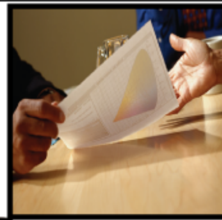
Phoenix Management Services
"Lending Climate in America" Survey



1st Quarter 2010
Summary, Trends and Implications

PHOENIX
"LENDING CLIMATE IN AMERICA"
QUARTERLY SURVEY

SUMMARY, TRENDS AND IMPLICATIONS

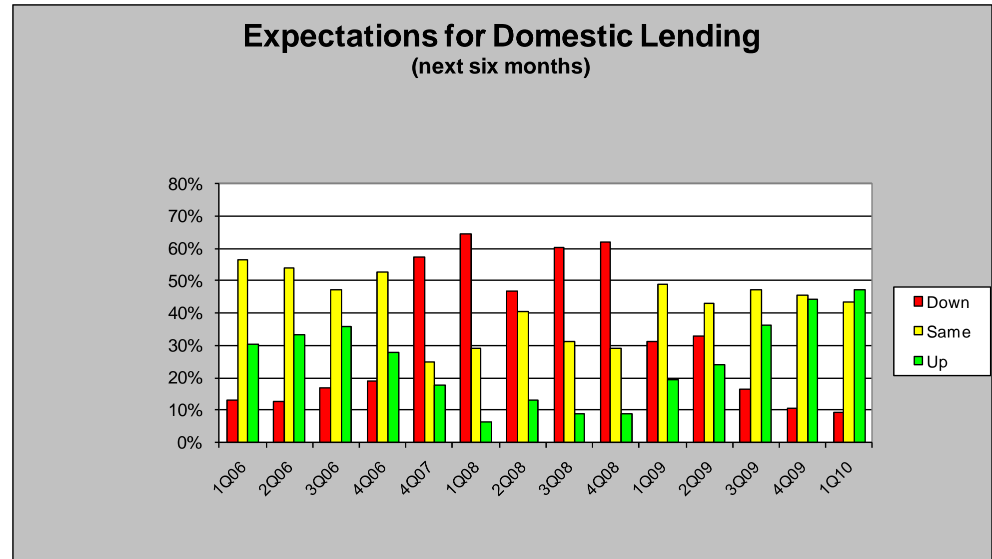
1. **Greater than fifty percent of lenders agree the U.S. government's Trouble Asset Relief Program ("TARP") was successful as it allowed the U.S. financial system from avoiding levels of further devastation.** One quarter of respondents suggest that the TARP legislation allowed for too much government intervention and has jeopardized the underlying principals of a free market economy, while ten percent believe the Program has successfully allowed many banking institutions to shore up their balance sheets and provide additional liquidity to the marketplace. Six percent are not convinced the TARP has had a significant impact on the economy as the credit markets have not showed signs of improvement. The remaining five percent of lenders selected "Other" as their choice regarding the effectiveness of the TARP.

2. **Just over half of respondents have concerns regarding the recently approved Obama healthcare program as it will add a tremendous expense to an already overburdened federal deficit, which will have a detrimental impact on the U.S. economy.** Twenty four percent of participants agreed that while the Obama healthcare program may add to the country's extended deficit, the current healthcare system needs significant change in the near future. Approximately sixteen percent did not believe the proposed plan would be passed as there are too many controversial factors involved in the legislation. Two percent believe that the healthcare plan is a necessity for the future success of the nation, while the remaining six percent did not select any of the aforementioned choices.

