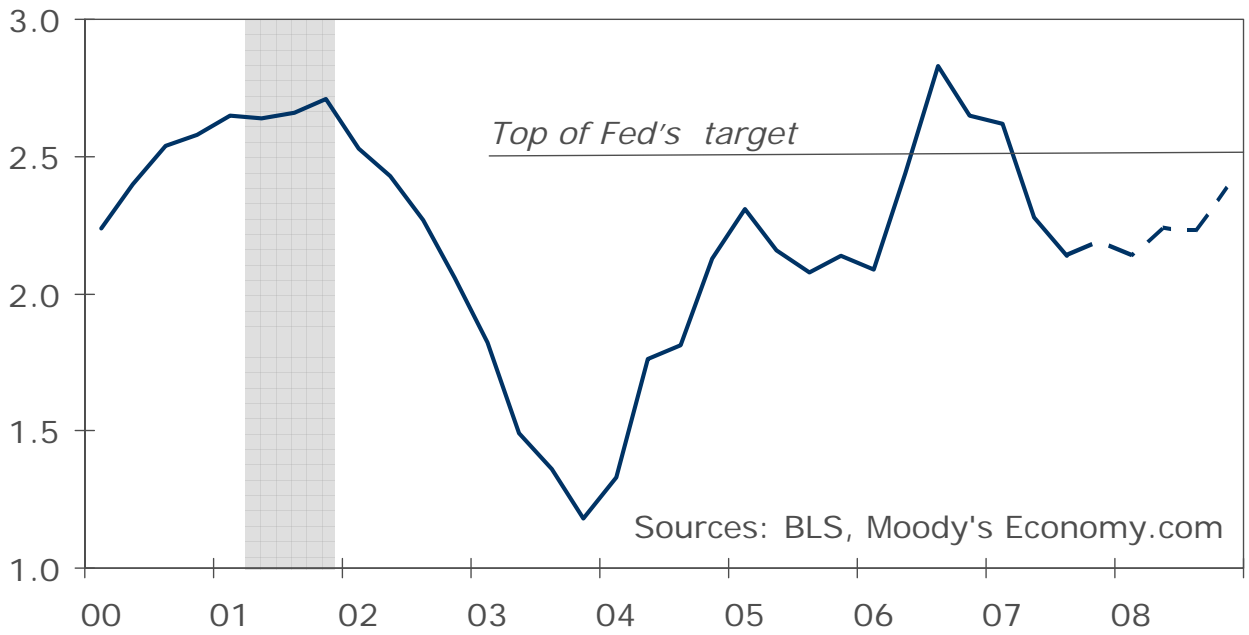
Year-over-year change in the unemployment rate



Source: BLS

Inflation Will Remain Under Control

Core CPI, % change year ago



Sources: BLS, Moody's Economy.com

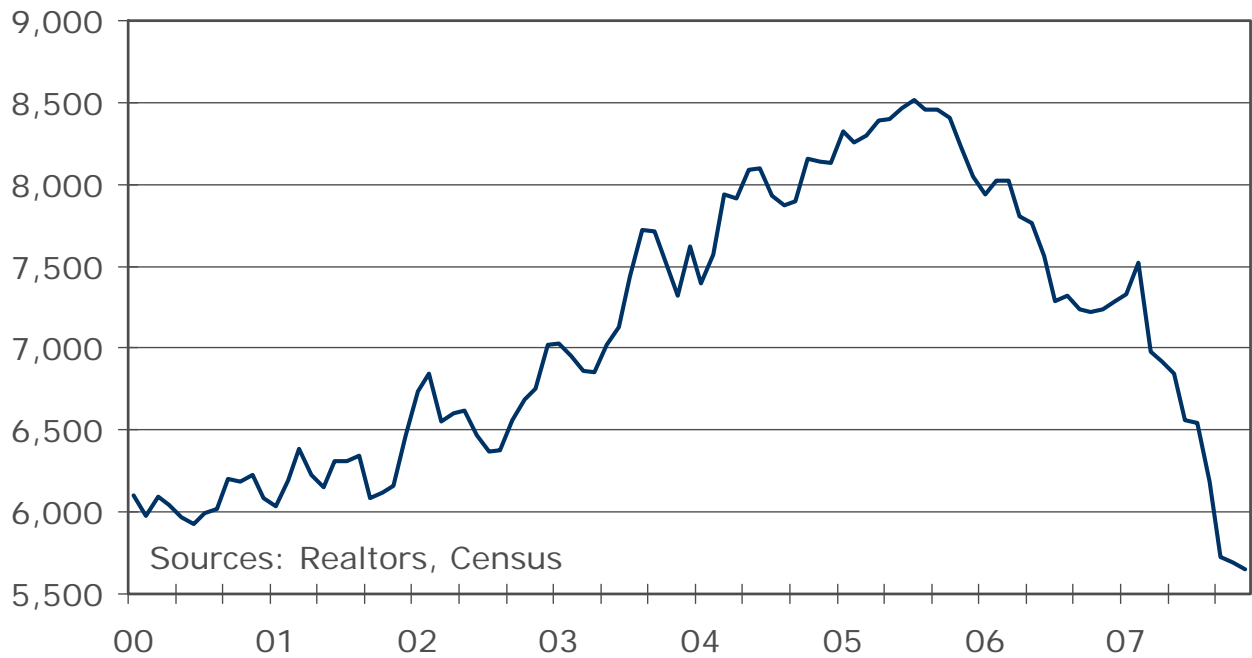
Policymakers Must Continue to Respond

Federal funds future contract for September 2008



Housing Demand Slides...

