Phoenix Management Services
"Lending Climate in America" Survey

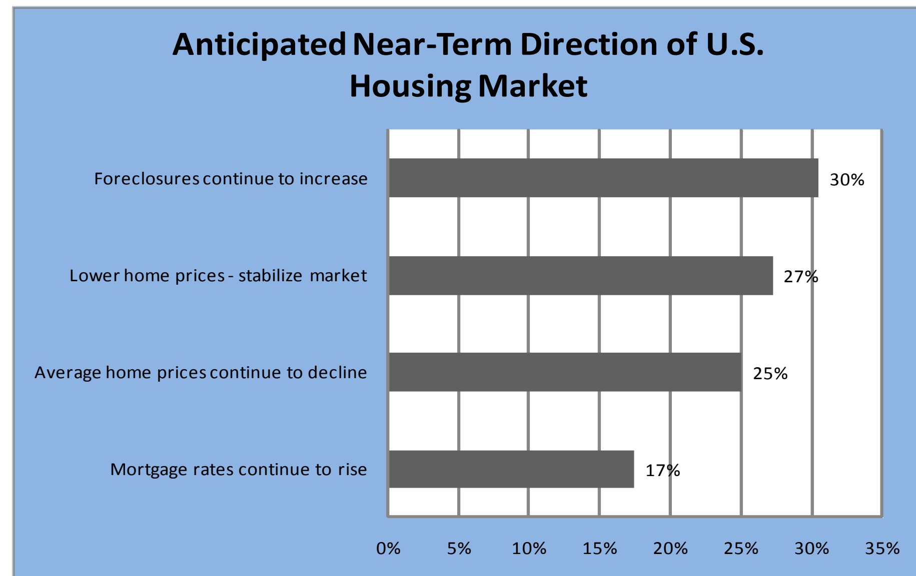
2nd Quarter 2009
Summary, Trends and Implications

PHOENIX
"LENDING CLIMATE IN AMERICA"
QUARTERLY SURVEY

SUMMARY, TRENDS AND IMPLICATIONS

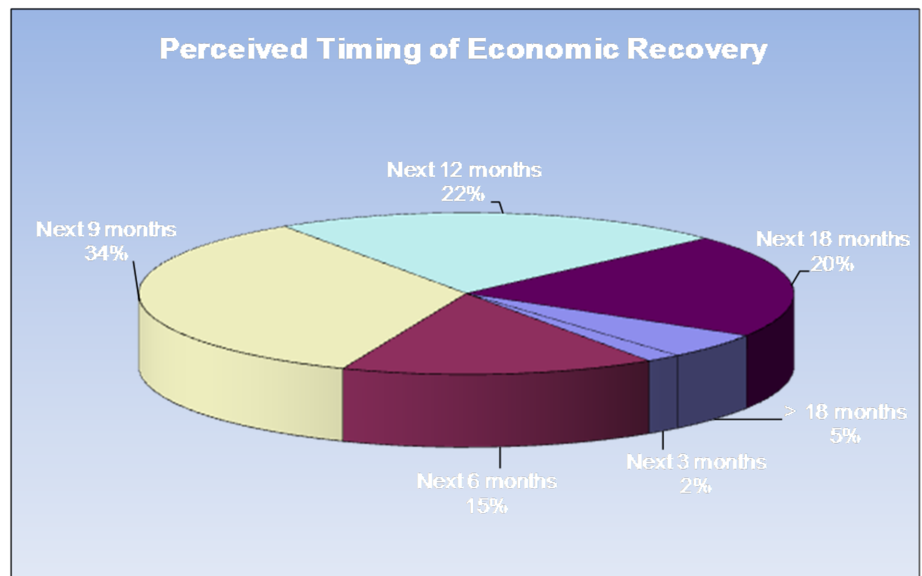
1. **Nearly half of all respondents – 42 percent – believe, in relation to the General Motors bankruptcy filing, that additional funds will be required from the U.S. government.** When polled regarding the eventual outcome of the GM bankruptcy filing, twenty percent of lenders gave the following two responses: GM will be required to sell additional assets/brands to provide critical liquidity and it will be a successful process that results in a healthier GM emerging from bankruptcy within the next year. Fourteen percent of respondents believe contentious negotiations between GM's creditors would result in company being mired in the process for an indefinite timeframe. The final three percent of respondents believe "Other" outcomes will take place regarding the GM bankruptcy.

