Phoenix Management Services
"Lending Climate in America" Survey

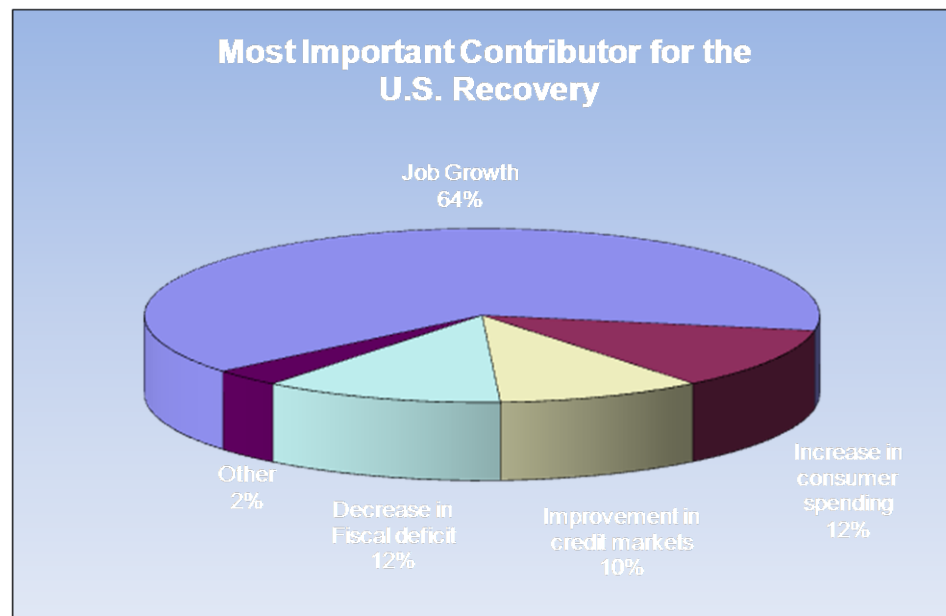
2nd Quarter 2010
Summary, Trends and Implications

PHOENIX
"LENDING CLIMATE IN AMERICA"
QUARTERLY SURVEY

SUMMARY, TRENDS AND IMPLICATIONS

1. **Several Members of the FOMC, including Ben Bernanke, have proposed taking steps in the near term to shrink the Fed's balance sheet. How do you believe this initiative would impact the economy?** Sixty-one percent of lenders believe that it would not have a significant impact on the economy. Twenty-eight percent chose that the Fed should begin to sell the $1.25 trillion portfolio of mortgage-backed securities in order to shrink the Fed's balance sheet and reduce the risk of inflation down the road. Five percent are optimistic that the reduction of the Fed's balance sheet would have a positive economic impact and can be achieved quickly as a substantial portion are short term in nature and can simply be allowed to run off as programs are scaled back or shut down. Three percent of responders showed concern that if the Fed decides to shrink its balance sheet by selling off the toxic mortgage-backed securities portfolio, it could damage the recovery by pushing up long-term interest rates. The remaining three percent of lenders selected "Other" as their choice.

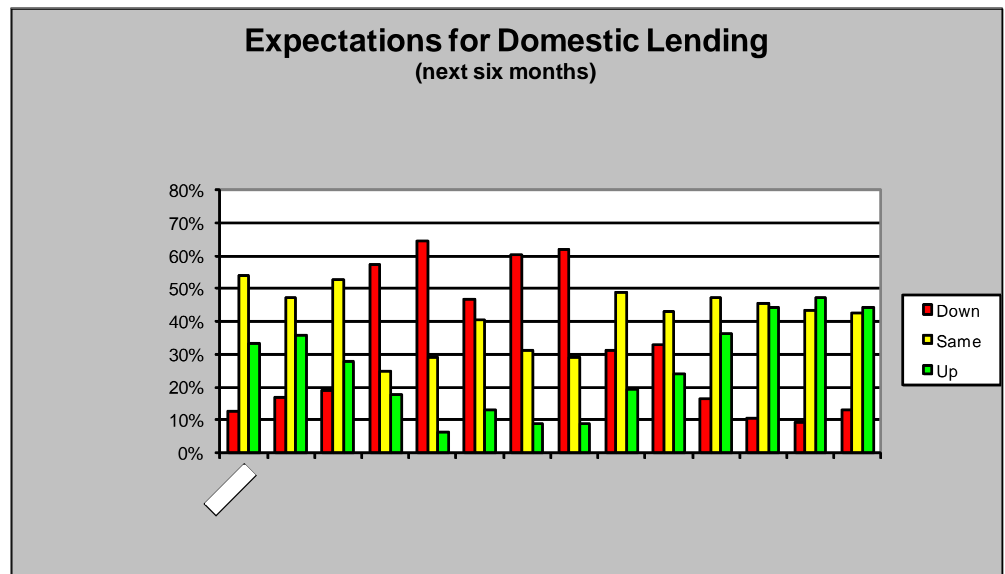
2. **Respondents were asked "How great of an impact will the European sovereign debt issues, such as Greece, have on the U.S. economy?** Thirty-eight percent agreed that it is far more important for the U.S. to improve its own sovereign issues, such as unemployment and the sluggish housing market, than to be concerned about EU countries experiencing economic woes. Thirty-four percent believe it will have an impact, however, the Fed's monetary policy strategy is showing signs of improvement as GDP is growing and inflation is low. Eighteen percent agreed it will have a significant strain on the U.S.' ability to yield near-term economic improvement due to the magnitude and relevance of the global economy. The final ten percent said China has a far greater economic impact on the U.S. recovery than does the EU nations.



