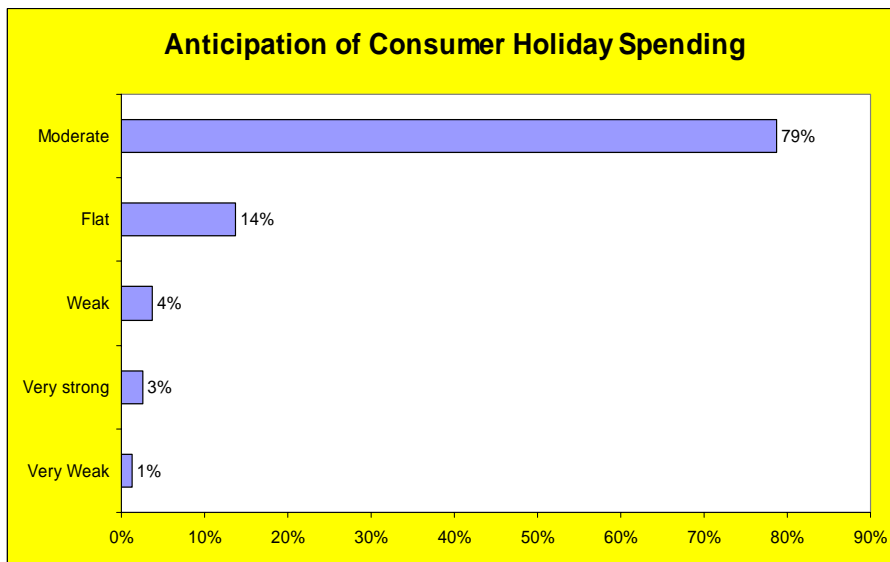


**PHOENIX
“LENDING CLIMATE IN AMERICA”
QUARTERLY SURVEY**

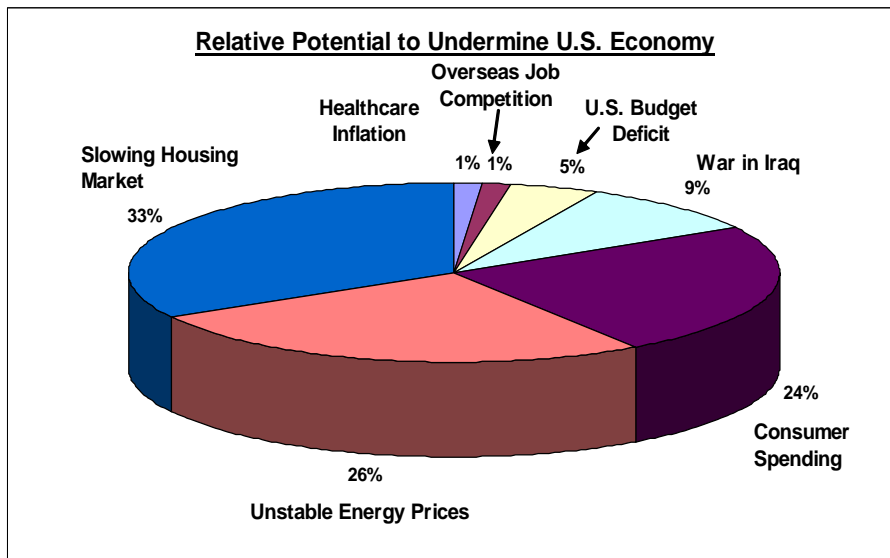
4th Quarter 2006

SUMMARY, TRENDS AND IMPLICATIONS

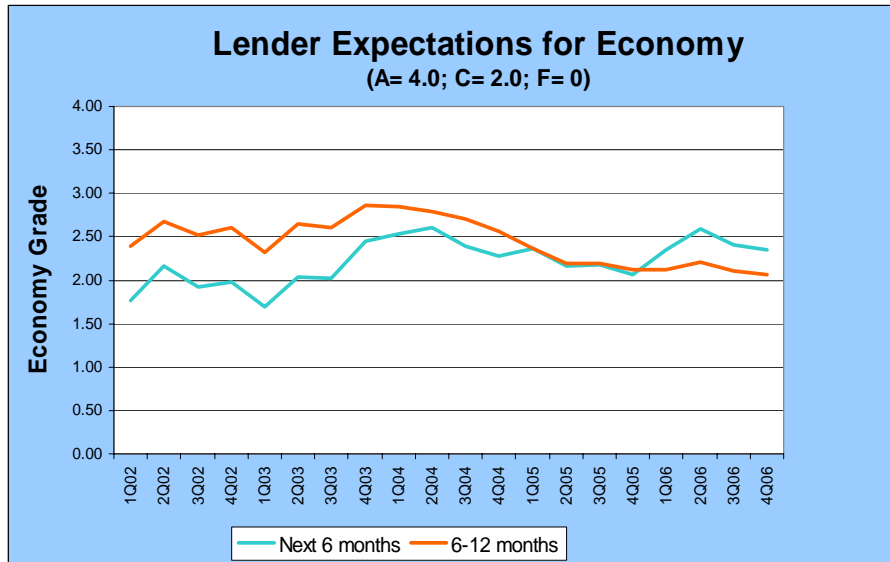
- The vast majority of lenders – 79 percent – anticipate that consumer spending this holiday season will be “moderate.”** The next largest group of lenders – 14 percent – believes that consumer holiday spending will be “flat.” Four percent of respondents anticipate that consumer spending this holiday season will be “weak.” The remaining respondents were split between