2. **Lenders are divided on the near-term direction of the U.S. housing market.** Thirty percent of respondents opined foreclosures will continue to increase as distressed borrowers are unable to modify their current mortgage. Twenty-seven percent believe lower home prices will lead to stabilization in the housing market. Twenty-five percent of respondents anticipate average home prices will continue to decline. Finally, seventeen percent of lenders opined that mortgage rates will continue to rise amidst increasing inflation concerns.



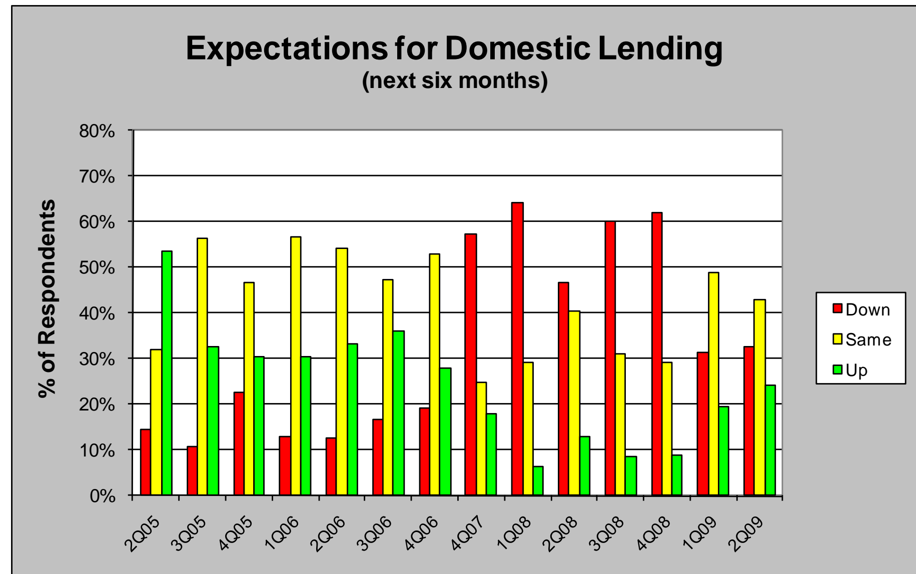
3. **Forty-seven percent of lenders believe the Obama administration's policies will result in current inflation concerns further depressing the dollar's value versus other currencies.** When asked to gauge the impact of the current administration's policies on the value of the U.S. dollar against foreign currencies, thirty-seven percent of respondents opined that proposed policies will have little impact, that the relative value of currencies are more impacted by global economic conditions. Twelve percent indicated the proposed policies are prudent for the U.S. economy's long-term growth and therefore beneficial to the strength of the U.S. dollar. The remaining four percent gave "Other" responses.

4. **More than half of the survey respondents – 51 percent - believe the economy will begin its upswing/recovery in the next nine months (increasing from 30 percent in the previous survey)**. When asked about the perceived timing of the economy recovery, thirty-four percent anticipate the recovery within the next nine months. Twenty-two believe the recovery will begin within the next twelve months. Twenty percent of respondents believe signs of improvement will appear within the next 18 months. Fifteen percent anticipate a recovery beginning with the next six months. Five percent of lenders believe it will be more than 18 months before the economic recovery will begin. Finally, two percent of lenders believe the economic recovery will begin within the next three months.