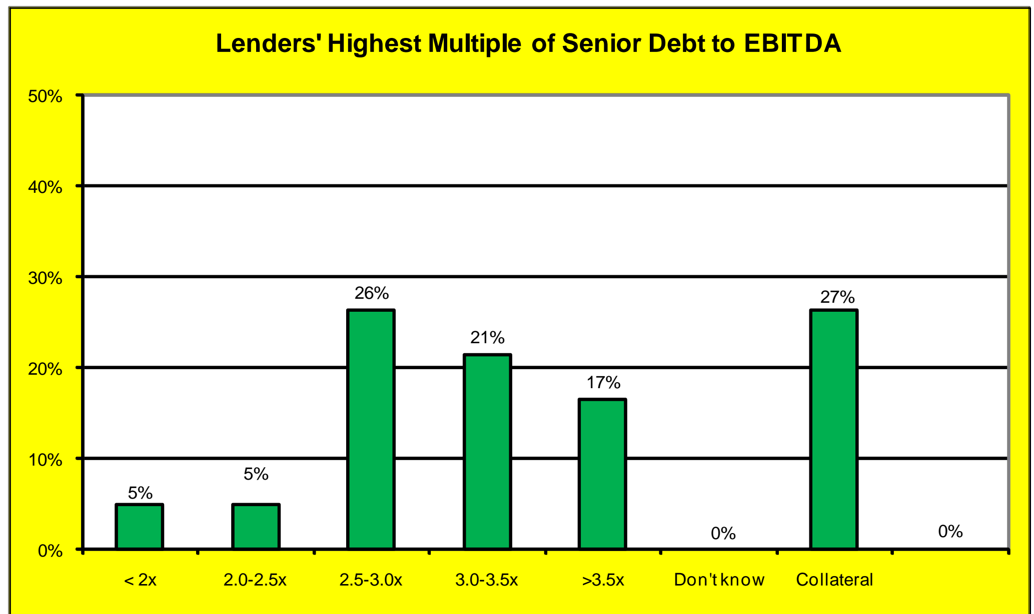
3. **Participants were asked to select the most important factor for the U.S. economic recovery.** Nearly two-thirds (64%) believe job growth and creation to be the most crucial factor for economic recovery. Twelve percent agreed that an increase in consumer spending is the most important stimulus for growth in the economy. Another twelve percent of respondents believe that a reduction in the fiscal deficit is imperative to achieve improvement for the U.S. economy. Ten percent indicated that a

thawing of the credit markets will allow for the best road to economic recovery. The remaining two percent chose "Other" factors as the most important indicator for financial recovery.

4. **Expectations for domestic lending experienced a slight decline (from the previous quarter) for the first time in four quarters.** The overall diffusion index for all domestic lending segments declined seven percentage points from last quarter's survey. Respondents indicated that, on average for all domestic lending categories; forty-four percent have expectations for increased loan demand (versus 47 percent in the prior quarter). In addition, thirteen percent believe domestic lending will experience further tightening compared to only nine percent in the previous survey. Small business commercial lending yielded the largest retreat from increased loan demand expectations from forty-four percent in Q1 2010 to thirty-six percent in Q2 2010.