believing consumer holiday spending will be “very strong” (three percent) or “very weak” (one percent).



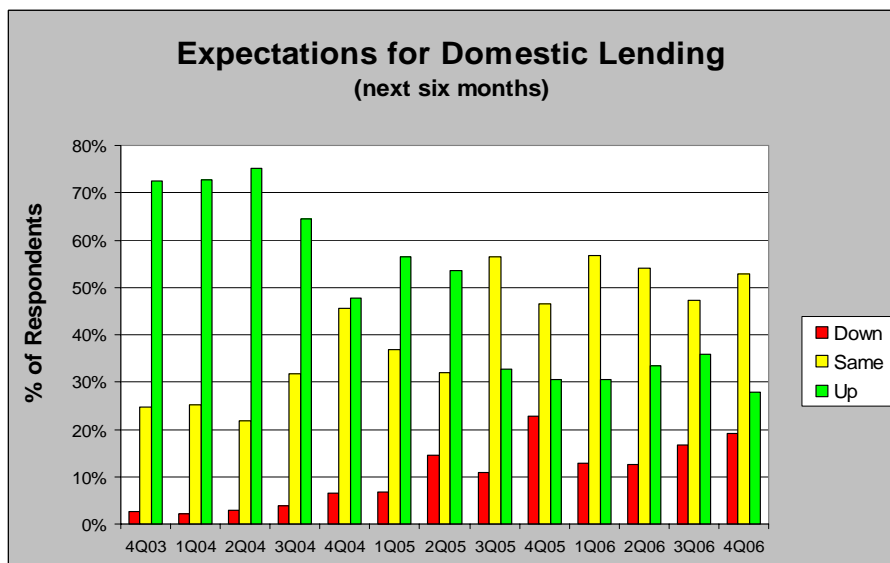
- One-third of lenders believe the slowing housing market has the strongest potential to undermine the economy in the next six months, followed closely by concern over unstable energy prices (cited by 26 percent) and consumer spending (24 percent).** The remaining respondents were divided among the following factors (in order of percentage of lenders who selected them): the war in Iraq, U.S. budget deficit, overseas job competition, and healthcare inflation.