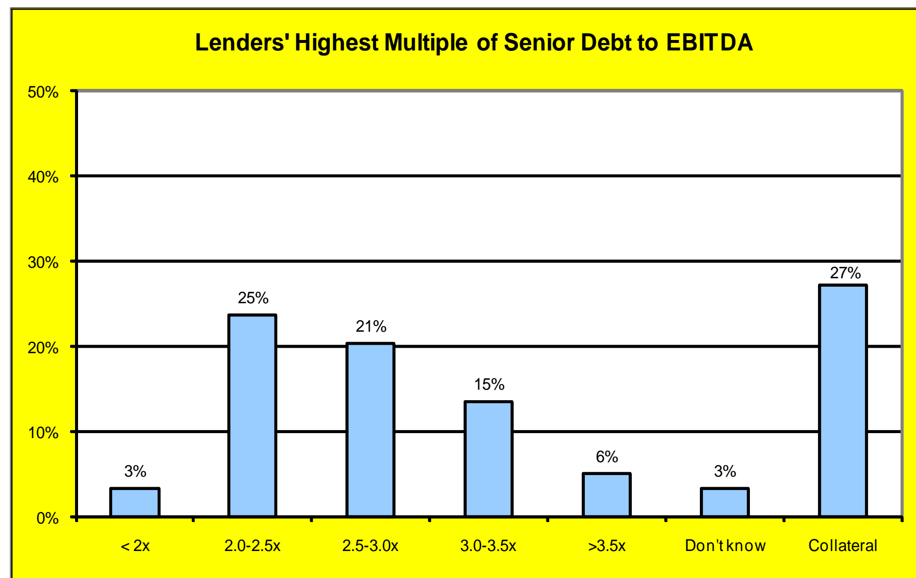


5. **Sluggish housing market and constrained liquidity in the capital markets are the factors lenders believe will have the strongest potential to affect the economy in the next six months.** Sixty-one percent of respondents, when asked to indicate the factor with the greatest potential, designated the sluggish housing market, while fifty-three percent chose constrained liquidity in the capital markets. Twenty-nine percent of lenders believe the U.S. budget deficit will have the greatest economic impact. Nineteen percent designated the stability of the equity markets as the having the strongest potential to affect the economy. Thirteen percent of respondents believe unstable energy prices will have the greatest potential economic impact. Finally, three percent of lenders anticipate the wars in Iraq and Afghanistan will have the strongest potential impact.

6. **Improved expectations for domestic lending were evident for the third consecutive survey.** The overall diffusion index for all lending segments improved to negative 16 percentage points (from negative fifty-two percentage points in the survey two quarters prior). Respondents indicated that, on average for all domestic lending categories; twenty-four percent have expectations for increased loan demand (versus 20 percent in the prior quarter).

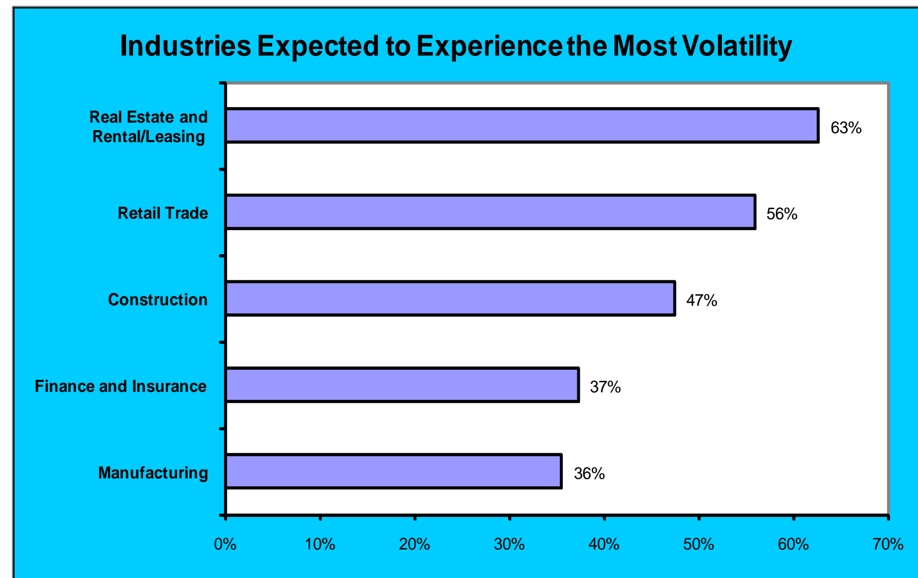


7. **Twenty-five percent of lenders indicated their financial institution would consider a loan request with a Senior Debt to EBITDA multiple as high as 2.0-2.5x, five percentage points higher than the previous survey.** Twenty-one percent of respondents indicated their institution would only consider a loan request with a multiple as high as 2.5-3.0x (previous survey: 23 percent). Fifteen percent of respondents indicated they would only consider a loan request with a Senior Debt to EBITDA multiple as high as 3.0-3.5x (previous survey: 20 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.