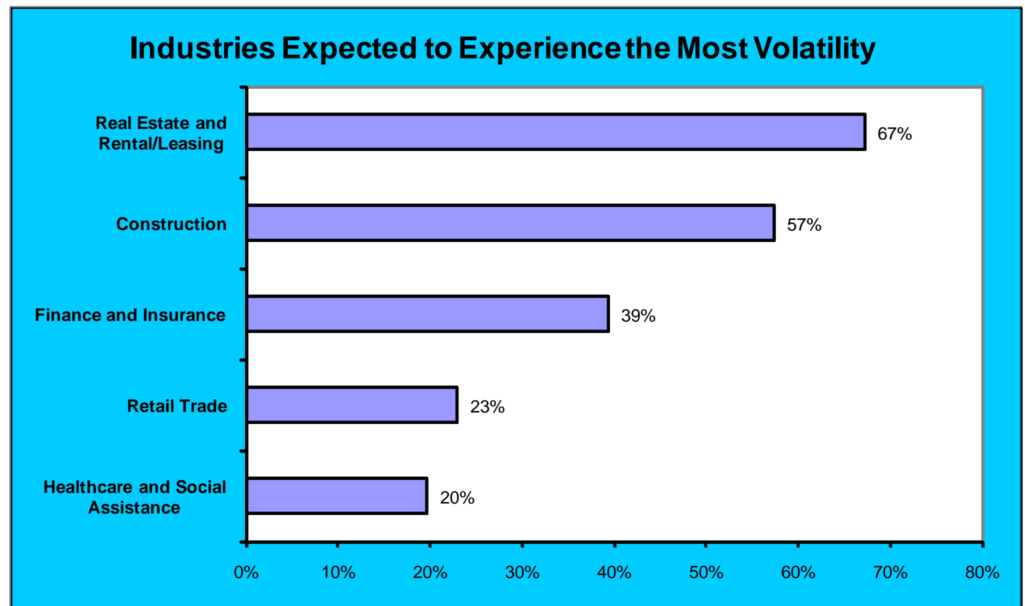


5. **Senior Debt to EBITDA ratios indicate multiple expansion in regard to increasing loan leverage ratios versus our prior forecast.** The percentage of lenders which indicated their institution would consider a loan request with a multiple greater than 3.5x doubled from the previous survey to seventeen percent (previous survey: 8 percent). Twenty-one 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, four percentage points lower than the previous survey. Twenty-six percent opined that their institution would only consider a loan request with a leverage ratio of 2.5-3.0x, four percentage points higher than Q1 2010. Five percent responded they would consider a loan request only in the 2.0x-2.5x bandwidth. (previous survey: 8 percent). Five percent of lenders indicated a leverage ratio appetite of less than 2.0x (unchanged from previous survey). The percentage of lenders which indicated they are collateral lenders and do not utilize cash flow totaled twenty-seven percent and remained unchanged from the previous survey.



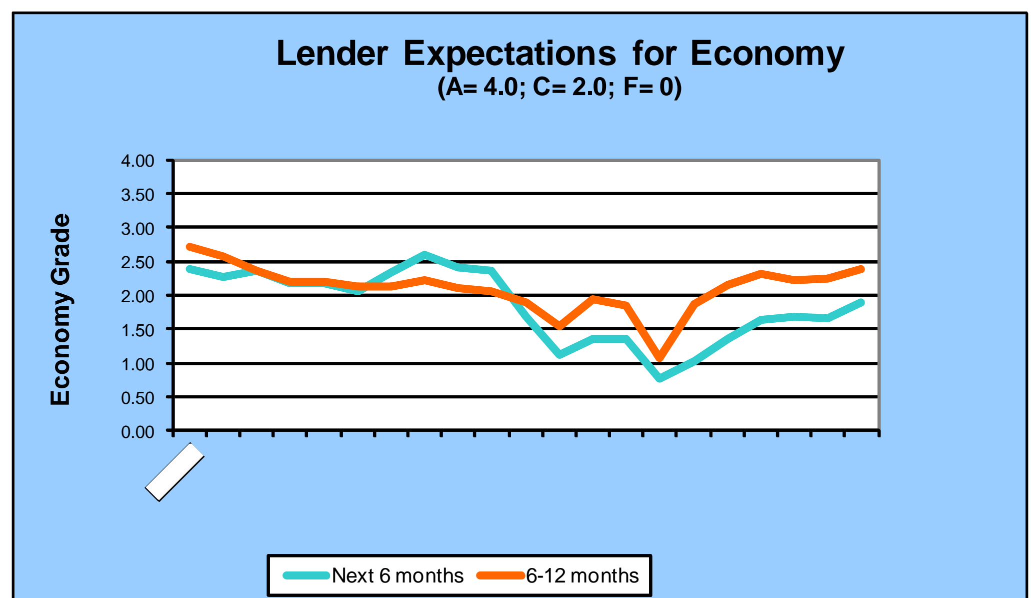
6. **Thirty-nine percent of lenders believe their institution will have no change in the highest Senior Debt to EBITDA multiple it will consider in regards to a new loan request (fourteen percent lower than previous quarter).** Seven percent anticipate the highest multiple will increase greater than 0.5x over the next six months (six percent in the previous quarter). Twenty-one percent of respondents believe that the highest multiple will increase less than 0.5x (up from 14 percent in the previous quarter), No respondents suggested that the multiple would decline at their financial institution over the next six months. Thirty percent of respondents indicated they were collateral lenders and did not specifically focus on that multiple. Three percent of lenders responded that they did not know which direction their financial institution was headed in the near term.

