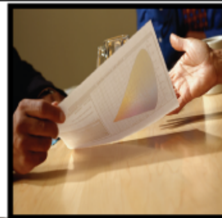
Phoenix Management Services
"Lending Climate in America" Survey



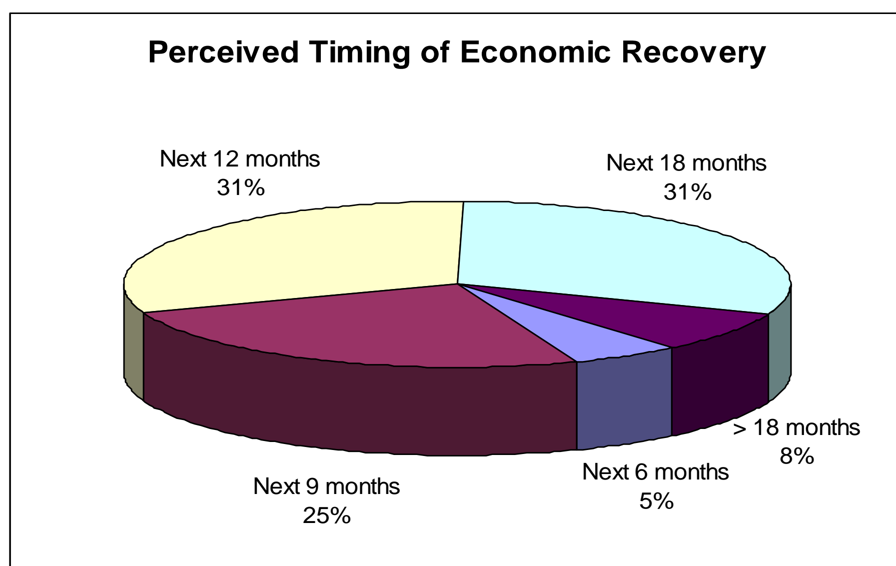
1st Quarter 2009
Summary, Trends and Implications

PHOENIX
“LENDING CLIMATE IN AMERICA”
QUARTERLY SURVEY

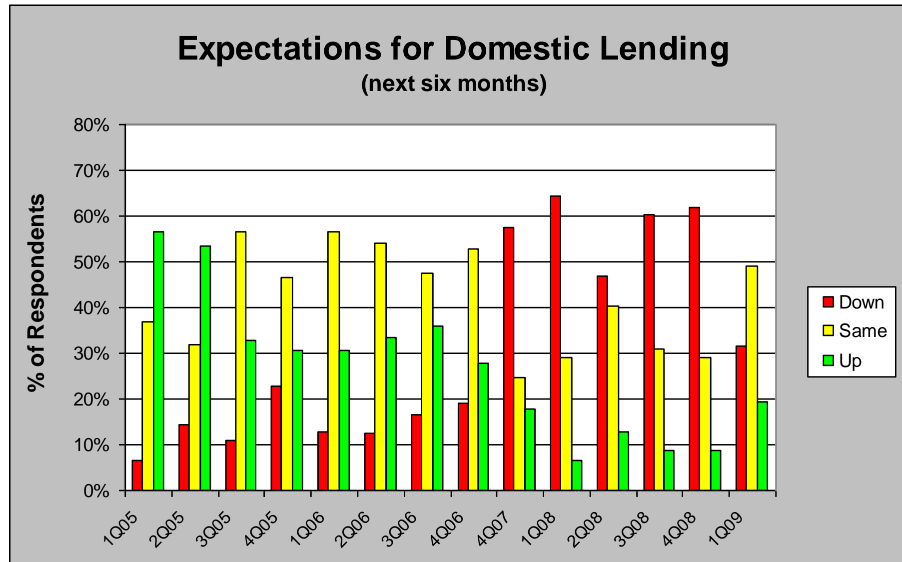
1st Quarter 2009

1. **Lenders are divided on the perceived impact of the Financial Stability Plan on U.S. lending.** Nearly half – 45 percent – of respondents believe that the Treasury Department’s Financial Stability Plan will have a “modest” impact on lending. A similar percentage - forty-four percent - opined that the Plan would have “minimal” impact of U.S lending. Eight percent responded that the Plan would have a “meaningful” impact, while the remaining three percent believe the Financial Stability Plan will have no impact on lending in the U.S.