8. **Fifty-one 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.** Seven percent of respondents believe internally that multiple will increase less than 0.5x, while another seven percent anticipate the multiple will increased greater than 0.5x over the next six months. Two percent of lenders opined that the multiple would decrease at their financial institution over the next six months. Twenty-seven percent of respondents indicated they were collateral lenders and did not specifically focus on that multiple.

9. **Sixty-three percent of respondents anticipate the Real Estate and Rental/Leasing 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 Retail Trade industry as the most likely to experience volatility and forty-seven percent of lenders chose the Construction industry. Thirty-seven percent of lenders believe the Finance and Insurance industries will experience the most volatility. Thirty-six percent of lenders believe the Manufacturing industry will experience the most volatility.

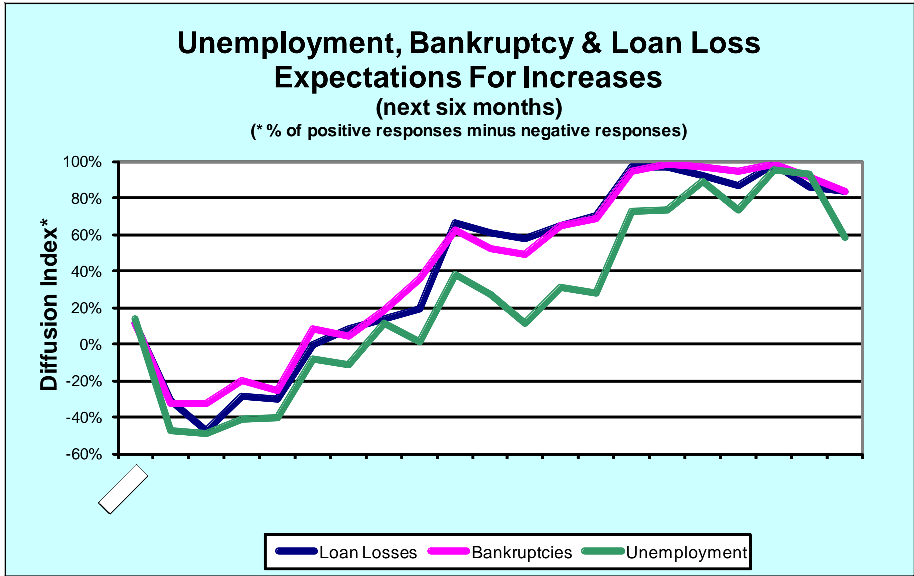


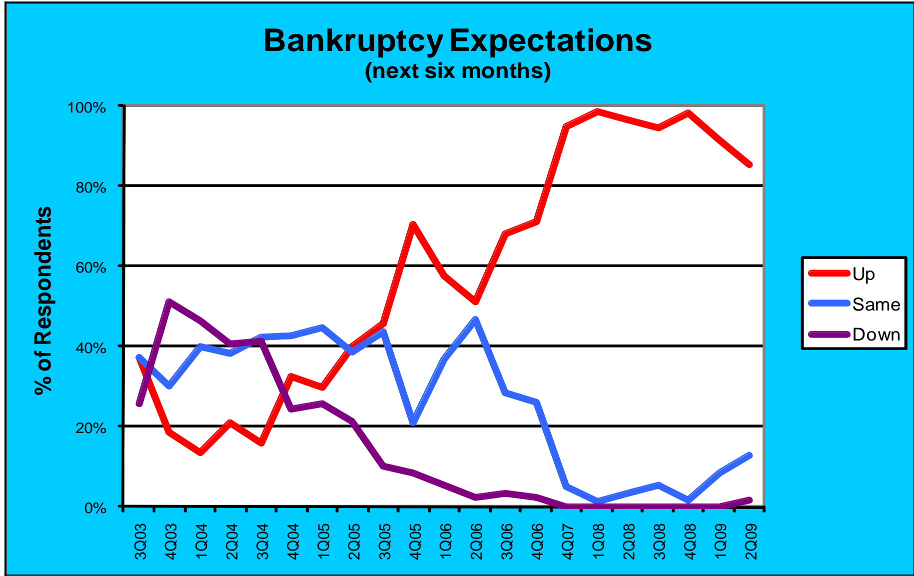
10. **Forty-nine percent of respondents' customers anticipate raising additional capital in the next six months.** Twenty-seven percent responded their customers are planning on entering new markets. Nineteen percent of lenders gave the following responses: introducing new products or services and "Other" actions in the next six months. Twelve percent of customers gave the following responses: making new capital investments and making an acquisition, while just eight percent intend on hiring new employees.