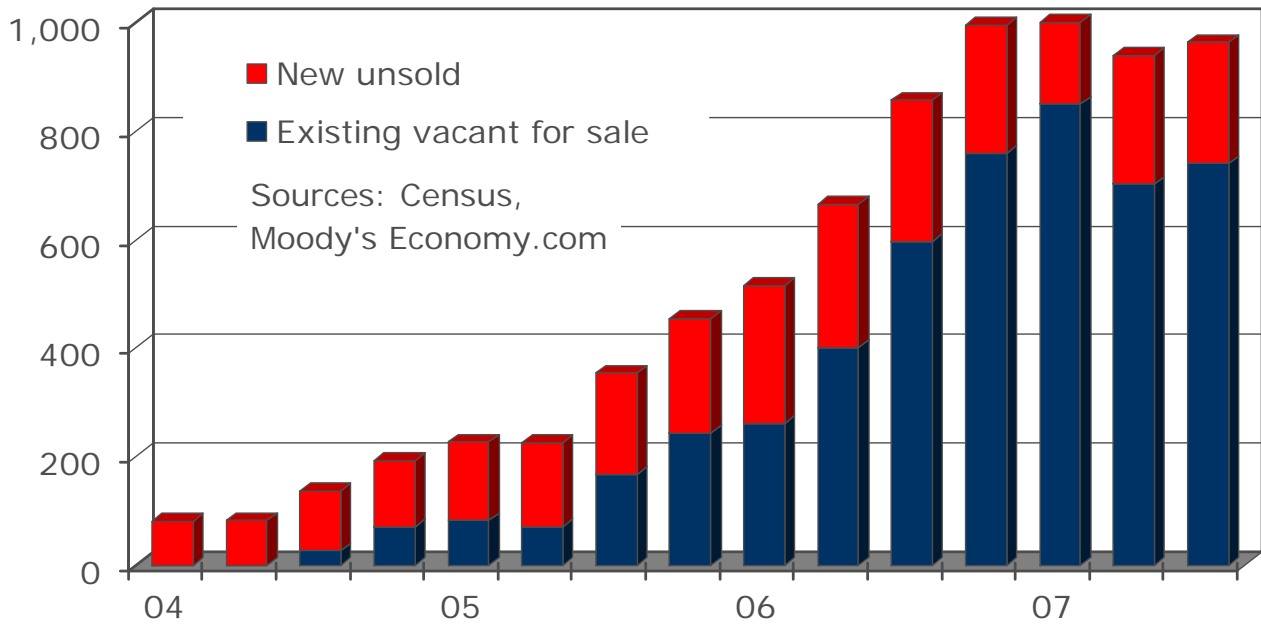
Home sales, ths, SAAR



Sources: Realtors, Census

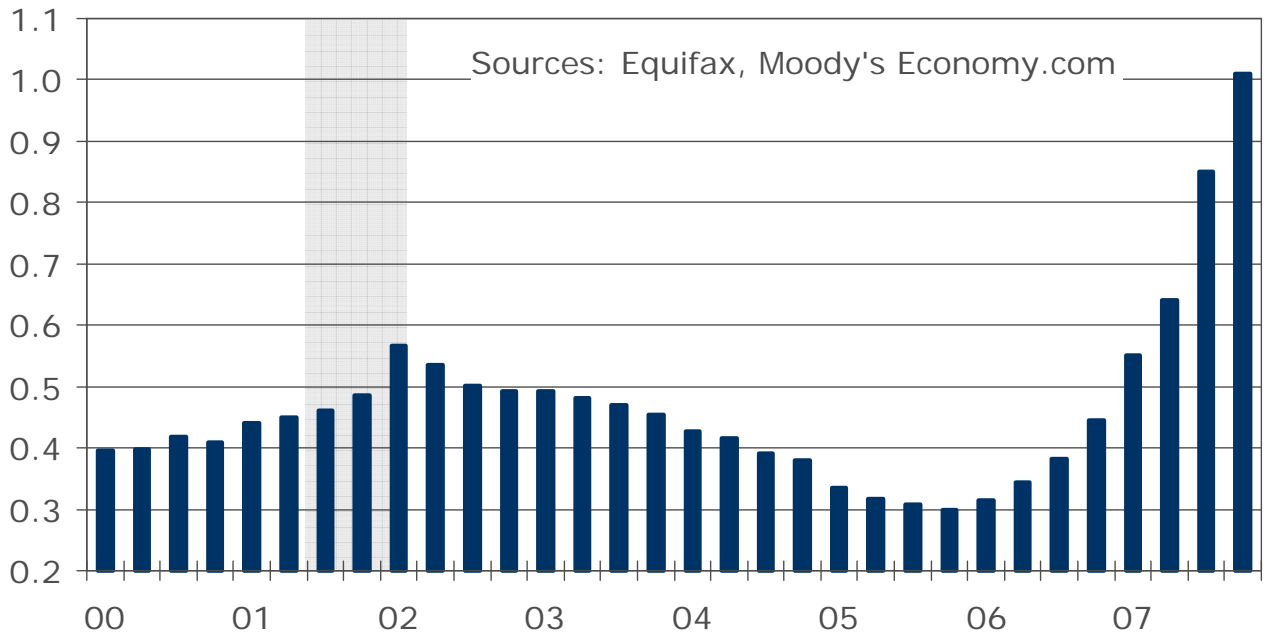
...Adding to Already Swollen Inventories

of excess housing units, ths



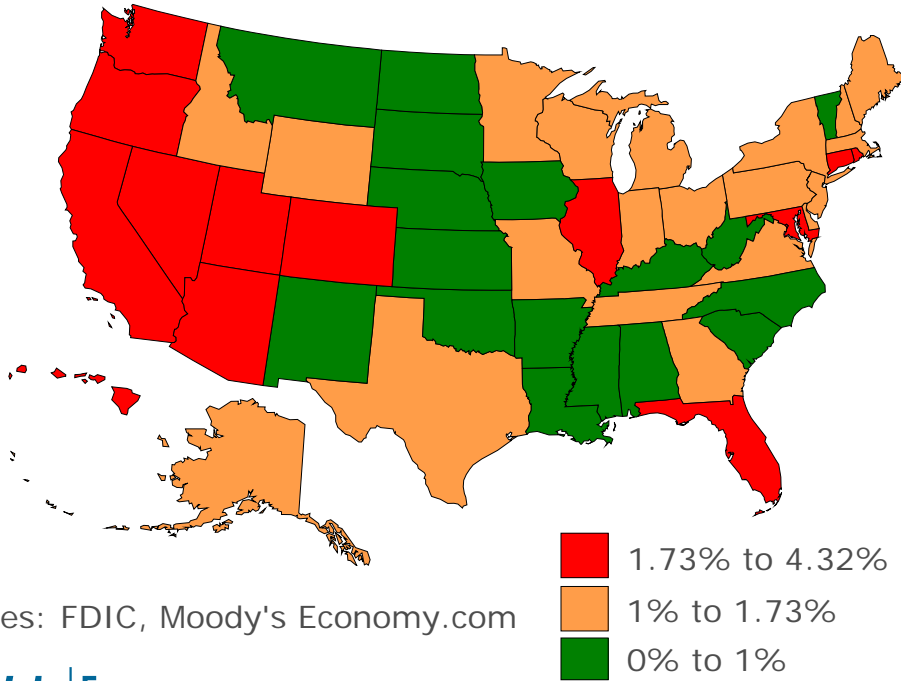
Mortgage Loan Defaults Soar...