7. **Two-thirds 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, sixty-seven percent chose the Real Estate and Rental/Leasing industry as the most likely to experience volatility and fifty-seven percent of lenders chose the Construction industry. Thirty-nine percent of lenders believe the Finance and Insurance industry will experience the most volatility, more than double the percentage in the previous survey. Twenty-three percent believe the Retail Trade industry will experience the most volatility in the near term and twenty percent credited the Healthcare and Social Assistance industry with the distinction.



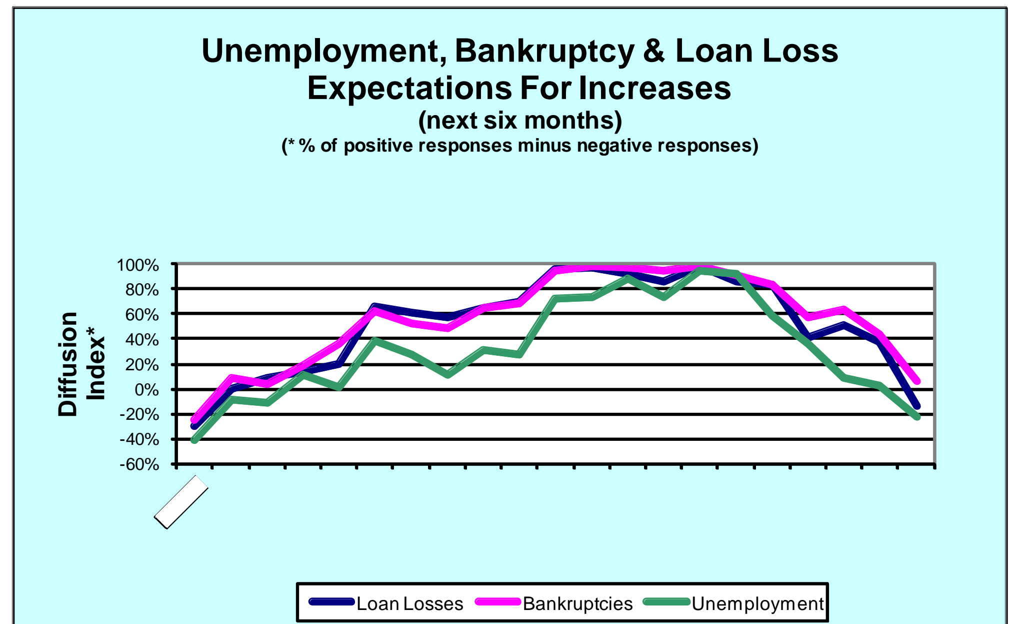
8. **Thirty-six percent of respondents' customers anticipate introducing new products or services in the next six months (up ten percentage points from the previous survey).** Thirty-four percent responded their customers are planning on making new capital investments, while thirty-one are planning on hiring new employees (up from only 12 percent in Q1 2010). Twenty-eight percent anticipate their customers to raise additional capital, and twenty-one percent believe they will plan on making an acquisition. Fifteen percent of respondents anticipate their customers to engage in the planning of "Other" initiatives in the next six months.

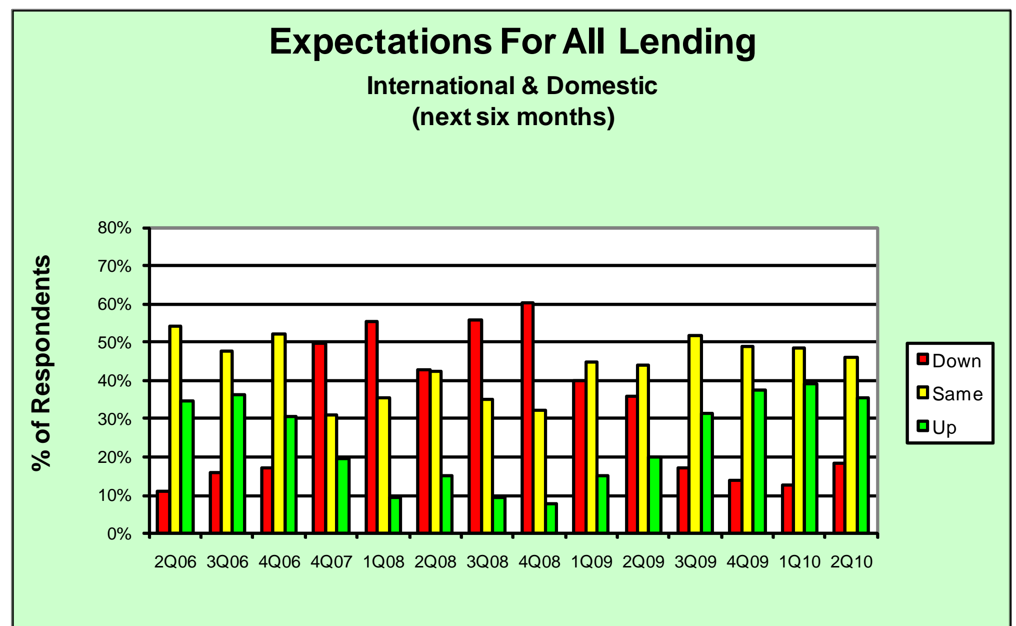
9. **Lenders expectations for the economy show slight growth expectations for the next six to twelve months compared to the previous survey.** Lenders expect the economy to perform at a "near "C" level for the next six months, but remain optimistically cautious on the near-term outlook due to the various ongoing pressures still overshadowing the economy. Respondents anticipate the economy to show signs of further improvement looking past the next six month period compared to growth expectation levels in last quarter's survey.