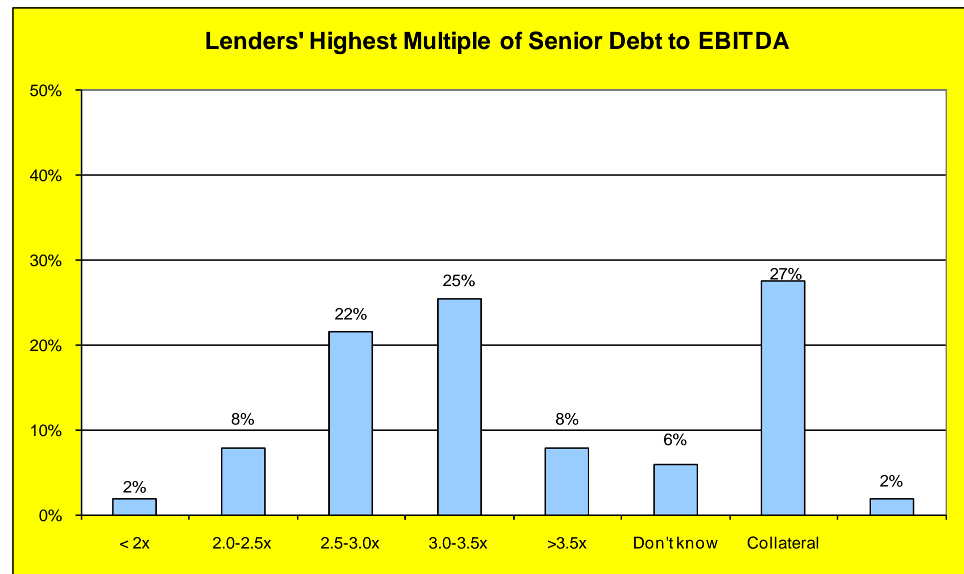
3. **In regards to a report released by the Mortgage Bankers Association, which stated that the percentage of loans in foreclosure or at least one payment behind hit 15% in Q4 2009, the highest level since the Association's records began in 1972, nearly fifty percent of respondents believe mortgage delinquencies will increase as more foreclosure filings will occur in 2010 as a result of the anticipated wave of variable rate increases on existing mortgages.** Forty three percent of participants believe there will be only a minimal change in foreclosure rates in 2010 versus 2009 levels, while eight percent believe mortgage delinquency rates will actually decline in 2010 as a result of government intervention and a slight improvement in the economy. The final two percent selected "Other" factors.

4. **The continuing sluggish housing market and the increasing U.S. budget deficit are the factors lenders believe will have the strongest potential to affect the economy in the next six months.** Nearly fifty percent of respondents, when asked to indicate the economic factor with the greatest potential to negatively impact the US economy, designated the housing markets, while forty-five percent suggested the rising U.S. budget deficit. Thirty-five percent believe the constrained credit market liquidity as the having the strongest potential to affect the economy in the first half of 2010, which is down significantly from an overwhelming seventy-one percent in the previous survey. Twenty-two percent believe unstable energy prices would have the strongest impact on the near term economy, which is up ten percent from the previous survey. Fourteen percent of respondents opined that volatility in the stock market could have the most significant impact in the near term. Four percent of lenders anticipate the wars in Iraq and Afghanistan will have the strongest potential impact. Twelve percent believe "Other" factors will have the strongest impact on the economy in the near term.

5. **Improved expectations for domestic lending continue to show progression.** The overall diffusion index for all lending segments improved positively three percentage points from last quarter's survey. Respondents indicated that, on average for all domestic lending categories; forty-seven percent have expectations for increased loan demand (versus 44 percent in the prior quarter). Corporate commercial lending yielded the highest expectations for increased loan demand from all the lending categories.