11. **Lenders expectations for the economy continued the recent improved outlook, building on the previous survey's directional change.** Lenders expect the economy to perform at a "high-D" level during the next six months. The "out 6 months" outlook improved to a "high-C" expectation level as well – the highest forecasted level in the previous eight surveys.

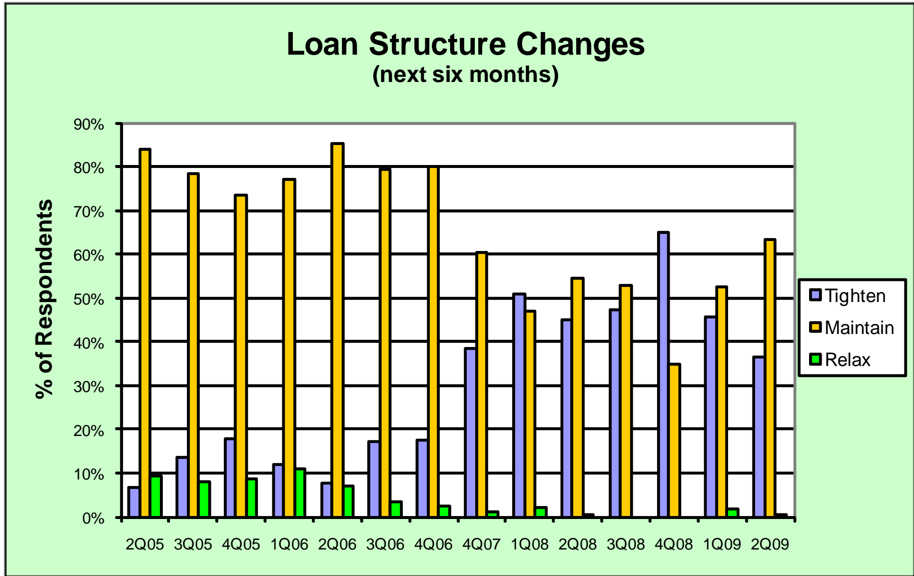
12. **The percentage of respondents with customers having moderate growth expectations over the next 6 - 12 months rose to thirty-five percent, as compared to just thirteen percent in the previous survey**. As a result, the percent of lenders with customers having no growth expectations fell to 65 percent, down from 86 percent in the previous quarter.

13. **Lenders maintained their deteriorating credit quality outlook, yet some metrics saw material directional shifts.** The unemployment diffusion index was at 58 percent, decreasing thirty-five percentage points from the previous quarter. The percentage of respondents anticipating higher interest rates increased to 62 percent – rising from twenty-nine percent in the previous quarter.