2. **Respondents opine that the economic recovery will be a 2010 event**. When asked about the perceived timing of the economy recovery, an identical 31 percent gave the following responses: within the next 12 months and within the next 18 months. Twenty-five percent of lenders forecast a faster recovery – anticipating the recovery to begin within the next nine months. Eight percent of respondents believe it will be more than eighteen months before the economic recovery will begin. Finally, five percent of lenders believe the economic recovery will begin within the next six months.

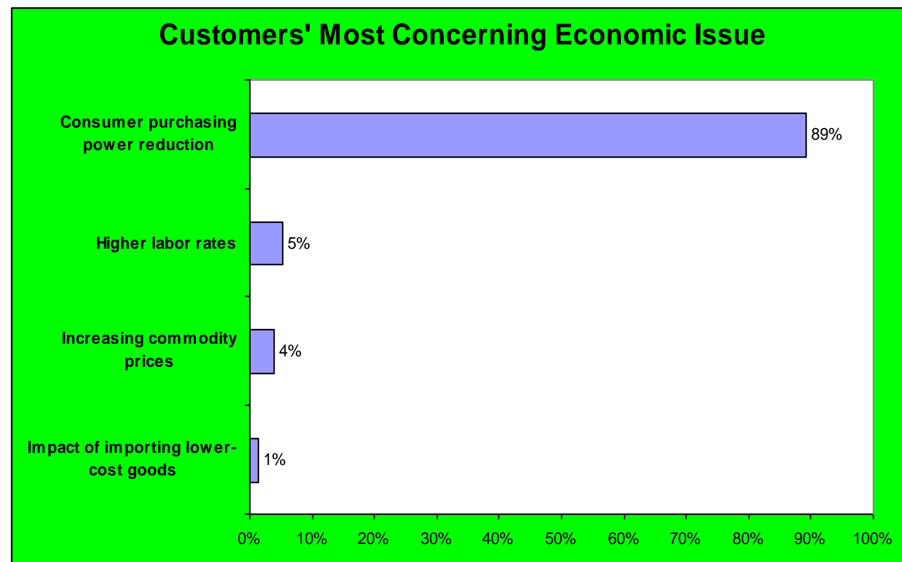


3. **The loan demand diffusion index (the percentage of respondents forecasting a higher percentage less those anticipating a lower percentage), while still negative, reversed its recent negative trending, as respondents were less pessimistic across all domestic lending segments in this survey.** The overall diffusion index for all lending segments improved to negative 25 percentage points (from negative 52 percentage points in the previous survey). Respondents indicated that, on average for all domestic lending categories, 20 percent have expectations for increased loan demand (versus 9 percent in the prior quarter).



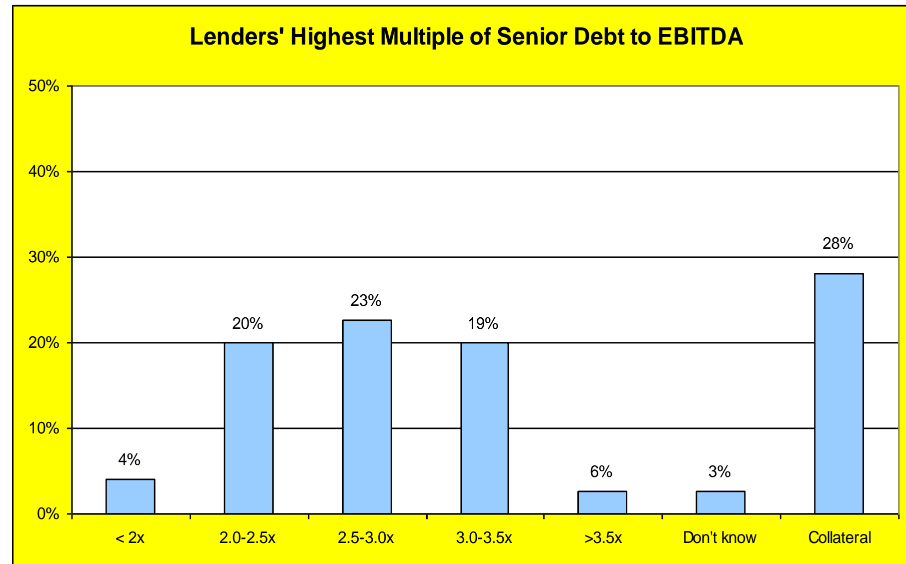
4. **Sixty-nine percent of respondents anticipate inflation will be equal to current levels over the next six months as compared to thirty-nine percent in the previous survey**. Twenty-four percent anticipate overall levels of inflation will trend higher than recent levels (previous survey: seventeen percent). Finally, seven percent of lenders predict inflation will trend lower than current levels over the next six months (previous survey: forty-four percent).