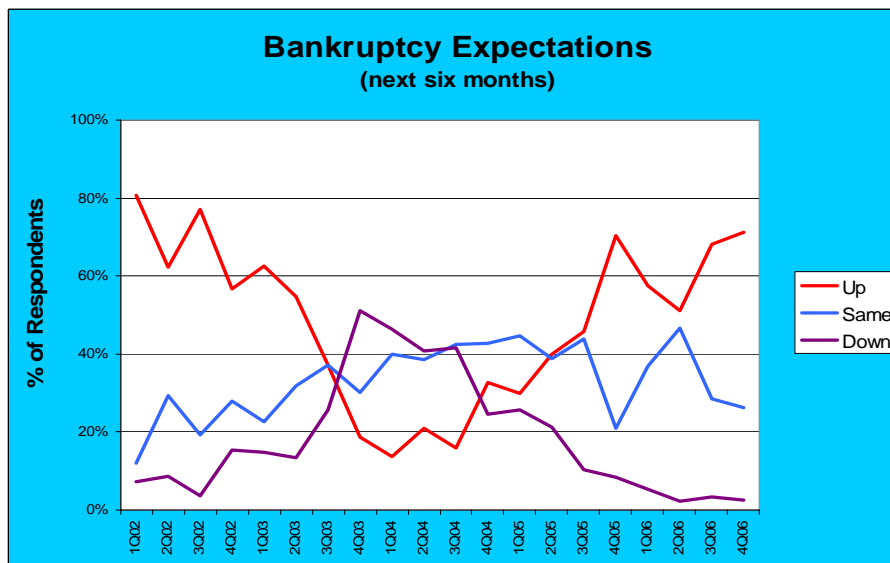
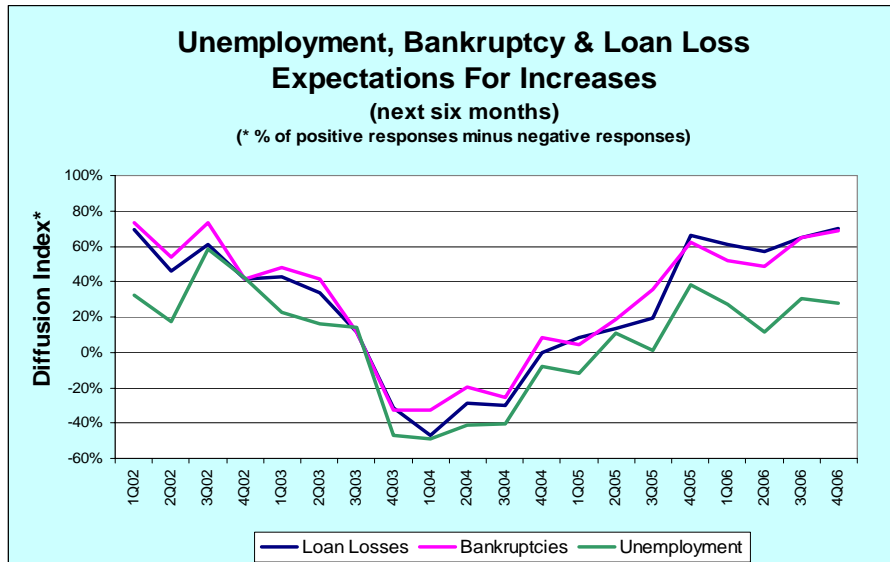
3. **Lenders' mediocre expectations for the economy remained in line with last quarter's anticipated decline, reversing previous, more positive expectations.** Lenders expect the economy to perform at a high "C" level during the next six months. The respondents' expectations for longer-term improvement continued its recent three-year downward trend toward a mid-level "C" grade. Lenders' expectations for the longer-term performance of the economy have been lower than near-term expectations for the past four surveys, reversing a five-year trend of the longer-term economic outlook being more positive.



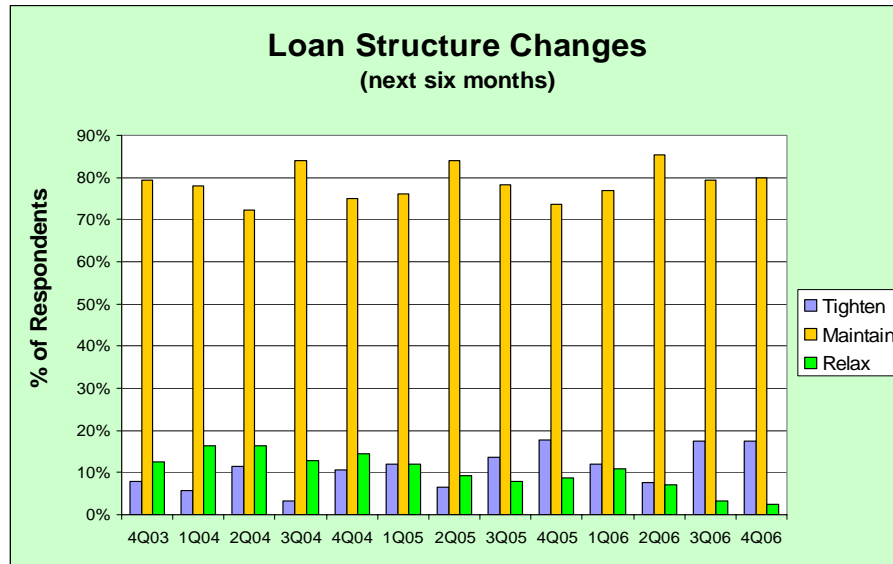
4. **Customer growth expectations predicted by lenders over the next 6 - 12 months were lower this survey,** with nine percent of lenders believing their customers have no growth expectations (versus one percent the previous quarter). Eighty-three percent of lenders reported their customers had moderate growth expectations, compared to 88 percent the previous quarter.
5. **More lenders this quarter believe lending to middle market companies and small businesses will be down in the next six months.** The loan demand diffusion index (the percentage of respondents forecasting a higher percentage less those anticipating a lower percentage) was lower across most lending segments, with the Middle Market and Small Business lending segments experiencing the largest declines. **On average, 28 percent of lenders expect domestic lending at all levels (corporate, middle market and small business) will increase – down from the average of 36 percent who predicted the same last quarter.**