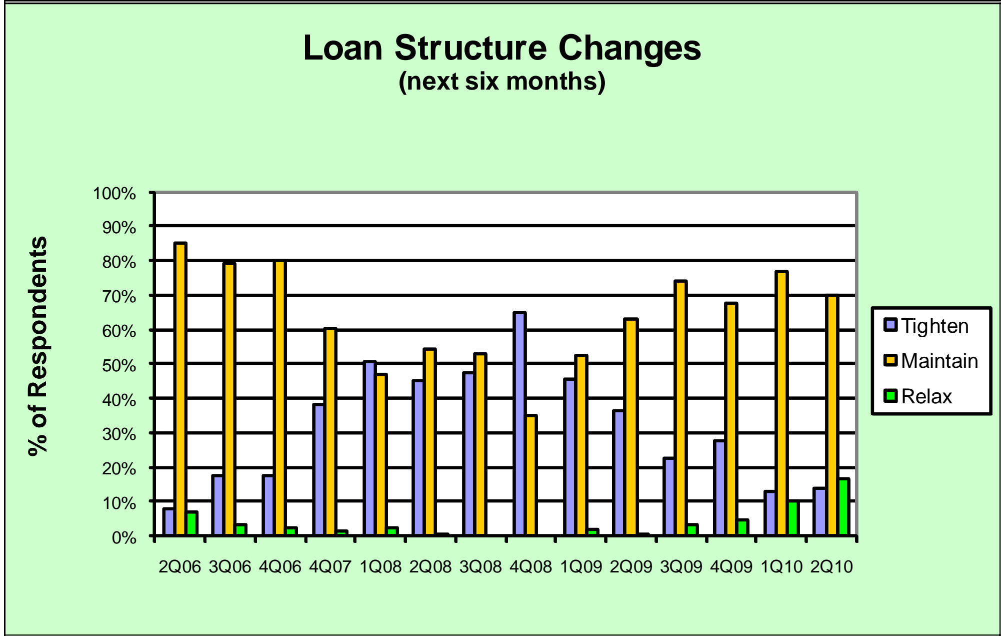
10. **Lenders expectations of macroeconomic indicators continued to show signs of improvement across all categories.** Lenders expectations towards a trend in

decreasing loan losses improved by thirty-three percentage points from the previous survey. Expectations of an increase in bankruptcy levels declined by sixteen percentage points from fifty percent in Q1 2010 down to thirty-four percent in Q2 2010. Signs of unemployment levels potentially decreasing resonated from the respondents as only eight percent believe unemployment will increase compared to last quarter's results of sixteen percent anticipating an increase.