5. **In line with the previous survey, eighty-nine percent designated the reduction in consumer purchasing power as the economic issue borrowers/customers are most concerned with in the near term.** Five percent indicated higher labor rates as the most concerning economic issue. Four percent of lenders view increasing commodity prices as the most concerning economic issue. One percent of respondents designated the impact of importing lower-cost goods as the most concerning economic issue.



6. **Twenty-five percent of lenders indicated their financial institution would consider a loan request with a Senior Debt to EBITDA multiple greater than 3x, in line with the previous survey.** Twenty-three percent of respondents indicated their institution would only consider a loan request with a multiple as high as 2.5-3.0x (previous survey: twenty-three percent). Twenty-four percent of respondents

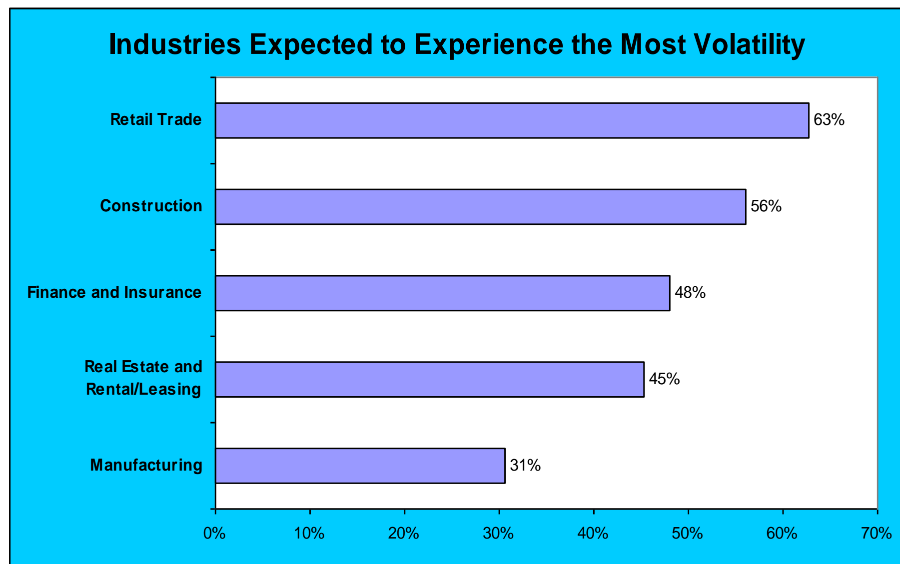
indicated they would only consider a loan request with a Senior Debt to EBITDA multiple less than 2.5x (previous survey: fourteen percent). Twenty-eight percent of respondents indicated they are collateral lenders and do not utilize cash flow multiples as the primary factor in credit decisions.



7. **Forty-nine percent of lenders believe their institution will have no change in the highest Senior Debt to EBITDA multiple it will consider in regards to a new loan request.** Eight percent of respondents believe internally that multiple will decrease less than 0.5x. Eleven percent of lenders opined that the multiple would increase at their financial institution over the next six months. Twenty-nine percent of respondents indicated they were collateral lenders and did not specifically focus on that multiple.

8. **Seventy-one percent of lenders designated constrained liquidity in the capital markets as the factor with the strongest potential to impact the near-term economy.** The sluggish housing market was chosen by 45 percent of respondents as having the most significant potential to have near-term economic impact. Thirty-three percent of lenders believe the stability of the stock market has the greatest potential to impact the economy. Thirteen percent of lenders chose the U.S. budget deficit, while twelve percent designated the unstable energy prices.