Default rate, % of residential mortgage debt, \$



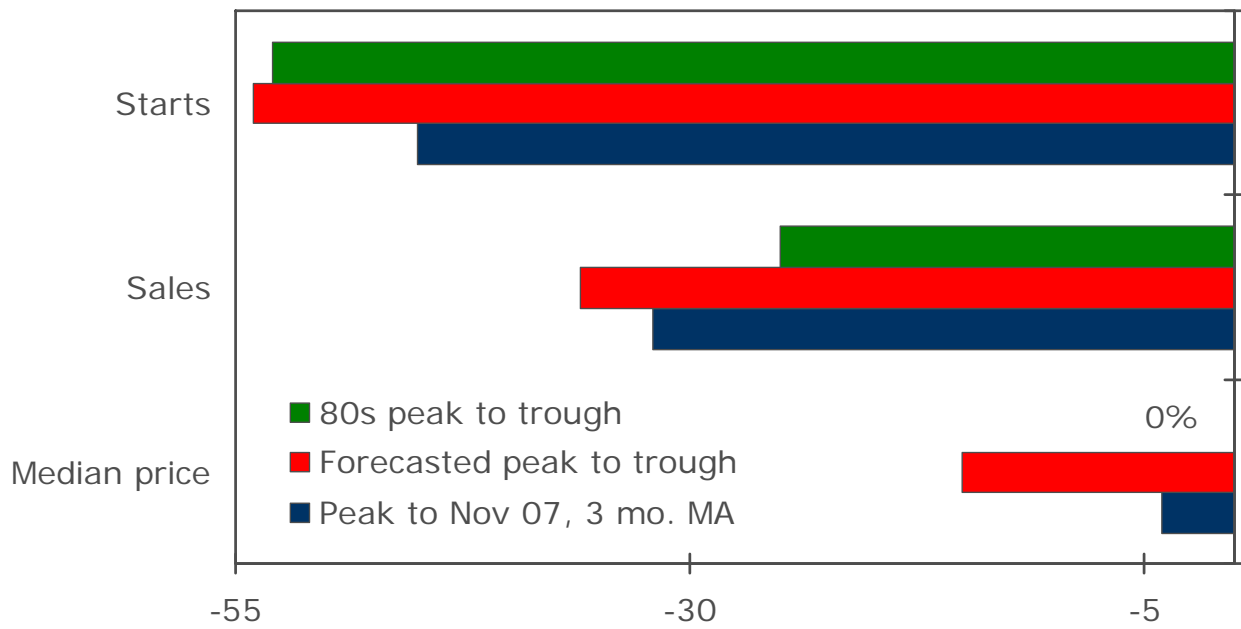
...Conditions Will Get Worse Before They Improve