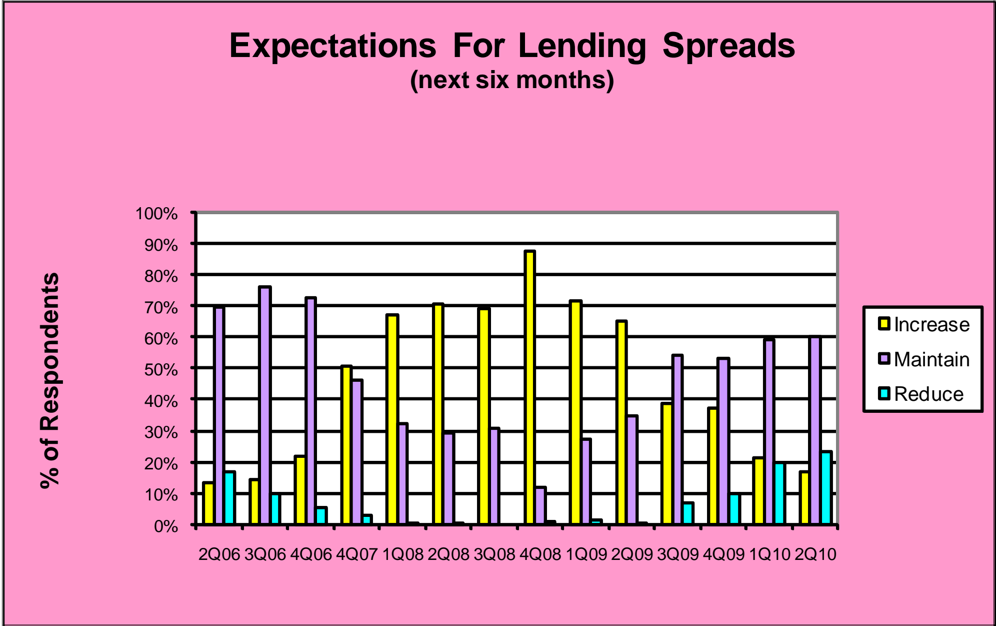




11. **The percentage of lenders expecting to relax their existing loan structures increased to sixteen percent (versus only 10 percent in the previous survey).** The percentage of respondents planning to tighten their loan structure was nearly unchanged (14% percent in current survey vs. 13% in previous survey). Lenders who anticipate maintaining their loan structures decreased by seven percentage points in Q2 2010 versus the previous survey.



12. **Expectations for lending spreads improved in comparison to the previous quarter as only seventeen percent anticipate increasing their lending rates in comparison to over twenty-one percent in the previous survey.** Sixty percent of respondents (versus 59 percent in the previous quarter) expect to maintain lending spreads from their current levels and twenty-three percent anticipate reducing their rates in comparison to twenty percent in Q1 2010.



Phoenix Management Services
"Lending Climate in America"
2nd Quarter 2010

Survey Results

1. Economic Impact of Reduction of the Federal Reserve Balance Sheet

Lenders were asked: Several Members of the FOMC, including Ben Bernanke, have proposed taking steps in the near term to shrink the Fed's balance sheet. How do you believe this initiative would impact the economy?

- Sixty-one percent of lenders believe that it will have a significant impact on the economy.
- Twenty-eight percent believe that the Fed should begin to sell the $1.25 trillion portfolio of mortgage-backed securities in order to shrink the Fed's balance sheet and reduce the risk of inflation down the road.
- Five percent are optimistic that the reduction of the Fed's balance sheet would have a positive economic impact and can be achieved quickly as a substantial portion are short term in nature and can simply be allowed to run off as programs are scaled back or shut down.
- Three percent of responders showed concern that if the Fed decides to shrink its balance sheet by selling off the toxic mortgage-backed securities portfolio, it could damage the recovery by pushing up long-term interest rates.
- The remaining three percent attributed "Other" responses regarding their opinion on the subject.

2. Impact of European Sovereign Debt Issues on U.S. Economy

Respondents were asked "How great of an impact will the European sovereign debt issues, such as Greece, have on the U.S. economy?

- Thirty-eight percent agreed that it is far more important for the U.S. to improve its own sovereign issues, such as unemployment and the sluggish housing market, than to be concerned about EU countries experiencing economic woes.
- Thirty-four percent believe it will have an impact, however, the Fed's monetary policy strategy is showing signs of improvement as GDP is growing and inflation is low.
- Eighteen percent agreed it will place a significant strain on the U.S.' ability to yield near-term economic improvement due to the magnitude and relevance of the global economy.
- The final ten percent said China has a far greater economic impact on the U.S. recovery than do the EU nations.

3. U.S. Economic Recovery Catalyst

Lenders were asked to select the most important factor for the U.S. economic recovery.

- Sixty-four percent believe job growth and creation to be the most crucial factor for economic recovery.
- Twelve percent agreed that an increase in consumer spending is the most important stimulus for growth in the economy.
- Twelve percent of respondents believe that a reduction in the fiscal deficit is imperative to achieve improvement for the U.S. economy.
- Ten percent indicated that a thawing of the credit markets will allow for the best road to economic recovery.
- Two percent chose "Other" factors in regards to the discussion question.

4. 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.

- Seventeen percent of lenders opined their financial institution would consider a loan request with a leverage multiple of greater than 3.5x (previous survey: 8 percent).
- Twenty-one percent indicated their institution would consider a loan request with a leverage multiple as high as the 3.0x – 3.5x range (previous survey: 25 percent).
- Twenty-six 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: 22 percent).
- 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: 8 percent).
- Five percent believed their institution would only consider a loan request with a Senior Debt to EBITDA multiple below 2.0x. (previous survey: 2 percent).
- Twenty-six percent of respondents replied they are collateral lenders and, therefore, do not make credit decisions based on cash flow/leverage multiples (previous survey: 27 percent).

5. 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.