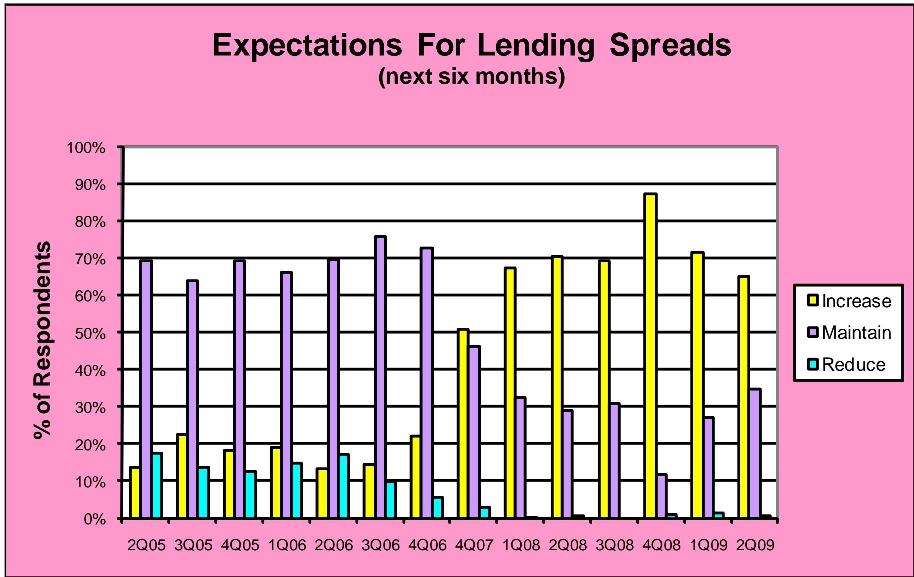




14. **The percentage of lenders expecting to maintain their existing loan structures increased to sixty-three percent (versus 53 percent in the previous survey).** As a result, the percentage of respondents planning to tighten their loan structure fell to thirty-six percent (versus 46 percent in the previous survey).



15. **A majority percentage of lenders anticipate increasing their current lending spreads in this interest rate environment.** Sixty-five percent of respondents (versus 71 percent in the previous quarter) expect to increase lending spreads from their current levels.



Phoenix Management
"Lending Climate in America"
2nd Quarter 2009

Survey Results

1. Perceived Outcome of General Motors Bankruptcy Filing

Lenders were asked what they believe will be the eventual outcome of the General Motors bankruptcy filing.

- Forty-two percent believe that additional liquidity will be required from the U.S. government.
- Twenty percent of respondents believe it would be a successful process that results in a healthier GM emerging from bankruptcy within the next year.
- Twenty percent of lenders responded that GM will be required to sell additional assets/brands to provide critical liquidity.
- Fourteen percent of lenders opined that contentious negotiations between GM's creditors will result in the company being mired in the process for an indefinite timeframe.
- The remaining three percent of lenders believe the GM bankruptcy filing will have "Other" outcomes.

2. Direction of the U.S. Housing Market over the Next 6-12 Months

Respondents were asked the most likely outcome(s) for the U.S. housing market over the next 6-12 months.

- Thirty percent of respondents believe foreclosures will continue to increase as distressed borrowers are unable to modify their current mortgage.
- Twenty-seven percent of lenders believe lower home prices will lead to stabilization in the housing market.
- Twenty-five percent of respondents opined that average home prices will continue to decline.
- Finally, seventeen percent of lenders believe mortgage rates will continue to rise amidst increasing inflation concerns.

3. Impact of Obama's Policies on the Relative Value of U.S. Dollar

Lenders were asked what impact the current administration's policies will have on the U.S. dollar versus other global currencies.

- Forty-seven percent of respondents opined current inflation concerns will further depress the dollar's value versus other currencies.

- Thirty-seven percent of lenders responded the proposed policies will have little impact; relative value of currencies are more impacted by global economic conditions.

- Twelve percent of lenders responded the proposed policies are prudent for the U.S. economy's long-term growth and therefore beneficial to the strength of the U.S. dollar.

- Four percent of respondents believe the current administration's policies will have "Other" impacts on the U.S. dollar versus other global currencies.

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

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

- Thirty-four percent of respondents believe the U.S. economy will begin its recovery within the next nine months (previous survey: 25 percent).

- Twenty-two percent of lenders believe the economy will begin its recovery within the next twelve months (previous survey: 31 percent).

- Twenty percent of lenders believe the economy will begin its recovery within the next eighteen months (previous survey: 31 percent).

- Fifteen percent of lenders believe the economy will begin its recovery within the next six months (previous survey: 5 percent).