Share of total owner-occupied homes, %

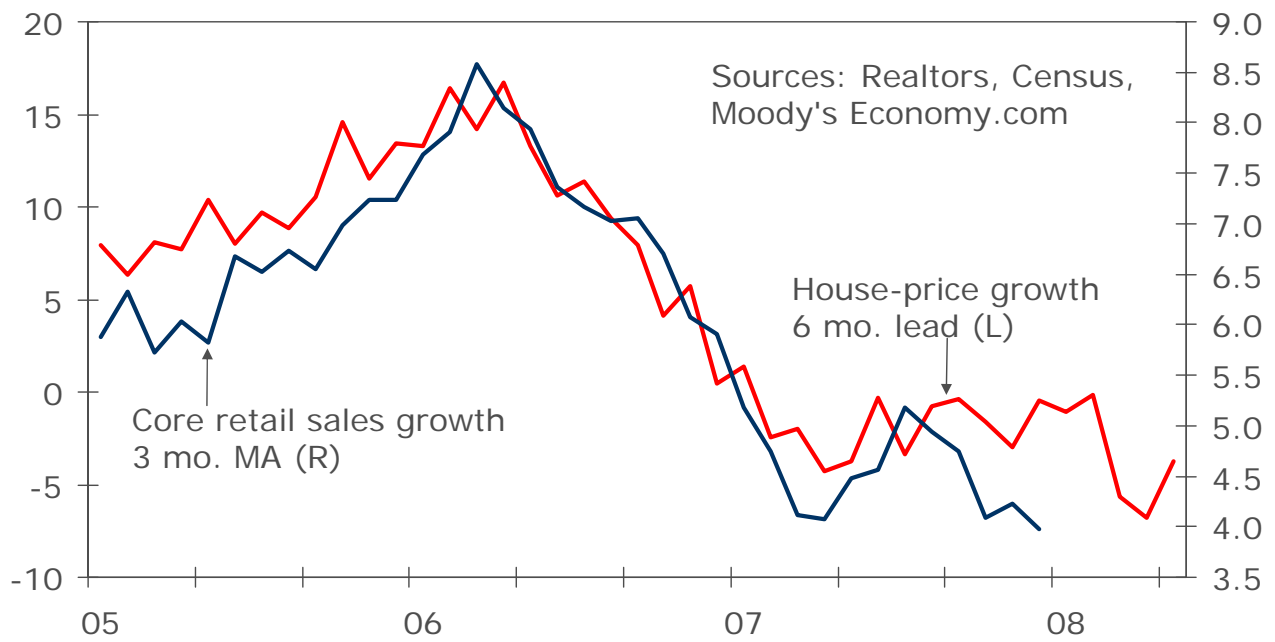


We Have Still Not Yet Hit Bottom

% decline from peak

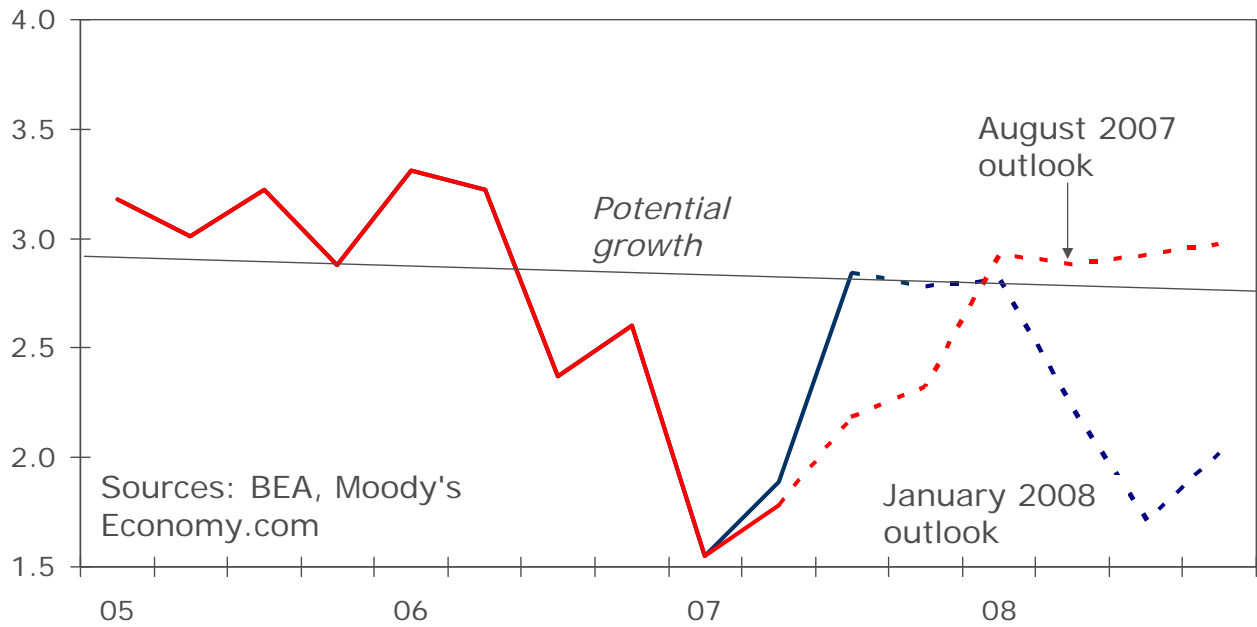


Negative Housing Wealth Effects Kick In



It Will Be Close but Economy Will Avoid Recession

Real GDP growth, % change year ago



Sources: BEA, Moody's
Economy.com

www.economy.com

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FOR GROWING BUSINESSES

4th Annual Economic Outlook and Review

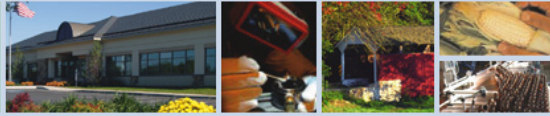
*Presented by Gary Smith, President & CEO,
Chester County Economic Development
Council*

January 25, 2008





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Chester County: a Year in Review...





2007 Projects

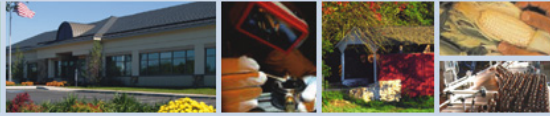
- CCEDC assisted the Commonwealth's Governor's Action Team with 12 separate projects relating to \$3.2 million in grants and tax credits while spurring \$91 million in private investment and creating 1,090 **new** jobs.





Economic Development Trends and Demographics in Chester County



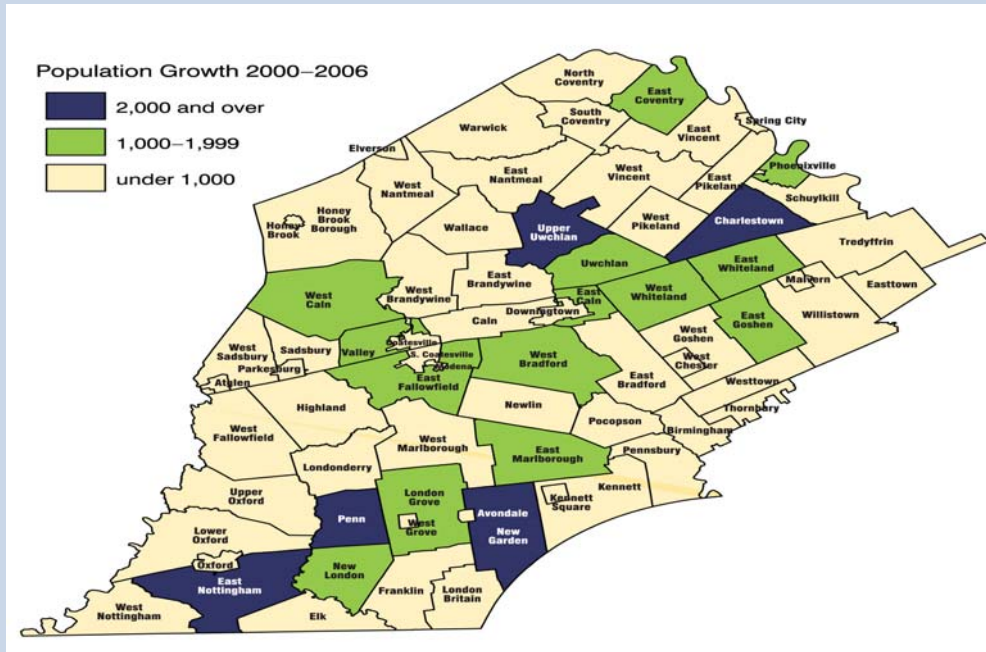


Population





Population Growth



Source: Chester County Planning Commission



Population Forecasts

Jurisdiction	2000 Census	2010 Forecast	2020 Forecast	2030 Forecast	Population Change 2000-2030	Percent change 2000-2030
Chester County	433,512	505,095	557,623	605,271	171,759	40%
Bucks County	597,636	649,187	694,893	735,579	137,943	23%
Montgomery County	748,978	802,340	842,452	878,158	129,180	17%
Philadelphia County	1,517,549	1,475,613	1,474,268	1,478,065	-39,484	-3%
Delaware County	551,989	556,117	557,795	559,288	7,299	1%
5 PA counties	3,849,664	3,988,352	4,127,031	4,256,361	406,697	11%