9. **Sixty-three percent of respondents anticipate the Retail Trade industry will experience the most volatility in the next six months**. When asked to identify three industries that will experience the most volatility in the next six months, fifty-six percent choose the Construction industry as the most likely to experience volatility and forty-eight percent of lenders chose the Finance and Insurance industry. Forty-five percent of lenders believe the Real Estate and Rental/Leasing industries will experience the most volatility. Thirty-one percent of lenders believe the Manufacturing industry will experience the most volatility.

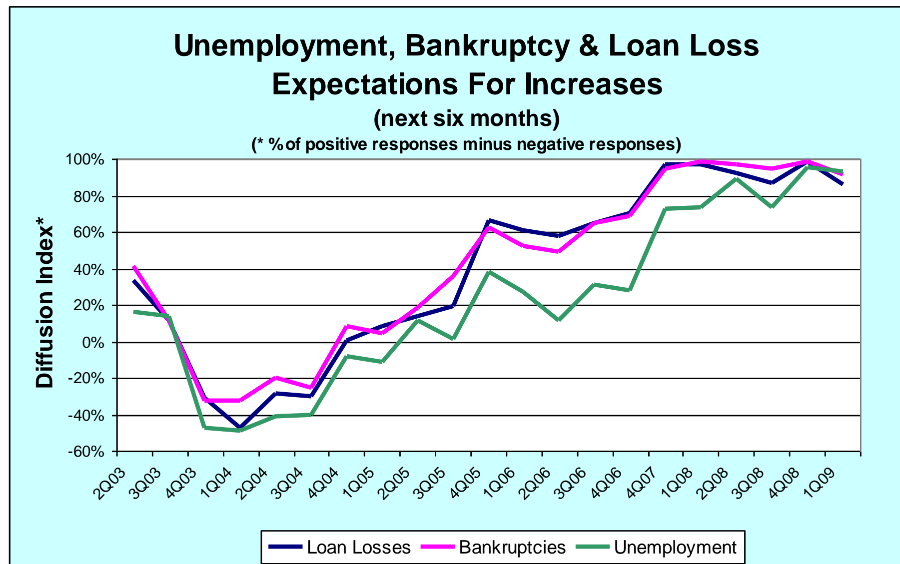


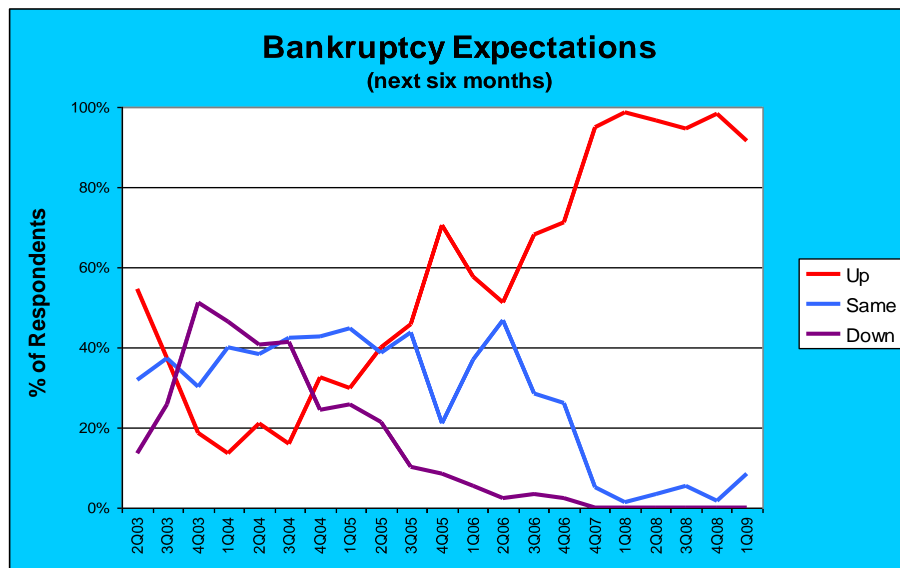
10. **Forty-four percent of respondents' customers anticipate raising additional capital in the next six months.** Twenty-four percent of customers plan on the following actions in the next two quarters: entering new markets and making an acquisition. Twenty-three percent of lenders' customers plan on taking "Other" actions, while nineteen percent of lenders' customers anticipate introducing new products or services in the next six months. Twelve percent of customers plan on making new capital investments, while just three percent intend on hiring new employees.