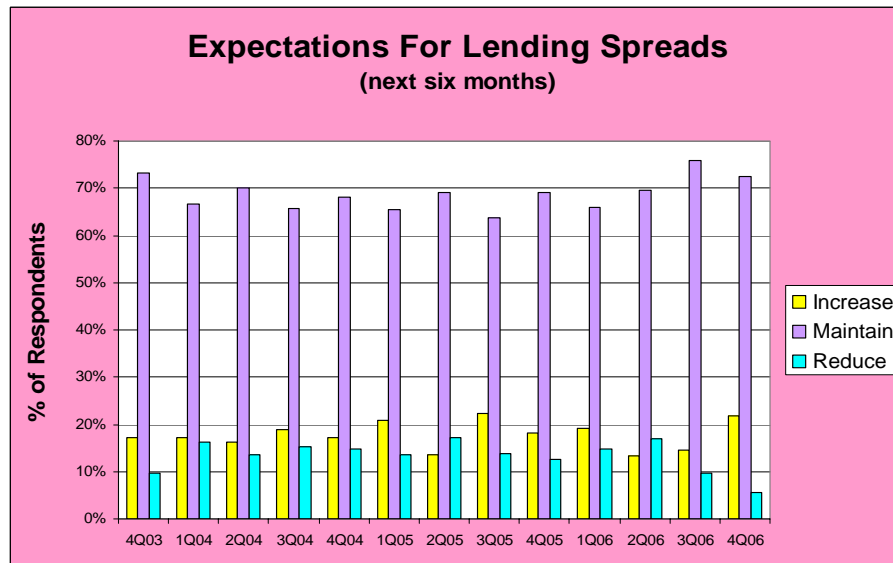
6. **An increasing percentage of lenders indicated that the current credit quality environment would lead to increased loan losses and bankruptcies. Respondents also indicated a growing opinion that interest rates will either remain at current levels or possibly decline.** The loan loss diffusion index increased to 70 percent from 65 percent in the previous quarter. Lenders anticipating higher bankruptcies increased to 68 percent (up from 65 percent one quarter earlier). Conversely, the percentage of respondents anticipating higher unemployment fell to 34 percent – from 39 percent the previous quarter. Finally, 60 percent of lenders (versus 28 percent in the previous quarter) believe rates will stay at their current levels, and eleven percent opined that interest rates would be lower in the next six months (as compared to one percent the previous quarter).



7. **The percentage of lenders expecting to tighten their existing loan structures remained steady at 18 percent (versus 17 percent in the previous quarter).** The percentage of respondents planning to maintain their loan structure increased marginally to 80 percent (versus 79 percent the previous quarter).



8. **An increasing percentage of lenders anticipate increasing their current lending spreads in this interest rate environment.** Twenty-two percent of respondents (versus 14 percent the previous quarter) expect to increase lending spreads from their current levels.



9. **In a significant shift from recent surveys, respondents anticipate a changing interest rate environment in the direction of lower interest rates.** While 46 percent of the lenders surveyed (versus one percent just three quarters prior) believe interest rates will stay at their current levels, a noteworthy 19 percent of respondents (versus just two percent the previous survey) expect interest rates to fall in the next six months.