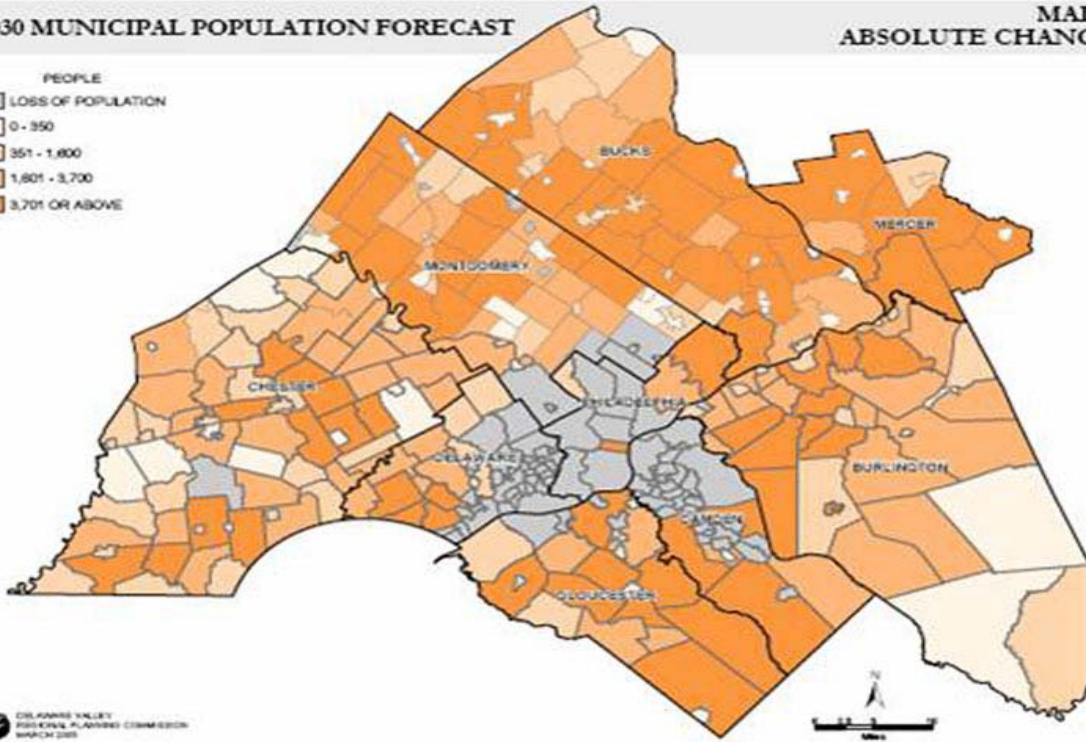
Source: Delaware Valley Regional Planning Commission



2030 MUNICIPAL POPULATION FORECAST

**MAP 4
 ABSOLUTE CHANGE**

- PEOPLE
- LOSS OF POPULATION
 - 0 - 950
 - 951 - 1,800
 - 1,801 - 3,700
 - 3,701 OR ABOVE



DELAWARE VALLEY
 REGIONAL PLANNING COMMISSION
 MARCH 2008



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Employment & Workforce





Average Annual Employment Growth Rates

Major Industry Sector	1990 to 2000	2000 to 2007	1990 to 2007
Construction, Natural Resources & Mining	2%	1.7%	1.9%
Manufacturing	-.04%	-4.1%	-2%
Trade, Transportation & Utilities	2.8%	2%	2.5%
Information	7%	-4.3%	2.2%
Financial Activities	6.2%	2.3%	4.6%
Professional & Business Services	7.8%	2.9%	5.8%
Education & Health Services	3.2%	3.5%	3.4%
Leisure & Hospitality Services	2.8%	3.9%	3.2%
Other Services	1.5%	0.9%	1.2%
Federal Government	-0.4%	5.5%	2%
State & Local Government	2.1%	2.9%	2.4%
Total Non-Farm Employment	3.1%	1.7%	2.5%
Average	3%	1.6%	2.5%

Source: Global Insight, 2007. [Fall 2006 County Employment Forecasts](#).



Chester County Employment

Industry Overview (2006) (By Place of Work)	Value	Rank in U.S.
<i>Average wage per job</i>	\$54,646	32
Manufacturing - % all jobs in County	9.9%	1702
<i>Average wage per job</i>	\$72,612	51
Finance and Insurance - % all jobs in County	8.5%	33
<i>Average wage per job</i>	\$89,820	32

- Ranking is in comparison to the 3,133 counties in the United States

Source: STATS Indiana



	% population with B.S. or higher (Adults 25+)	Per Capita Personal Income	Avg Home Value (2006)
Chester County	42.5%	\$50,787	\$302,800
Philadelphia-Camden- Wilmington	27.7%	\$40,727	\$230,300
Pennsylvania	22.4%	\$34,810	\$145,200

Sources: 2006 American Community Survey; STATS Indiana; American FactFinder



Employment Forecasts

County	2000 Census	2030 Forecast	Projected Growth Rate
Chester	238,641	345,062	44.6%
Bucks	267,124	352,772	32.1%
Delaware	238,164	273,411	14.8%
Montgomery	492,677	597,300	21.2%
Philadelphia	741,397	763,176	2.9%

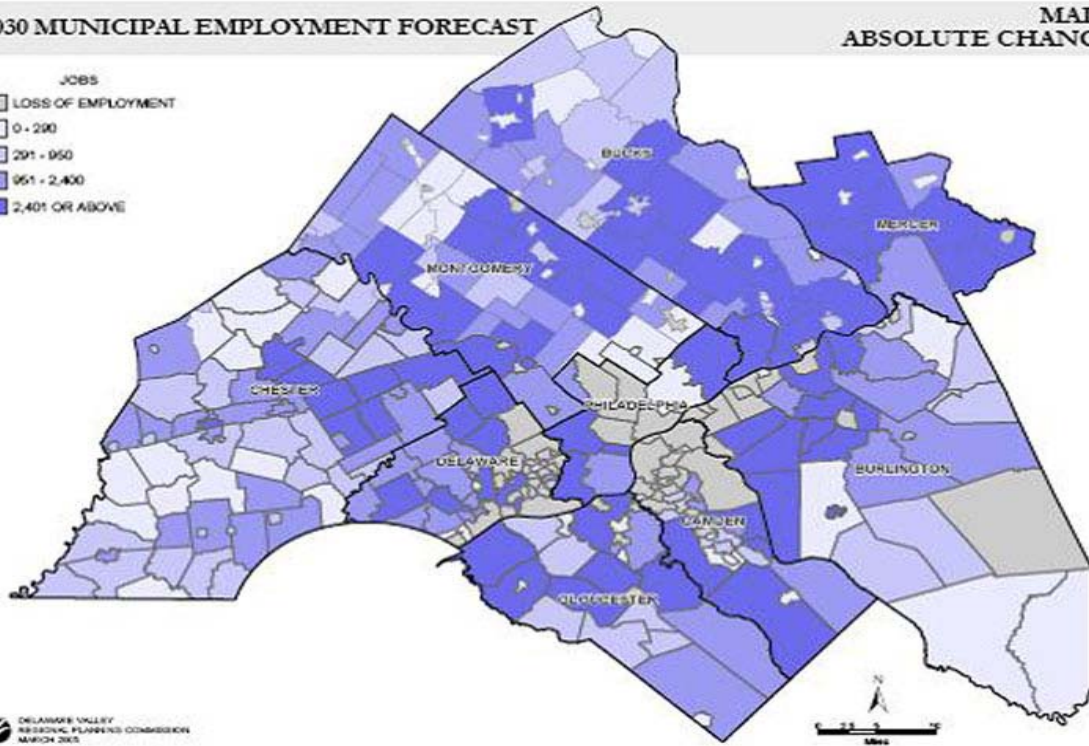
Source: Delaware Valley Regional Planning Commission