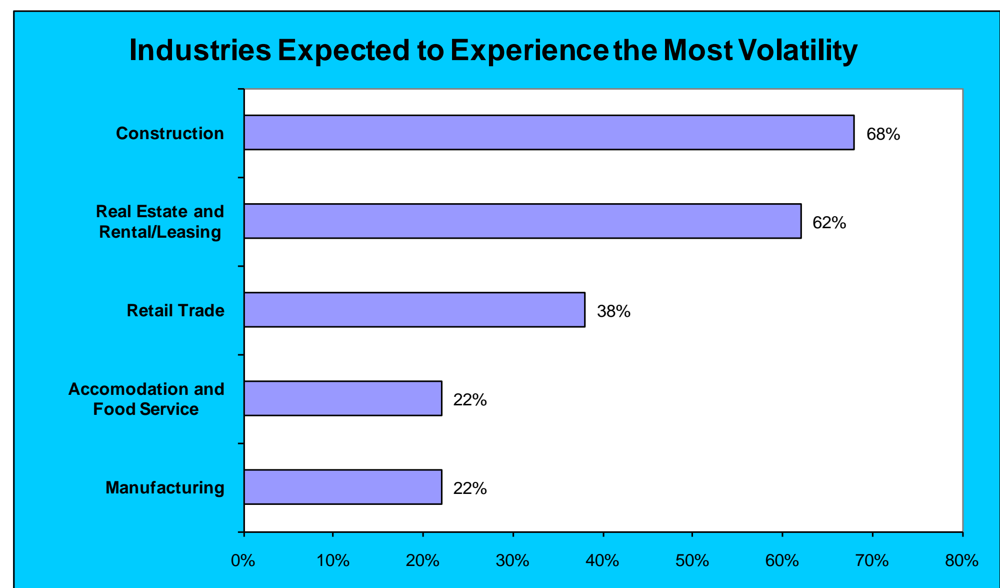


6. **Senior Debt to EBITDA ratios indicate preliminary signs of increasing leverage as twenty-five percent of lenders indicated their financial institution would consider a loan request with a Senior Debt to EBITDA multiple as high as 3.0-3.5x, three percentage points higher than the previous survey.** Eight percent of lenders indicated their institution would consider a loan request with a multiple greater than 3.5x (previous survey: 2 percent). Twenty-two percent of respondents indicated their institution would only consider a loan request with a multiple as high as 2.5-3.0x (previous survey: 24 percent). Twenty-seven percent of respondents indicated they are collateral lenders and do not utilize cash flow multiples as the primary factor in credit decisions. Eight percent believe that their institution would only consider a loan request with a multiple of 2.0x -2.5x (previous survey: 14 percent). Two percent of lenders indicated their institution would only consider a loan request with a multiple less than 2.0x (previous survey: 7 percent). The remaining eight percent of respondents either were not sure which ratio bandwidth their financial institution would consider or did not respond to the question.



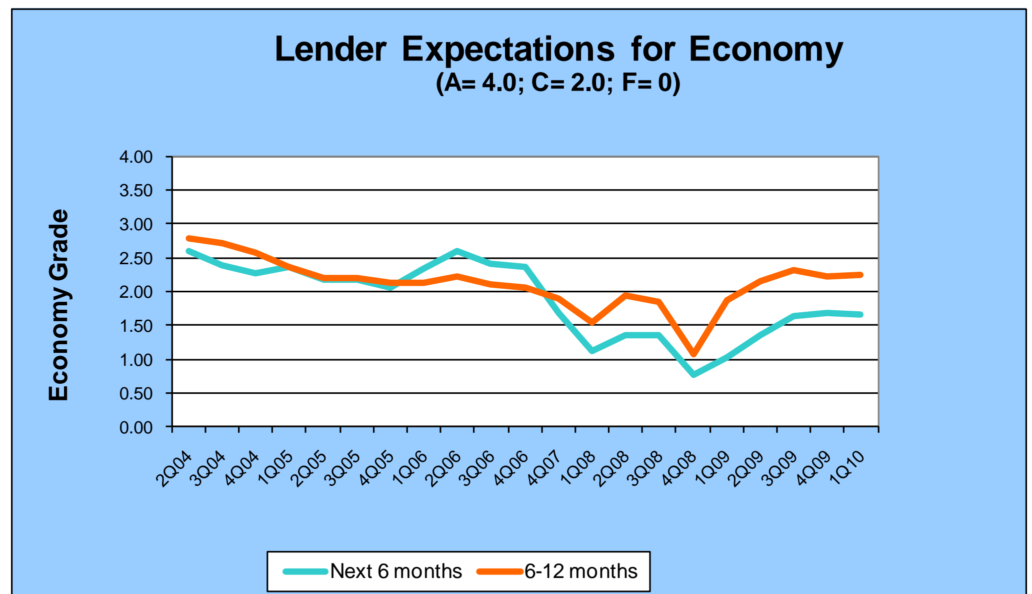
7. **Fifty-three percent of lenders believe their institution will have no change in the highest Senior Debt to EBITDA multiple it will consider in regards to a new loan request (twelve percent higher than previous quarter).** Fourteen percent of respondents believe that the highest multiple will increase less than 0.5x (down from 28 percent in the previous quarter), while six percent anticipate the multiple will increase greater than 0.5x over the next six months (up from only two percent in the previous quarter). No respondents suggested that the multiple would decline at their financial institution over the next six months. Twenty-two percent of respondents indicated they were collateral lenders and did not specifically focus on that multiple. Five percent of lenders responded that they did not know which direction their financial institution was headed in the near term.

8. **Two-thirds of respondents anticipate the Construction 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, sixty-eight percent chose the Construction industry as the most likely to experience volatility and sixty-two percent of lenders chose the Real Estate and Rental/Leasing industry. Thirty-eight percent of lenders believe the Retail Trade industry will experience the most volatility. Twenty-two percent elected both the Accommodation and Food Services and Manufacturing industries will experience the most volatility in the near term.