Phoenix Management
“Lending Climate in America”
4th Quarter 2006

Survey Results

1. Anticipation of Consumer Holiday Spending

Respondents were asked, based on current economic conditions, to categorize their expectation for holiday spending by consumers this year.

- An overwhelming majority – 79 percent – anticipate that holiday spending by consumers this year will be “moderate.”
- Fourteen percent believe that consumer holiday spending will be “flat.”
- Four percent of lenders designated “weak” as their expectation for the level of consumer spending this holiday season.
- Three percent believe that consumer holiday spending will be “very strong.”
- The remaining one percent believe that holiday spending by consumers will be “very weak.”

2. Relative Potential to Undermine Health of U.S. Economy

Respondents were asked which TWO of the following factors have the most potential to undermine the health of the U.S. economy.

- Thirty-three percent indicated that the slowing housing market has the greatest potential to undermine the health of the U.S. economy.
- Twenty-six percent believe that unstable energy prices possess the most potential to impair the nation’s economy.
- Twenty-four percent of lenders opined that consumer spending has the highest potential.
- Nine percent believe that the war in Iraq possesses the most potential to impair the nation’s economy.
- Five percent believe that the U.S. budget deficit has the most potential to derail the nation’s economy.
- One percent, each, indicated the following issues having the most potential: healthcare inflation and overseas competition for U.S. jobs.

3. Customers' Plans in the Next Six to Twelve Months

Respondents were asked which of the following actions their customers planned in the next six to 12 months.

- Twenty percent indicated their customers plan to make new capital investments.
- Nineteen percent, each, indicated their customers plan to raise additional capital or make an acquisition.
- Sixteen percent responded their customers intend to introduce new products or services in the next 6-12 months.
- Fifteen percent responded their customers plan to enter new markets.
- The remaining 12 percent responded their customers intend to hire new employees.

4. Economic Indicators

Respondents were asked whether they expected the following economic indicators to be up, down, or remain the same over the next six months.

- The diffusion index (the percentage of respondents indicating an “Up” trend less the percentage indicating a “Down” trend) was down quarter-over-quarter for the Middle Market, Small Business, and International lending segments. As a result, the diffusion index for all lending segments fell sharply, a net total of seven index points.
- Lenders significantly changed their interest rate outlook as 29 percent of respondents now believe that interest rates will rise (down from 70 percent the previous quarter) and the lowest level in two-and-a-half years. Credit quality metrics continued the recent trend of anticipated deterioration in overall industry credit quality. The percentage of respondents forecasting an increase in Loan Losses (up five percentage points), Bankruptcies (up three percentage points), and Bank Failures (up three percentage points) increased this period.

	Last Quarter			This Quarter		
	<u>Up</u>	<u>Down</u>	<u>Same</u>	<u>Up</u>	<u>Down</u>	<u>Same</u>
Corporate Lending	24%	19%	57%	20%	13%	67%
Middle Market Lending	38%	14%	48%	30%	23%	47%
Small Business Lending	47%	17%	36%	34%	22%	44%
International Lending	38%	14%	48%	39%	11%	50%
	<u>Up</u>	<u>Down</u>	<u>Same</u>	<u>Up</u>	<u>Down</u>	<u>Same</u>
Loan Losses	66%	1%	33%	71%	1%	28%
Bankruptcies	68%	3%	29%	71%	3%	26%
Interest Rates	70%	1%	29%	29%	11%	60%
Unemployment	39%	8%	53%	34%	6%	60%
Bank Failures	12%	2%	86%	15%	8%	77%



5. U.S. Economy Grade – First Half of 2007

Respondents were asked how they expected the U.S. economy to perform during the first half of 2007 on a grading scale of A through F.

- Respondents' outlook for the economy's performance continued a two-quarter slide to the high "C" grade level for the first half of 2007. The percentage of lenders who believe that the economy will perform at an "A" or "B" level decreased to 37 percent from 45 percent in the quarter prior.

	Last Quarter	This Quarter
A	0%	1%
B	45%	36%
C	50%	59%
D	5%	4%
F	0%	0%
Weighted Average Grade	2.41	2.35

6. U.S. Economy Grade – Second Half of 2007

Respondents were asked how they expected the U.S. economy to perform during the second half of 2007 on a grading scale of A through F.