- Seven percent conclude that the leverage multiple will increase greater than 0.5x during the next six months (previous survey: 6 percent).
- Twenty-one percent of lenders believe that the leverage multiple will increase less than 0.5x during the next six months (previous survey: 14 percent).
- Thirty-nine percent indicated that the Senior Debt to EBITDA multiple will not change at their financial institution over the next six months (previous survey: 53 percent).

- Thirty percent of respondents replied they are collateral lenders and, therefore, do not make credit decisions based on cash flow/leverage multiples (previous survey: 22 percent).

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

6. 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.

- Fifty-six percent designated the sluggish housing market as the factor with the strongest potential to affect the near-term economy (previous survey: 49 percent).
- Forty-three 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: 45 percent).
- Forty-one percent indicated constrained liquidity in the capital markets as the factor with the strongest potential to affect the near-term economy (previous survey: 35 percent).
- Thirty percent opined that the stability of the stock market has the strongest potential to affect the economy during the next six months (previous survey: 14 percent).
- Eight percent concluded that unstable energy prices have the strongest potential to affect the economy during the next six months (previous survey: 22 percent).
- Two percent opined that the wars in Iraq and Afghanistan have the strongest potential to affect the economy during the next six months (previous survey: 4 percent).
- Ten percent designated “Other” factors to have the strongest potential to affect the economy during the next six months (previous survey: 12 percent).

7. 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-seven percent responded that the Real Estate and Rental/Leasing industry would experience the most volatility during the next six months (previous survey: 62 percent).
- Fifty-seven percent designated the Construction industry as the industry expected to weather the greatest volatility in the near term (previous survey: 68 percent).
- Thirty-nine percent of respondents believe the Finance and Insurance industry will experience the greatest volatility over the next six months (previous survey: 18 percent).

- Twenty-three percent believe the Retail Trade industry would experience the most volatility over the next six months (previous survey: 38 percent).

- Twenty percent opined the Healthcare and Social Assistance industry would experience the most volatility (previous survey: 22 percent).
- Eighteen percent believe the Manufacturing industry would experience the most volatility (previous survey: 22 percent).
- Ten percent agreed the Arts, Entertainment and Recreation industry will experience the greatest volatility in the next six months (previous survey: 16 percent).
- The balance of the industry choices did not register designations greater than ten percent from the respondents.

8. 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.

- Thirty-six percent of lenders believe their customers are planning on introducing new products or services (previous survey: 26 percent).
- Thirty-four percent of lenders believe their customers will be making new capital investments (previous survey: 32 percent).
- Thirty-one percent of respondents indicated their customers plan on hiring new employees in the next 6 months (previous survey: 12 percent).
- Twenty-eight percent indicated their customers are planning on raising additional capital in the next months (previous survey: 44 percent).
- Twenty-three percent responded their customers are planning on entering new markets (previous survey: 18 percent).
- Twenty-one percent of lenders opined that their customers are planning on making an acquisition (previous survey: 18 percent).
- Fifteen percent of lenders believe their customers are planning "other" initiatives in the next six months (previous survey: 12 percent).