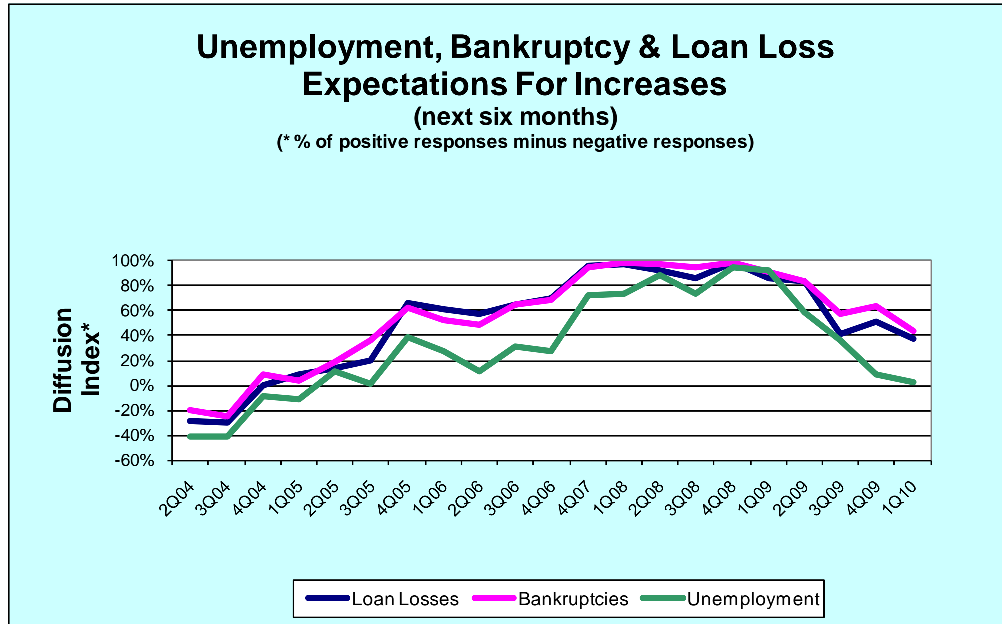


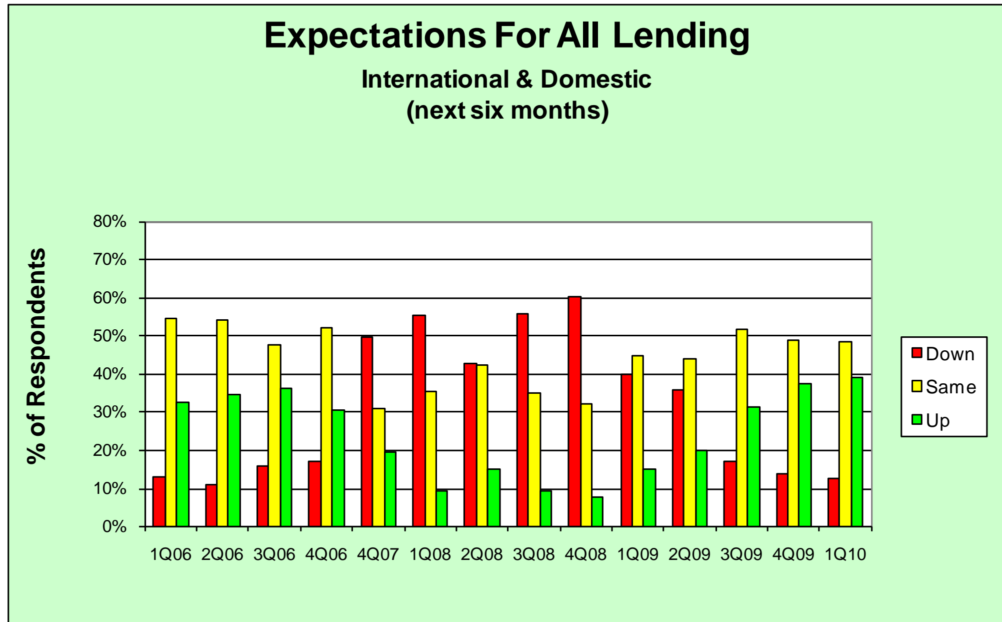
9. **Forty-four percent of respondents' customers anticipate raising additional capital in the next six months (up eight percentage points from the previous survey).** Thirty-two percent responded their customers are planning on making new capital investments, while twenty-six are planning on introducing new products or services. Eighteen percent replied their customers are planning to make an acquisition and/or entering new markets, followed by twelve percent hiring new employees. Twelve percent of respondents anticipate their customers to engage in the planning of "Other" initiatives in the next six months.

10. **Lenders expectations for the economy remained relatively unchanged for the next six months, but anticipate growth for the following six month outlook.** Lenders expect the economy to perform at a "high-D" level for the next six months, which is very consistent in comparison to the previous survey due to mixed signals from leading economic indicators. Respondents anticipate the economy to show signs of improvement looking past the next six month period compared to growth expectation levels in last quarter's survey.