11. **Lenders expectations for the economy marginally improved from the previous quarter, but still remain well below recent historical levels.** Lenders expect the economy to perform at a "mid-D" level during the next six months. The "out six months" outlook improved to a "C" expectation level as well – a significant improvement from the previous "D" outlook in the previous quarterly survey.

12. **The percentage of respondents with customers having no growth expectations over the next 6-12 months continued to rise significantly from recent quarters to 86 percent – the highest level recorded in this survey in the last 8 years**. Thirteen percent of lenders opined their customers had moderate growth expectations, down from twenty-two percent in the previous quarter.

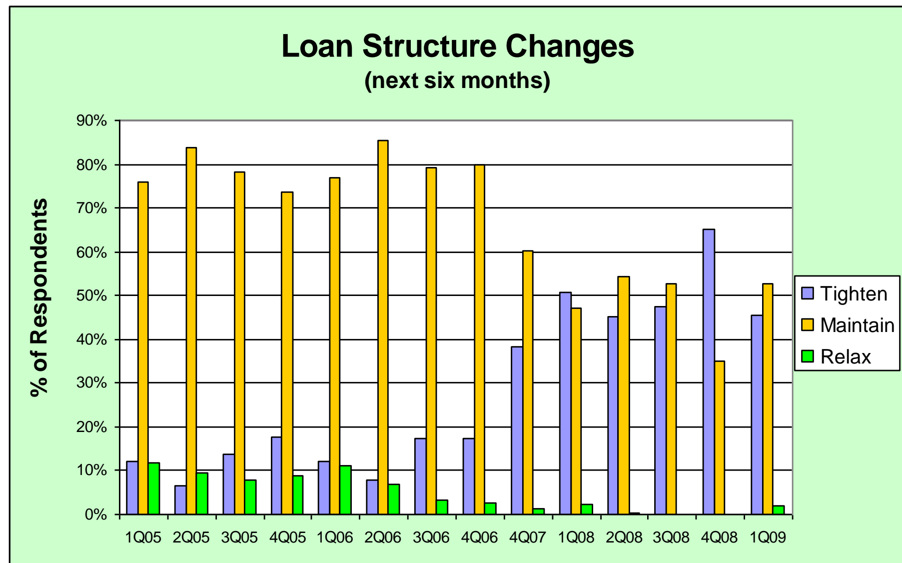
13. **Lenders remained consistent with expectations of deteriorating credit quality, albeit at slightly less negative levels.** The loan loss diffusion index was at 86 percent, decreasing 12 percentage points from the previous quarter, while 91 percent of lenders anticipate higher bankruptcies. The percentage of respondents anticipating interest rates to stay at their current levels increased to 71 percent – rising from 48 percent in the previous quarter.



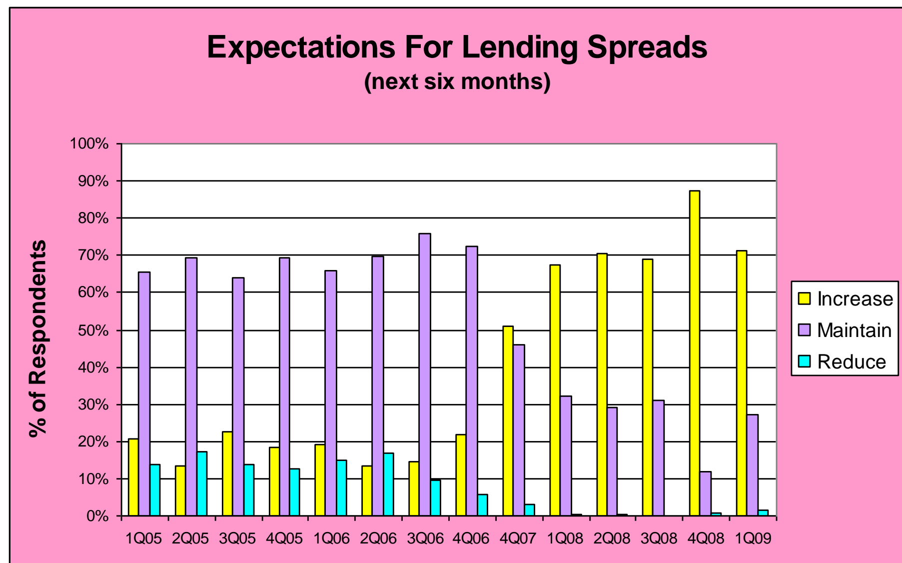


14. **The percentage of lenders anticipating interest rates will decrease over the next six months fell to nine percent (versus seventy-three percent in the previous survey).** Seventy-eight percent of lenders believe rates will remain unchanged, while the remaining thirteen percent of respondents believes that interest rates will increase over the next six months.