2030 MUNICIPAL EMPLOYMENT FORECAST

MAP 2
ABSOLUTE CHANGE

- JOB**
- LOSS OF EMPLOYMENT
 - 0 - 290
 - 291 - 950
 - 951 - 2,400
 - 2,401 OR ABOVE





Employment Growth Projections

Municipality	% growth rate 2005-2035	Absolute growth rate 2005-2035
Modena Borough	163%	210
Penn Township	108%	1,666
Sadsbury Township	200%	982
Valley Township	93%	1,831
West Sadsbury Township	120%	1,144

Source: Delaware Valley Regional Planning Commission



Number of Employed Residents 230,408

Where they work:	Number	% Share
Bucks County, PA	1,133	0.5%
Chester County, PA	137,678	63.1%
Delaware County, PA	17,870	8.2%
Montgomery County, PA	25,673	11.7%
Philadelphia County, PA	10,568	4.8%
Southern NJ	1,753	0.76%
Northern DE	12,976	6%
Out of Region	10,502	4.8%

Source: Bureau of the Census, 2002. [2000 Census of Population and Housing – Journey to Work Statistics.](#)



Chester County's Largest Private-Sector Employers 2007 vs. 1981

2007	
1	Vanguard Group
2	Siemens Medical Solutions
3	QVC Inc.
4	Jefferson Health System Inc.
5	Centocor Inc.
6	Chester County Hospital
7	Acme Markets Inc.
8	SunGard Higher Education
9	West Chester University
10	Unisys Corp.
11	Genesis HealthCare
12	Brandywine Hospital
TIE	Communications Test Design
14	Kimberly Clark Tissue Co.
15	Graco Children's Products

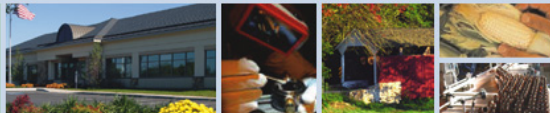
1981	
1	Lukens Steel Company
2	Burroughs Corporation
3	Wyeth Laboratories, Inc.
4	Pepperidge Farm, Inc.
5	Footc Mineral Co.
6	QYX, Division of Exxon Enterprises
7	Alco Standard Corp.
8	Norcross - Rust Craft
9	Budd Co.
10	AMP Special Industries
11	Hewlett-Packard Company
12	Shared Medical Systems Corp.
13	Synthane Taylor Corporation
14	P Q Corporation
15	Certain-Teed Corporation

Source: Philadelphia Business Journal



Housing





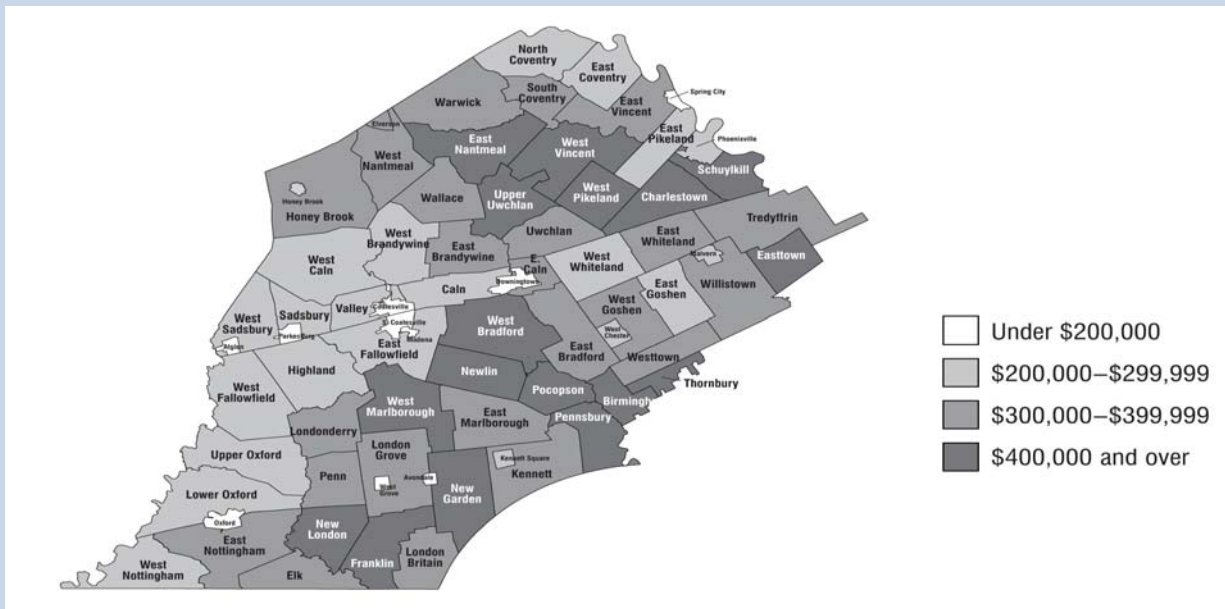
Housing in Chester County, 2006

- The median sales price of a newly constructed home was \$399,100 in 2006, an increase of \$27,500 (7.4%) from \$371,600 in 2005.
- **Median Home Prices, by municipality:**
 - Highest: Newlin (\$808,900)
 - Lowest: Coatesville (\$110,000)
 - Average, Chester County: (\$302,800)
- Highest volume housing sales - West Chester region - 1,875, nearly 20% of the County total
- The West Chester, Coatesville, and Downingtown school districts had the largest numbers of housing sales.