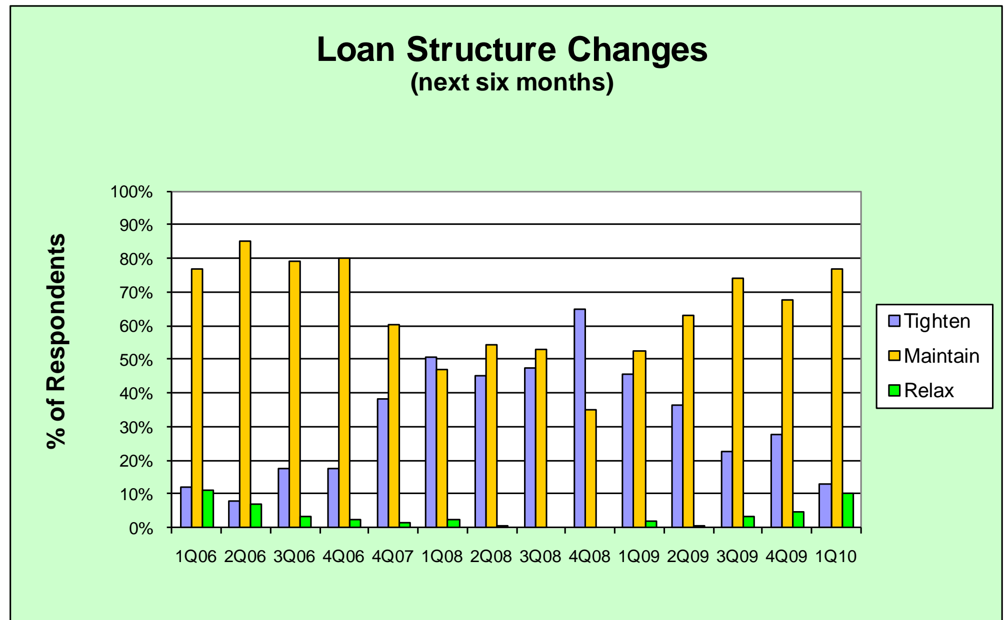


11. **Lenders credit quality outlook regarding macroeconomic indicators yielded positive signals.** The domestic lending outlook improved by four percentage points compared to last quarter. The percentage of respondents anticipating higher unemployment rates decreased eight percentage points in comparison to the previous quarter decreasing to sixteen percent (and nearly fifty percentage points versus two quarters prior). Lenders also expect a decrease in both bankruptcies and loan losses, as both categories saw a significant decrease in higher expected rates in comparison to the previous survey.

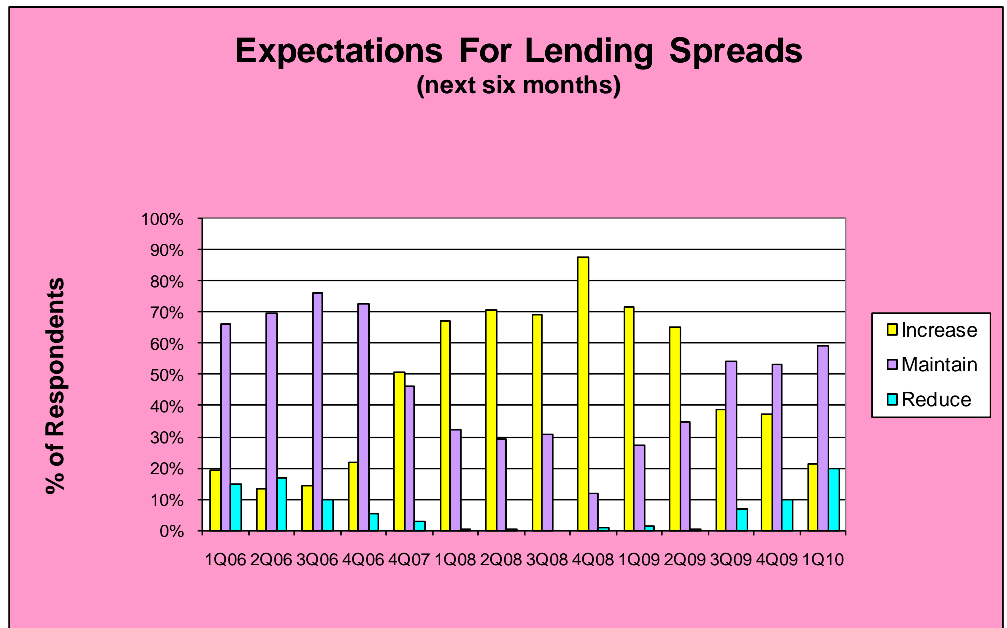




12. **The percentage of lenders expecting to tighten their existing loan structures decreased to thirteen percent (versus 28 percent in the previous survey).** As a result, the percentage of respondents planning to relax their loan structure doubled from only five percent in the previous survey to over ten percent. Lenders who anticipate maintaining their loan structures increased by ten percent from sixty-eight percent in Q4 2009 to seventy-eight percent in Q1 2010.