- Five percent of respondents opined the economic recovery would take more than eighteen months to commence (previous survey: 8 percent).

- Finally, four percent of lenders believe the economy will recover within the next three months (previous survey: 0 percent).

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: 28 percent).

- Twenty-five 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: 20 percent).

- Twenty-one percent indicated their institution would consider a loan request with a leverage multiple as high as the 2.5x – 3.0x range (previous survey: 23 percent).

- Fifteen percent believed their institution would consider a loan request with a Senior Debt to EBITDA multiple as high as the 3.0x – 3.5x range (previous survey: 20 percent).

- Seven percent of lenders opined their financial institution would consider a loan request with a leverage multiple of greater than 3.5x (previous survey: 6 percent).

- Five percent of lenders responded their financial institution would only consider a loan request with a leverage multiple lower than 2.0x (previous survey: 4 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.

- Fifty-one percent indicated that the Senior Debt to EBITDA multiple will not change at their financial institution over the next six months (previous survey: 49 percent).

- 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).

- Seven percent of lenders chose the following two responses: the leverage multiple will increase less than 0.5x during the next six months (previous survey: 7 percent) and the leverage multiple will increase more than 0.5x during the next six months (previous survey: 4 percent).

- Two percent opined the Senior Debt to EBITDA multiple will decrease less than 0.5x during the next six months (previous survey: 8 percent).

- The remaining six 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.

- Sixty-one percent designated the sluggish housing market as the factor with the strongest potential to affect the near-term economy (previous survey: 45 percent).

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

- Twenty-nine 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: 13 percent).

- Nineteen percent opined that the stability of the stock market has the strongest potential to affect the economy during the next six months (previous survey: 33 percent).

- Thirteen percent opined that unstable energy prices had the strongest potential to affect the economy during the next six months (previous survey: 12 percent).

- Three percent opined that the wars in Iraq and Afghanistan had the strongest potential to affect the economy during the next six months (previous survey: 0 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 responded that the real estate and rental/leasing industry would experience the most volatility during the next six months (previous survey: 45 percent).
- Fifty-six percent believed the retail trade industry would experience the most volatility over the next six months (previous survey: 63 percent).
- Forty-seven percent designated the construction industry as the industry expected to weather the greatest volatility in the near term (previous survey: 56 percent).
- Thirty-seven percent of respondents believed the finance and insurance industry will experience the greatest volatility over the next six months (previous survey: 48 percent).
- Thirty-six percent opined the manufacturing industry would experience the most volatility (previous survey: 31 percent).
- 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 to twelve months. Lenders were asked to designate all potential customer actions that applied.

- Forty-nine percent indicated their customers are planning on raising additional capital in the next six to twelve months (previous survey: 44 percent).
- Twenty-seven percent responded their customers are planning on entering new markets (previous survey: 24 percent).
- Nineteen percent of lenders gave the following two responses: their customers are planning on introducing new products or services (previous survey: 19 percent) and "Other" business actions (previous survey: 23 percent).
- Twelve percent of lenders gave the following two responses: their customers are planning on making an acquisition (previous survey: 24 percent) and making new capital investments (previous survey: 12 percent).
- Eight percent of respondents indicated their customers plan on hiring new employees in the next 6-12 months (previous survey: 3 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.

- For the second consecutive quarter, respondents were less pessimistic than recent surveys. The diffusion index for all domestic lending segments equaled negative 8 percentage points - a 47 percentage point improvement versus two quarters prior.

- Credit quality sentiment of lenders remained primarily negative with regards to the balance of credit quality metrics – albeit at slightly improved levels. Sixty-two percent of respondents anticipate higher interest rates, as compared to 29 and 17 percent, respectively, in the previous two surveys. Also, the percentage of lenders anticipating higher unemployment fell to sixty-five percent (versus ninety-three percent in the previous survey).