Source: Chester County Planning Commission



Median Sale Prices by Municipality, 2006



Source: Chester County Planning Commission



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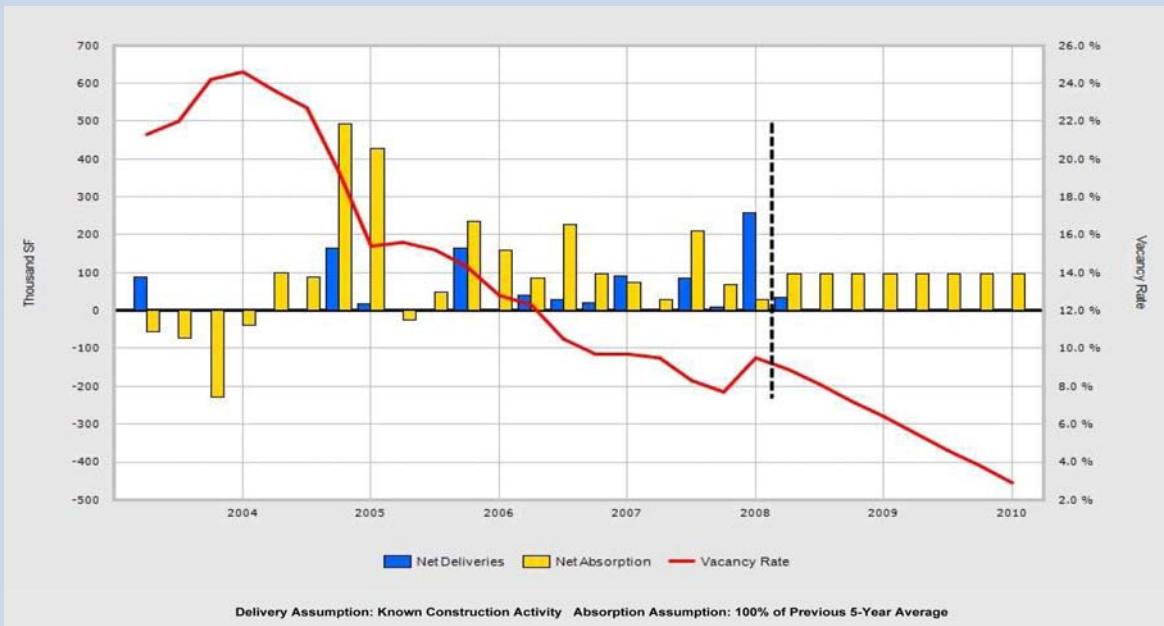
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Commercial Real Estate





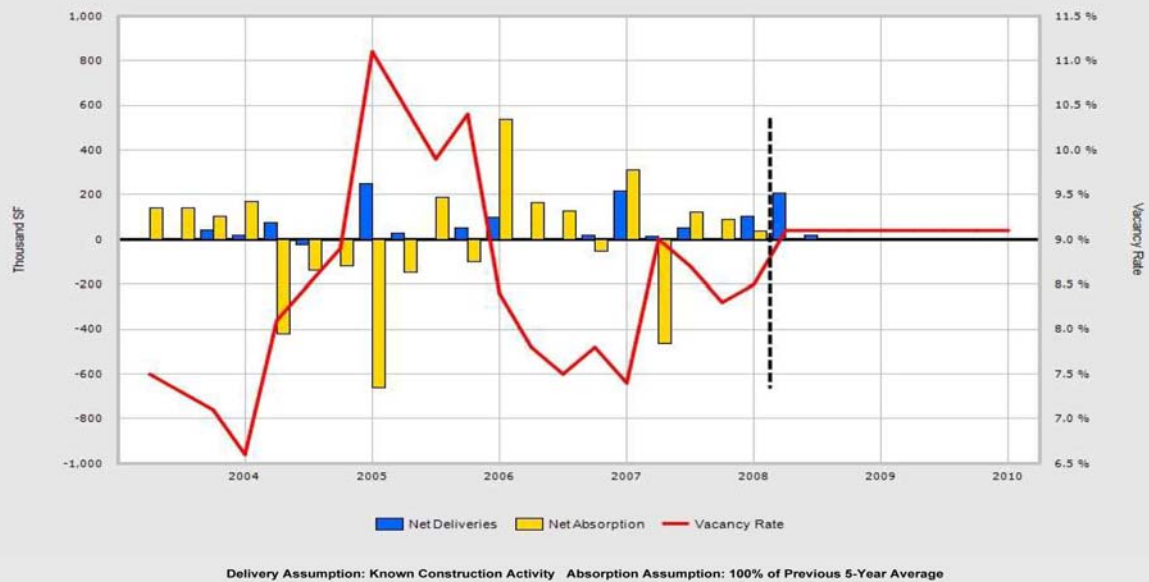
Chester County Class-A Office Space Forecast Report



Source: Beacon Commercial Real Estate



Chester County Industrial Office Space Forecast Report



Source: Beacon Commercial Real Estate



Commercial Real Estate Trends

Commercial Real Estate Market (as of 1/18/08)

Office	Total Sq. Ft.	Vacancy Rate	Sq. Ft. Under Construction	Average Class "A" Rental Rate Sq. Ft.
Chester County (Class "A")	11,003,081	9.0%	158,000	\$ 25.63

Industrial Real Estate Market (as of 1/18/08)

Industrial	Total Sq. Ft.	Vacancy Rate	Sq. Ft. Under Construction	Average Warehouse Rental Rate Sq. Ft.
Chester County	31,489,671	8.2%	123,231	\$ 5.54

Source: Beacon Commercial Real Estate



Land Use





Land Use in Chester County

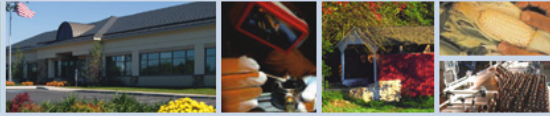
Landscapes2 Survey Question:

What do you like most about Chester County?

Highest Ranked Answer (88%):

Farmlands, rural character, and natural beauty

-
- As of November 2007, 214 farms representing 20,943 acres has been preserved by the Chester County Agriculture Land Preservation Board.