15. **The percentage of lenders expecting to maintain their existing loan structures increased to 53 percent (versus 35 percent in the previous survey).** As a result, the percentage of respondents planning to tighten their loan structure fell to 46 percent (versus 65 percent in the previous survey).



16. **A majority percentage of lenders anticipate increasing their current lending spreads in this interest rate environment.** Seventy-one percent of respondents (versus eighty-seven percent in the previous quarter) expect to increase lending spreads from their current levels.



Phoenix Management
"Lending Climate in America"
1st Quarter 2009

Survey Results

1. Treasury Department's Financial Stability Plan Impact on Lending

Lenders were asked what impact they believed the Treasury Department Financial Stability Plan would have on lending.

- Forty-five percent believe that the Financial Stability Plan will have a "modest" impact on lending.
- Forty-four percent of respondents believe "minimal" impact will be realized relative to the Plan.
- Eight percent of lenders responded the Plan would have a "meaningful" impact.
- The remaining three percent of lenders believe the Financial Stability Plan will have "no" impact on lending.

2. Perceived Timing of the U.S. Economic Recovery

Respondents were asked when they thought the economy would begin its recovery/upswing.

- Thirty-one percent of respondents believe the U.S. economy will begin its recovery during the following two time periods: within the next twelve months and within the next eighteen months.
- Twenty-five percent of lenders believe the economy will begin its recovery within the next nine months.
- Eight percent of respondents opined the economic recovery would take more than eighteen months to commence.
- Finally, five percent of lenders believe the economy will recover within the next six months.

3. Anticipation of Near-Term Inflation Trends

Lenders were asked, over the next six months, how they anticipate that overall levels of inflation would trend.

- Sixty-nine percent of respondents opined that the near-term overall levels of inflation would be equal to current levels (previous survey: thirty-nine percent).
- Twenty-four percent of lenders responded that inflation in the next months would be higher than current levels (previous survey: seventeen percent).
- Seven percent of respondents believe that overall levels of inflation will be lower than current levels (previous survey: forty-four percent).

4. Economic Issue that Borrowers/Customers are Most Concerned With

Respondents were asked which economic issue that their borrowers/customers are MOST concerned with in the near term.

- Eighty-nine percent of respondents replied their borrowers/customers are most concerned with their reduction in consumer purchasing power (previous survey: ninety-one percent).
- Five percent indicated the biggest concern was higher labor rates (previous survey: zero percent).
- Four percent of respondents designated increasing commodity prices as the economic issue of which they are most concerned (previous survey: five percent).
- One percent indicated the biggest concern was the impact of importing lower-cost goods (previous survey: zero percent).

5. Highest Senior Debt to EBITDA Multiple Institutions Would Consider

Respondents were asked what was the highest multiple of Senior Debt to EBITDA their financial institution would consider with regard to a loan request.

- Twenty-eight percent of respondents replied they are collateral lenders and, therefore, do not make credit decisions based on cash flow/leverage multiples (previous survey: thirty-eight percent).
- Twenty-three percent believed their institution would consider a loan request with a Senior Debt to EBITDA multiple as high as the 2.5x – 3.0x range (previous survey: twenty-three percent).
- Twenty percent indicated their institution gave the following responses: would consider a loan request with a leverage multiple as high as the 3.0x – 3.5x range (previous survey: nineteen percent) and would consider a loan request with a leverage multiple as high as the 2.0x – 2.5x range (previous survey: eleven percent).
- Six percent of lenders opined their financial institution would consider a loan request with a leverage multiple of greater than 3.5x (previous survey: six percent).
- Four percent of lenders responded their financial institution would only consider a loan request with a leverage multiple lower than 2.0x (previous survey: four percent).