13. **Expectations for lending spreads improved in comparison to the previous quarter as only twenty-one percent anticipate increasing their lending rates in comparison to over thirty-seven percent in the previous survey.** Fifty-nine percent of respondents (versus 53 percent in the previous quarter) expect to maintain lending spreads from their current levels and twenty percent anticipate reducing their rates in comparison to only ten percent in Q4 2009.



Phoenix Management
"Lending Climate in America"
1st Quarter 2010

Survey Results

1. Effectiveness of the Troubled Asset Relief Program ("TARP")

Lenders were asked: As the Troubled Asset Relief Program ("TARP") begins its wind down, how would you categorize the impact of the Program?

- Fifty-five percent believe the Program has successfully allowed many banking institutions to sure up their balance sheets and provide additional liquidity to the marketplace.
- Twenty-five percent responded the Program allowed for too much government intervention and has jeopardized the underlying principals of a free market economy.
- Ten percent of lenders suggested it has successfully allowed many banking institutions to sure up their balance sheets and provide additional liquidity to the marketplace.
- Six percent do not believe it has not had a significant impact on the economy as the credit markets are not noticeably better from levels one year ago.
- Four percent attributed "Other" responses regarding their opinion of TARP's effectiveness.

2. Impressions on Obama Healthcare Program

Respondents were asked: What are your impressions on the proposed Obama healthcare plans?

- Fifty-three percent of respondents believe it will add a tremendous expense to an already overburdened federal deficit, which will have a detrimental impact on the U.S. economy.
- Twenty-three percent opined that while it may add to the country's extended deficit, the current healthcare system needs significant change in the near future.
- Sixteen percent of respondents did not believe the proposed bill would be passed due to controversial issues.
- Six percent chose "Other" as their response.
- Two percent believe the Plan which would bring healthcare to nearly 10% of Americans who currently lack coverage, is a necessity for the future success of the nation.

3. Expectations Related to Mortgage Delinquencies in 2010

Lenders were asked: The Mortgage Bankers Association ("MBA") released a report in February 2010 stating that the percentage of loans in foreclosure or at least one payment

behind hit 15% in Q4 2009, the most since the MBA's records began in 1972. What are your expectations relating to mortgage delinquencies in 2010?

- Forty-seven percent of respondents believe more foreclosure filings will occur in 2010 as a result of the anticipated wave of variable rate increases on existing mortgages.

- Forty-three percent believe there will be very minimal change in 2010 from 2009 foreclosure levels.

- Eight percent suggested delinquencies will decrease versus 2009 levels as a result of government intervention and a slight improvement in the economy.

- Two percent chose “Other” factors in regards to the discussion question.

5. Highest Senior Debt to EBITDA Multiple Institutions Would Consider

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

- Twenty-seven percent of respondents replied they are collateral lenders and, therefore, do not make credit decisions based on cash flow/leverage multiples (previous survey: 29 percent).

- Twenty-five percent indicated their institution would consider a loan request with a leverage multiple as high as the 3.0x – 3.5x range (previous survey: 22 percent).

- Twenty-two 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: 24 percent).

- Eight percent of lenders opined their financial institution would consider a loan request with a leverage multiple of greater than 3.5x (previous survey: 2 percent).

- Eight percent believed their institution would consider a loan request with a Senior Debt to EBITDA multiple as high as the 2.0x – 2.5x range (previous survey: 14 percent).

- Six percent answered “Do Not Know” in response to the aforementioned question. (Previous survey: 2 percent).

- Two percent believed their institution would only consider a loan request with a Senior Debt to EBITDA multiple below 2.0x. (previous survey: 7 percent).

- The remaining two percent did not respond.

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.

- Fifty-three percent indicated that the Senior Debt to EBITDA multiple will not change at their financial institution over the next six months (previous survey: 41 percent).

- Twenty-two percent of respondents replied they are collateral lenders and, therefore, do not make credit decisions based on cash flow/leverage multiples (previous survey: 26 percent).

- Fourteen percent of lenders believe that the leverage multiple will increase less than 0.5x during the next six months (previous survey: 28 percent).

- Six percent conclude that the leverage multiple will increase greater than 0.5x during the next six months (previous survey: 2 percent).

- The remaining five percent of respondents did not know the degree to which the Senior Debt to EBITDA multiple would change at their financial institution.

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.

- Forty-nine percent designated the sluggish housing market as the factor with the strongest potential to affect the near-term economy (previous survey: 43 percent).

- Forty-five 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: 33 percent).

- Thirty-five percent indicated constrained liquidity in the capital markets as the factor with the strongest potential to affect the near-term economy (previous survey: 71 percent).

- Twenty-two percent concluded that unstable energy prices have the strongest potential to affect the economy during the next six months (previous survey: 12 percent).