	1Q/2009			2Q/2009		
	Up	Down	Same	Up	Down	Same
Corporate Lending	16%	27%	57%	15%	30%	45%
Middle Market Lending	21%	30%	49%	25%	31%	44%
Small Business Lending	21%	37%	42%	33%	36%	31%
International Lending	1%	66%	33%	7%	45%	48%

	Up	Down	Same	Up	Down	Same
Loan Losses	90%	4%	6%	87%	4%	9%
Bankruptcies	91%	0%	9%	85%	2%	13%
Interest Rates	29%	0%	71%	62%	0%	38%
Unemployment	93%	0%	7%	65%	7%	28%
Bank Failures	74%	1%	25%	76%	4%	20%

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.

- The momentum for an improving U.S. economy continued, albeit at a measured pace. The percentage of lenders who believe that the economy will perform at a "C" level increased to 36 percent from 13 percent in the prior quarter.

	1Q/2009	2Q/2009
A	0%	0%
B	0%	0%
C	13%	36%
D	77%	62%
F	10%	2%
Weighted Average Grade	1.03	1.35

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.

- Consistent with their near-term economic outlook, lenders' expectations for the U.S. economy's performance in the "out six months" period demonstrated continued, measured improvement. The overall, imputed average of 2.15 was the highest outlook in the last eight surveys. Respondents anticipating the economy to perform at a "B" level increased to 27 percent (from 16 percent in the previous survey). Conversely, lenders anticipating the economy to perform at a "D" level or lower decreased to 13 percent (down from 29 and 83 percent in the previous two surveys).

	1Q/2009	**2Q/2009**
A	0%	0%
B	16%	27%
C	56%	60%
D	29%	13%
F	0%	0%
Weighted Average	1.87	2.15

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 35 percent (a 22 percentage point increase from the previous survey).

	1Q/2009	**2Q/2009**
Very Strong	0%	0%
Strong	1%	0%
Moderate	13%	35%
No Growth	86%	65%

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.

- A decreasing percentage of respondents expect to tighten their loan structures – for the second straight quarter. The overall average of financial institutions planning to tighten their loan structures declined to 36 percent as compared to 46 and 65 percent in the two prior quarter surveys, respectively.

	1Q/2009			2Q/2009		
	Tighten	Maintain	Relax	Tighten	Maintain	Relax
Loans> $25 million	44%	55%	1%	36%	62%	2%
$15 – 25 million	42%	57%	1%	33%	67%	0%
$5-15 million	46%	52%	2%	36%	64%	0%
Under $5 million	51%	46%	3%	40%	60%	0%
Overall Average	46%	53%	1%	36%	63%	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.

- Sixty-five percent of respondents plan to increase their current interest rate spreads and fee structures on all sizes of loans – 22 percentage points lower than the survey two quarters prior.

	1Q/2009			2Q/2009		
	Reduce	Maintain	Increase	Reduce	Maintain	Increase
Loans> $25 million	1%	32%	67%	2%	40%	58%
$15 – 25 million	1%	29%	70%	0%	40%	60%
$5-15 million	0%	23%	77%	0%	33%	67%
Under $5 million	3%	25%	72%	0%	25%	75%
Overall Average	1%	27%	71%	0%	35%	65%

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.

- An increasing percentage of respondents are forecast an increasing interest rate environment. The percentage of lenders anticipating a 25 bps or more increase in interest rates rose to thirty-three percent (versus twelve percent in the prior quarter survey).

	1Q/2009	1Q/2009
-More than 1.0	0%	0%
-1.0	0%	0%
-.75	0%	0%
-.50	4%	0%
-.25	4%	2%
0	78%	65%
+.25	7%	22%
+.50	4%	9%
+.75	1%	0%
+1.0	0%	0%
More than 1.0	0%	2%
Weighted Average	+ 2 basis points	+ 12 basis points

17. Current Competition

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

- Nearly half of the respondents – 44 percent – identified regional banks as the primary source of competition – as compared to 47 percent last quarter. Lenders designating commercial finance organizations as the primary source of competition decreased to seven percent versus 18 percent in the previous survey.

	1Q/2009	2Q/2009
Money Center Banks	6%	19%
Local Commercial/ Community Banks	16%	19%
Factors	6%	7%
Regional Banks	47%	44%
Commercial Finance Organizations	18%	7%
Other	7%	4%