6. Anticipated Change in Senior Debt to EBITDA Multiple

Respondents were asked, over the next six months, how the Senior Debt to EBITDA multiple would change at their financial institution.

- Forty-nine percent indicated that the Senior Debt to EBITDA multiple will not change at their financial institution over the next six months (previous survey: thirty-eight percent).

- Twenty-nine percent of respondents replied they are collateral lenders and, therefore, do not make credit decisions based on cash flow/leverage multiples (previous survey: thirty-three percent).

- Eight percent believed the leverage multiple will decrease less than 0.5x during the next six months (previous survey: nineteen percent).

- Seven percent opined the Senior Debt to EBITDA multiple will increase less than 0.5x during the next six months (previous survey: two percent).

- Four percent believed the Senior Debt to EBITDA multiple will increase more than 0.5x during the next six months (previous survey: two percent).

7. Factors with Strongest Potential to Affect Near-Term Economy

Respondents were asked, over the next six months, which TWO factors had the strongest potential to affect the economy.

- Seventy-one percent designated constrained liquidity in the capital markets as the factor with the strongest potential to affect the near-term economy (previous survey: eighty-eight percent).

- Forty-five percent designated the sluggish housing market as the factor with the strongest potential to affect the near-term economy (previous survey: sixty-four percent).

- Thirty-three percent opined that the stability of the stock market has the strongest potential to affect the economy during the next six months (not an option in the previous survey).

- Thirteen percent of respondents selected the U.S. budget deficit as having the strongest potential to affect the economy over the next six months (previous survey: nine percent).

- Twelve percent opined that unstable energy prices had the strongest potential to affect the economy during the next six months (previous survey: nine percent).

8. Industries Expected to Experience Greatest Volatility

Respondents were asked, over the next six months, which industries will experience the most volatility (i.e. Chapter 11 filings, mergers and acquisitions, declining profits, etc.). Respondents were asked to select the top three industries.

- Sixty-three percent believed the retail trade industry would experience the most volatility over the next six months (previous survey: sixty-nine percent).

- Fifty-six percent designated the construction industry as the industry expected to weather the greatest volatility in the near term (previous survey: sixty-three percent).

- Forty-eight percent of respondents believed the finance and insurance industry will experience the greatest volatility over the next six months (previous survey: sixty-four percent).

- Forty-five percent responded that the real estate and rental/leasing industry would experience the most volatility during the next six months (previous survey: forty-eight percent).

- Thirty-one percent opined the manufacturing industry would experience the most volatility (previous survey: twenty-seven percent).

- The balance of the industry choices did not register designations greater than eleven percent from the respondents.

9. 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 twelve months. Lenders were asked to designate all potential customer actions that applied.

- Forty-four percent indicated their customers are planning on raising additional capital in the next six to twelve months (previous survey: fifty-five percent).

- Twenty-four percent indicated the following responses: their customers are planning on entering new markets (previous survey: sixteen percent) and making an acquisition (previous survey: nine percent).

- Twenty-three percent responded their customers plan on engaging in "other" business actions in the next 6-12 months (previous survey: twenty-three percent).

- Nineteen percent responded their customers intend to introduce new products or services in the next 6-12 months (previous survey: twenty-five percent).

- Twelve percent responded their customers plan on making an acquisition in the next 6-12 months (previous survey: nine percent).

- Three percent of respondents indicated their customers plan on hiring new employees in the next 6-12 months (previous survey: five percent).

10. 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.

- Respondents were less pessimistic than recent surveys across all domestic lending segments in this quarterly survey. As a result, the diffusion index for all domestic lending segments equaled negative 12 percentage points – a 41 percentage point improvement from the previous quarter.

- The sentiment of lenders remained primarily negative with regards to the balance of credit quality metrics. The percentage of respondents forecasting an increase in loan losses, bankruptcies, unemployment, and bank failures remained at or near historical highs.

	4Q/2008			1Q/2009		
	Up	Down	Same	Up	Down	Same
Corporate Lending	9%	61%	30%	16%	27%	57%
Middle Market Lending	7%	63%	30%	21%	30%	49%
Small Business Lending	9%	63%	28%	21%	37%	42%
International Lending	5%	55%	40%	1%	66%	33%

	Up	Down	Same	Up	Down	Same
Loan Losses	98%	0%	2%	90%	4%	6%
Bankruptcies	98%	0%	2%	91%	0%	9%
Interest Rates	17%	34%	49%	29%	0%	71%
Unemployment	95%	0%	5%	93%	0%	7%
Bank Failures	86%	0%	14%	74%	1%	25%

11. U.S. Economy Grade – Next Six Months

Respondents were asked how they expected the U.S. economy to perform during the next six month on a grading scale of A through F.