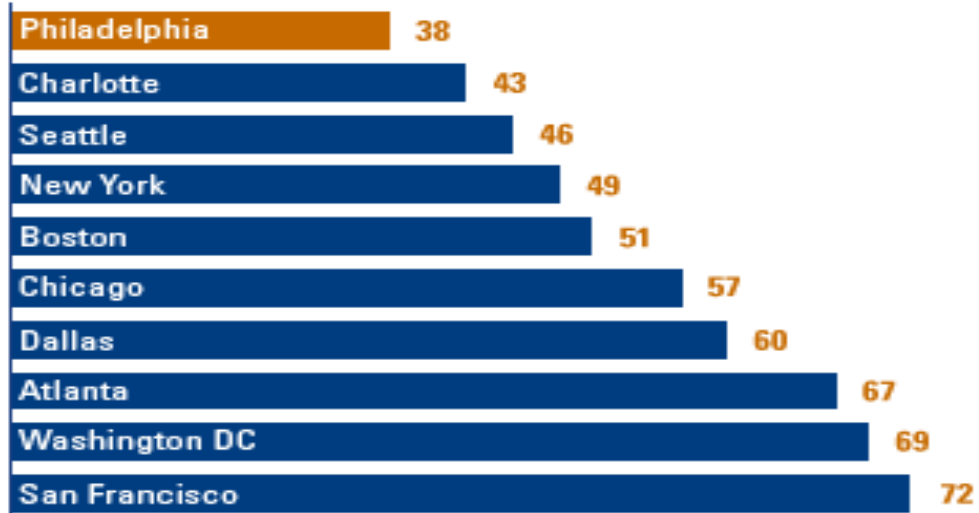
Key Demographics





Highways

ANNUAL TRAFFIC DELAY per PERSON (Person-Hours)

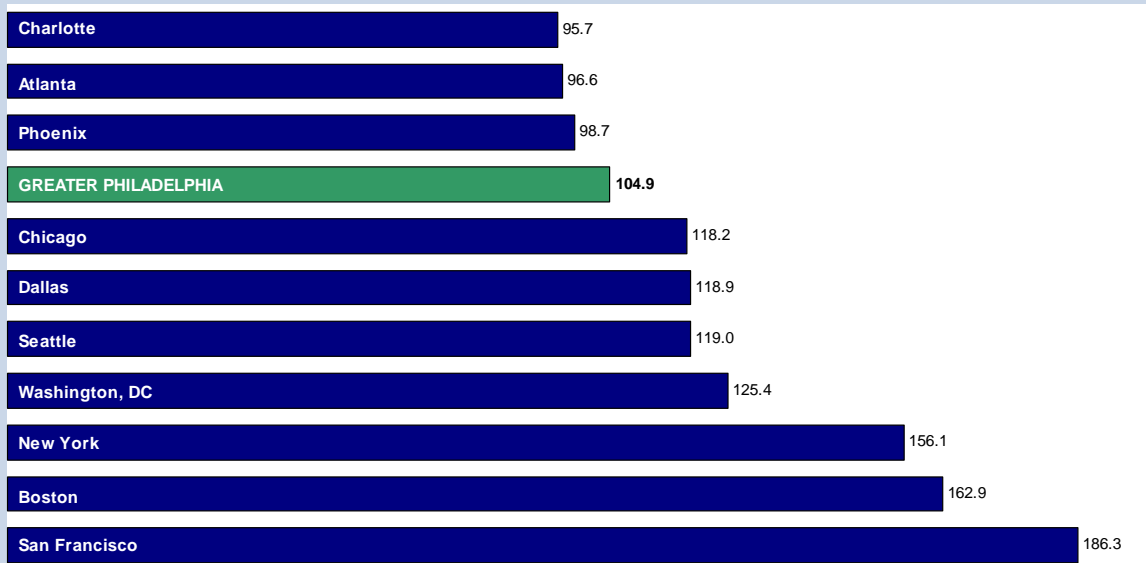


Sources: Select Greater Philadelphia; Texas Transportation Institute



Lower Cost of Living

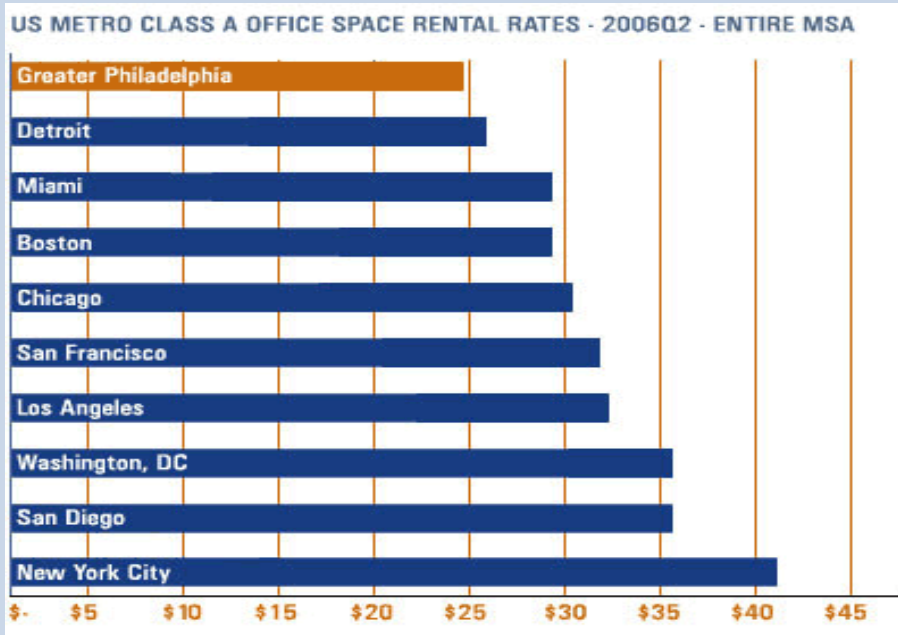
Cost of Living index



Sources: Select Greater Philadelphia; Cities Ranked and Rated, 2004



Class-A Office Rental Space



Sources: Select Greater Philadelphia; Grubb & Ellis, 2006



Key Projects for 2008

- Chester County Tech Center
- Multi-Purpose Facility/Baseball Stadium
- Worthington
- Coatesville Hotel and Office
- Phoenixville Educational Campus at Franklin Commons
- St. Peter's Village





FOR GROWING BUSINESSES

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