- Lenders anticipate the economy's performance, similar to the above expectations for near-term domestic economic growth and credit quality, to marginally worsen in the second half of 2007.

	Last Quarter	This Quarter
A	0%	1%
B	27%	29%
C	56%	45%
D	17%	25%
F	0%	0%
Weighted Average	2.10	2.06

7. Customers' Future Growth Expectations

Lenders assessed their customers' growth expectations for the next six months to a year.

- While the majority of lenders' various customer growth expectations stayed relatively consistent with recent quarters, it is notable that the percentage of respondents believing their customers will have no growth expectations over the next 6-12 months increased to nine percent (from just one percent the previous quarter). The percentage of respondents expecting "moderate" growth fell to 83 percent, compared to 88 percent in the previous quarter.

	Last Quarter	This Quarter
Very Strong	1%	0%
Strong	10%	9%
Moderate	88%	83%
No Growth	1%	9%

8. Loan Structure

Respondents were asked whether their financial institutions planned to tighten, relax, or maintain their loan structures (collateral requirements, guarantees, advance rates, loan covenants, etc.) in each of four different-sized loan categories.

- In general, respondents continued the recent trend of expectations for increasing percentages of financial institutions to tighten their loan structures. The overall average of financial institutions planning to tighten their loan structures rose to 19 percent from 17 percent and eight percent of respondents, respectively, the previous two surveys.

	Last Quarter			This Quarter		
	<u>Tighten</u>	<u>Maintain</u>	<u>Relax</u>	<u>Tighten</u>	<u>Maintain</u>	<u>Relax</u>
Loans > \$10 million	15%	77%	8%	11%	84%	5%
\$6 – 10 million	17%	82%	1%	18%	80%	3%
\$1-5 million	16%	84%	0%	20%	79%	1%
Under \$1 million	22%	74%	5%	21%	78%	1%
Overall Average	17%	79%	4%	19%	79%	2%

9. Interest Rate Spread

Lenders were asked whether their financial institutions planned to reduce, maintain or increase their interest rate spreads and fee structures on similar credit quality loans.

- At the highest level in the last five quarters, 21 percent of respondents plan to increase their current interest rate spreads and fee structures on all sizes of loans. Lenders representing the smaller loan sizes – under \$5 million – experienced the largest increases in percentages predicting increased interest rate spreads and fees.

	Last Quarter			This Quarter		
	<u>Reduce</u>	<u>Maintain</u>	<u>Increase</u>	<u>Reduce</u>	<u>Maintain</u>	<u>Increase</u>
Loans > \$10 million	16%	74%	10%	11%	75%	14%
\$6 – 10 million	10%	77%	13%	5%	76%	19%
\$1-5 million	6%	78%	16%	5%	71%	24%
Under \$1 million	7%	74%	19%	1%	68%	31%
Overall Average	10%	76%	14%	6%	73%	21%

10. The Fed and Interest Rates

Respondents were asked in what direction the Fed would move interest rates and by how much in the coming six months.

- In a sizable shift from recent surveys, respondents forecasted a neutral interest rate environment. The percentage of lenders anticipating a decrease in interest rates rose to 18 percent (versus just two percent the previous survey).

	Last Quarter	This Quarter
-More than 1.0	0%	1%
-1.0	0%	1%
-.75	0%	0%
-.50	2%	1%
-.25	0%	15%
0	11%	46%
+.25	48%	24%
+.50	34%	11%
+.75	2%	0%
+1.0	1%	0%
More than 1.0	1%	0%
Weighted Average	+32 basis points	+4 basis points

11. Current Competition

Respondents were asked to identify the segment of the industry from which they were experiencing the most competition.

- Regional banks continue to pose the most competition to lenders responding to the survey.

	Last Quarter	This Quarter
Money Center Banks	10%	13%
Local Commercial/ Community Banks	18%	16%
Factors	1%	0%
Regional Banks	44%	39%
Commercial Finance Organizations	17%	18%
Other	9%	15%

12. Average Loan Size

Respondents were asked to identify the typical size loan at their institution.

	Last Quarter	This Quarter
Under \$1 million	15%	10%
\$1-5 million	19%	18%
\$ 6-10 million	27%	34%
Over \$ 10 million	39%	39%
Average Loan	\$7.9 Million	\$8.3 Million