- Respondents' outlook for the economy's near-term performance improved marginally to a mid - "D" grade level for the next six months. The percentage of lenders who believe that the economy will perform at a "F" level decreased to 10 percent from 28 percent in the prior quarter.

	4Q/2008	1Q/2009
A	0%	0%
B	0%	0%
C	5%	13%
D	67%	77%
F	28%	10%
Weighted Average Grade	0.77	1.03

12. U.S. Economy Grade – Beyond the Next Six Months

Respondents were asked how they expected the U.S. economy to perform beyond the next six months ("out" six months) on a grading scale of A through F.

- Lenders' expectations for the U.S. economy's performance in the "out six months" period markedly improved versus the previous survey. Respondents anticipating the economy to perform at a "C" level during the first half of 2009 increased to 56 percent (from 17 percent in the previous survey). Conversely, lenders anticipating the economy to perform at a "D" level or lower decreased to 29 percent (down from 83 percent in the previous survey).

	4Q/2008	1Q/2009
A	0%	0%
B	0%	16%
C	17%	56%
D	72%	29%
F	11%	0%
Weighted Average	1.06	1.87

13. Customers' Future Growth Expectations

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

- The percentage of respondents indicating their customers have no growth expectations for the next six months to one year increased to eighty-six percent (an eight percentage point increase from the previous survey).

	4Q/2008	1Q/2009
Very Strong	0%	0%
Strong	0%	1%
Moderate	22%	13%
No Growth	78%	86%

14. 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.

- Respondents indicating their financial institutions would tighten their loan structures decreased all loan sizes. The overall average of financial institutions planning to tighten their loan structures declined to 46 percent as compared to 65 percent in the prior quarter survey.

	4Q/2008			1Q/2009		
	Tighten	Maintain	Relax	Tighten	Maintain	Relax
Loans> $25 million	70%	30%	0%	44%	55%	1%
$15 – 25 million	62%	38%	0%	42%	57%	1%
$5-15 million	63%	37%	0%	46%	52%	2%
Under $5 million	65%	35%	0%	51%	46%	3%
Overall Average	65%	35%	0%	46%	53%	1%

15. 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.

- Seventy-one percent of respondents plan to increase their current interest rate spreads and fee structures on all sizes of loans – sixteen percentage points lower than the previous survey.

	4Q/2008			4Q/2008		
	Reduce	Maintain	Increase	Reduce	Maintain	Increase
Loans> $25 million	0%	13%	87%	1%	32%	67%
$15 – 25 million	2%	9%	89%	1%	29%	70%
$5-15 million	1%	11%	88%	0%	23%	77%
Under $5 million	0%	15%	85%	3%	25%	72%
Overall Average	1%	12%	87%	1%	27%	71%

16. 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.

- Respondents forecasted a stable interest rate environment. The percentage of lenders anticipating a 25 bps or more decrease in interest rates fell to 8 percent (versus 72 percent in the prior quarter survey).

	4Q/2008	1Q/2009
-More than 1.0	1%	0%
-1.0	5%	0%
-.75	2%	0%
-.50	38%	4%
-.25	28%	4%
0	22%	78%
+.25	2%	7%
+.50	2%	4%
+.75	0%	1%
+1.0	2%	0%
More than 1.0	0%	0%
Weighted Average	- 31 basis points	+ 2 basis points

17. Current Competition

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

- The percentage of lenders identifying local commercial/community banks as the primary source of competition increased to forty-seven percent this survey – as compared to nineteen percent last quarter. Similarly, but to a lesser degree, respondents designating factors as the primary source of competition increased to sixteen percent versus eight percent in the previous survey.

	4Q/2008	1Q/2009
Money Center Banks	6%	6%
Local Commercial/ Community Banks	19%	47%
Factors	8%	16%
Regional Banks	33%	18%
Commercial Finance Organizations	20%	6%
Other	14%	7%