- Fourteen percent opined that the stability of the stock market has the strongest potential to affect the economy during the next six months (previous survey: 9 percent).

  Four percent opined that the wars in Iraq and Afghanistan have the strongest potential to affect the economy during the next six months (previous survey: 2 percent).

- Twelve percent designated “Other” factors to have the strongest potential to affect the economy during the next six months (previous survey: 31 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-eight percent designated the construction industry as the industry expected to weather the greatest volatility in the near term (previous survey: 64 percent).

- Sixty-two percent responded that the real estate and rental/leasing industry would experience the most volatility during the next six months (previous survey: 67 percent).

- Thirty-eight percent believe the retail trade industry would experience the most volatility over the next six months (previous survey: 43 percent).

- Twenty-two percent opined the manufacturing industry would experience the most volatility (previous survey: 22 percent).

- Twenty two percent believe the accommodation and food service industry would experience the most volatility (previous survey: 10 percent).

- Eighteen percent of respondents believe the finance and insurance industry will experience the greatest volatility over the next six months (previous survey: 43 percent).

- Sixteen percent agreed the Arts, Entertainment and Recreation industry will experience the greatest volatility in the next six months (previous survey: 10 percent).

- Twelve percent believe that both the Transportation and Warehousing and Health Care and Social Assistance industries will face the most volatility during the next six months (previous survey: 9 percent and 17 percent, respectively).

- The balance of the industry choices did not register designations greater than ten 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 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 months (previous survey: 36 percent).

- Thirty-two percent of lenders believe their customers will be making new capital investments (previous survey: 19 percent).

- Twenty-six percent of lenders believe their customers are planning on introducing new products or services (previous survey: 28 percent).

- Eighteen percent of lenders opined that their customers are planning on making an acquisition (previous survey: 28 percent).

- Eighteen percent responded their customers are planning on entering new markets (previous survey: 17 percent).

- Twelve percent of respondents indicated their customers plan on hiring new employees in the next 6 months (previous survey: 17 percent).

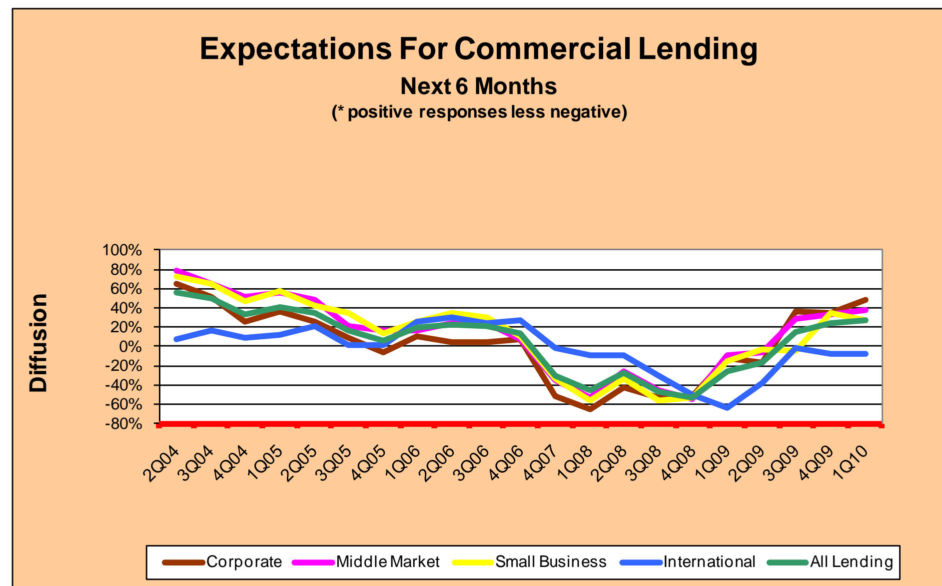
10. Economic Indicators

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

- Respondents showed signals of optimism regarding lending indicators. The diffusion index for all domestic lending segments equaled positive 38 percentage points - a steady improvement of four percentage points versus last quarter and a fifty percentage point improvement versus one year prior. Corporate and middle market commercial lending categories experienced the greatest signs of improvement versus the previous quarter, while small business and international lending continue to signify difficulties.

- There was a general consensus of improvement regarding macro-economic related indicators. The expectations regarding an increase in bankruptcies improved by twenty-four percentage points from seventy-four percent in Q4 2009 down to fifty percent in Q1 2010. Also respondents agreed that the likelihood of unemployment further increasing fell to sixteen percent in comparison to twenty-four percent last quarter. Lenders expectations in regards to loan losses and bank failures both followed similar trends of improvement in comparison to the previous quarter.

	1Q/2010			4Q/2009		
	Up	Down	Same	Up	Down	Same
Corporate Lending	50%	2%	48%	43%	9%	48%
Middle Market Lending	48%	10%	42%	45%	12%	43%
Small Business Lending	44%	16%	40%	45%	10%	45%
International Lending	14%	22%	64%	17%	24%	59%



	Up	Down	Same	Up	Down	Same
Loan Losses	48%	10%	42%	67%	16%	17%
Bankruptcies	50%	6%	44%	74%	11%	15%
Interest Rates	58%	4%	38%	60%	0%	40%
Unemployment	16%	14%	70%	24%	16%	60%
Bank Failures	46%	10%	44%	60%	5%	35%

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

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

- The outlook for the U.S. economy did not show signs of improvement from the previous quarter. The percentage of respondents who graded the current economy at a "B" level fell from seven percent in Q4 2009 down to zero percent in Q1 2010. There was a greater expectation of the economy performing at a "C" level in comparison to the previous survey. Overall, the graded weighted average grade in comparison to the prior quarter yielded only a one basis point decline.

Grade	1Q/2010	4Q/2009
A	0%	0%
B	0%	7%
C	66%	53%
D	34%	40%
F	0%	0%
Weighted Average Grade	1.66	1.67

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 remained nearly unchanged compared to the previous survey. The overall, imputed average of 2.24 was a slight increase compared to the average of 2.22 in the previous survey.

Grade	1Q/2010	4Q/2009
A	0%	0%
B	34%	33%
C	56%	57%
D	10%	10%
F	0%	0%
Weighted Average	2.24	2.22

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 "moderate" growth expectations for the next six months to one year increased to 70 percent (an 8 percentage point increase from the previous survey). Four percent of respondents opined that their customers have "strong" growth expectations for the next six months to a year compared to only two percent in the prior survey. Expectations of customers having "no growth" decreased by ten percentage points from thirty six percent in Q4 2009 down to twenty-six percent in Q1 2010.

Indication	1Q/2010	4Q/2009
Very Strong	0%	0%
Strong	4%	2%
Moderate	70%	62%
No Growth	26%	36%

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.

- According to the survey results, there is a general sense of improvement in loan structures compared to the previous quarter. Lenders who believe that loan structures would tighten in the near term decreased by fifteen percentage points from 28% in Q4 2009 down to 13% in Q1 2010. The percentage of Lenders stating loan structures will begin to relax doubled from only five percent in the previous quarter to ten percent in Q1 2010.

	1Q/2010			4Q/2009		
	Tighten	Maintain	Relax	Tighten	Maintain	Relax
Loans> $25 million	12%	76%	12%	31%	62%	6%
$15 – 25 million	7%	79%	14%	23%	71%	6%
$5-15 million	14%	79%	7%	24%	72%	4%
Under $5 million	19%	73%	8%	33%	64%	3%
Overall Average	13%	77%	10%	28%	68%	5%

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.

- Twenty percent of respondents plan to decrease their current interest rate spreads and fee structures on all sizes of loans – 10 percentage points lower than in the previous quarter. Only twenty-one percent of lenders plan to increase their current interest rate spreads and fee structures on all size loans, which is a decrease of sixteen percentage points versus the previous survey and a dramatic decrease of fifty percentage points compared to one year prior.

	1Q/2010			4Q/2009		
	Reduce	Maintain	Increase	Reduce	Maintain	Increase
Loans> $25 million	31%	50%	19%	18%	45%	37%
$15 – 25 million	19%	64%	17%	16%	49%	35%
$5-15 million	16%	61%	23%	4%	59%	37%
Under $5 million	13%	61%	26%	2%	59%	40%
Overall Average	20%	59%	21%	10%	53%	37%

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.

- A growing percentage of respondents are forecast an increasing interest rate environment in the near term. The percentage of lenders anticipating a 25 bps or more increase in interest rates increased to seventy-two percent (versus 53 percent in the prior quarter survey).

Bps Change	1Q/2010	4Q/2009
-More than 1.0	0%	0%
-1.0	0%	0%
-.75	0%	0%
-.50	0%	0%
-.25	0%	2%
0	28%	45%
+.25	46%	27%
+.50	20%	14%
+.75	4%	3%
+1.0	2%	7%
More than 1.0	0%	2%
Weighted Average	+ 27 basis points	+ 25 basis points

17. Current Competition

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

- Fifty percent identified local commercial/community banks as the primary source of competition – as compared to 48 percent last quarter.

	1Q/2010	4Q/2009
Money Center Banks	12%	14%
Local Commercial/ Community Banks	10%	14%
Factors	8%	3%
Regional Banks	50%	48%
Commercial Finance Organizations	18%	16%
Other	2%	5%