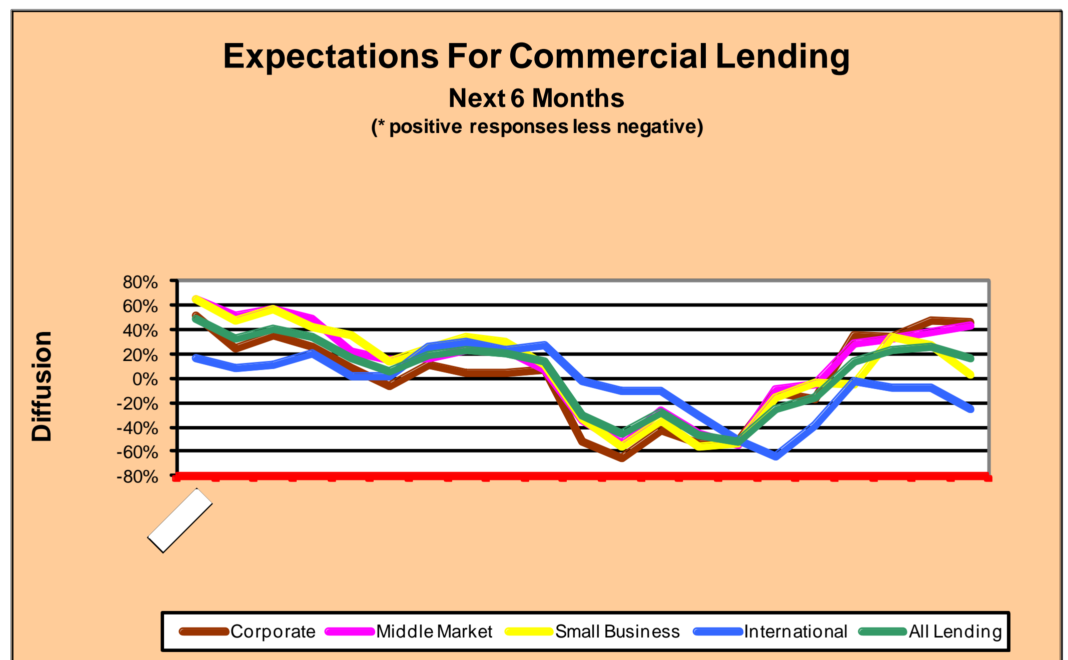
9. Economic Indicators

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 a slight pull back in lending expectations over the next six months compared to Q1 2010. The diffusion index for all domestic lending segments equaled positive 31 percentage points - a decline of seven percentage points versus last quarter, however a significant improvement of forty percentage points from one year ago. Middle market commercial lending experienced an increase versus last quarter by six percentage points while corporate commercial lending only had a two percentage point decline. Small business commercial lending and international lending continue to receive negative sentiment regarding their respective outlooks in the next six months as small business commercial lending fell twenty-five percentage points and international lending declined by seventeen percentage points off last quarter's survey.

- Continued improvement of macro-economic indicators resonated from the lending community. The expectations regarding an decline in bankruptcies increased by twenty-two percentage points from only six percent in Q1 2010 up to twenty-eight percent in Q2 2010. Also, respondents anticipate unemployment levels to improve in the near-term as thirty-one percent believe unemployment levels will decline versus fourteen percent in the previous survey. Lenders expectations in regards to loan losses and bank failures both followed similar trends of improvement in comparison to the previous quarter.

	2Q/2010			1Q/2010		
	Up	Down	Same	Up	Down	Same
Corporate Lending	48%	2%	50%	50%	2%	48%
Middle Market Lending	49%	5%	46%	48%	10%	42%
Small Business Lending	36%	33%	31%	44%	16%	40%
International Lending	10%	34%	56%	14%	22%	64%



	Up	Down	Same	Up	Down	Same
Loan Losses	29%	43%	28%	48%	10%	42%
Bankruptcies	34%	28%	38%	50%	6%	44%
Interest Rates	59%	4%	37%	58%	4%	38%
Unemployment	8%	31%	61%	16%	14%	70%
Bank Failures	38%	7%	56%	46%	10%	44%

10. 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 showed modest encouragement from the previous quarter. The percentage of respondents who graded the current economy at a “C” level increased dramatically from sixty-six percent in Q1 2010 to eighty-five percent in Q2 2010. The percentage of respondents who graded the economy at a “D” level or worse improved dramatically from thirty-four percent in Q1 2010 down to only twelve percent

in Q2 2010. Overall, the graded weighted average grade in comparison to the prior quarter yielded a twenty-four basis point increase.

Grade	2Q/2010	1Q/2010
A	0%	0%
B	3%	0%
C	85%	66%
D	10%	34%
F	2%	0%
Weighted Average Grade	1.90	1.66

11. 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 yielded a modest increase compared to the previous survey, from a weighted average input of 2.24 in the previous survey to a grade of 2.38 in Q2 2010.

Grade	2Q/2010	1Q/2010
A	2%	0%
B	42%	34%
C	48%	56%
D	8%	10%
F	0%	0%
Weighted Average	2.38	2.24

12. 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 was nearly unchanged from the previous survey at sixty-nine percent (70 percent in Q1 2010). Seven percent of respondents opined that their customers have "strong" growth expectations for the next six months to a year compared to only four percent in the prior survey. Expectations of customers having "no growth" decreased by two percentage points from twenty-six percent in Q1 2010 to twenty-five percent in the current survey.

Indication	2Q/2010	1Q/2010
Very Strong	0%	0%
Strong	7%	4%
Moderate	69%	70%
No Growth	25%	26%

13. 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 slight level of improvement in loan structures versus last quarter. Lenders who believe that loan structures would relax in the near term increased by six percentage points from 10% in Q1 2010 up to 16% in Q2 2010. The percentage of Lenders stating loan structures will begin to tighten increased only one percentage point from the previous survey (14% in Q2 2010 from 13% in Q1 2010).

	2Q/2010			1Q/2010		
	Tighten	Maintain	Relax	Tighten	Maintain	Relax
Loans> $25 million	17%	63%	20%	12%	76%	12%
$15 – 25 million	15%	68%	17%	7%	79%	14%
$5-15 million	11%	76%	13%	14%	79%	7%
Under $5 million	12%	73%	15%	19%	73%	8%
Overall Average	14%	70%	16%	13%	77%	10%

14. 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-three percent of respondents plan to reduce their current interest rate spreads and fee structures on all sizes of loans – 3 percentage points lower than in the previous quarter. Only seventeen percent of lenders plan to increase their current interest rate spreads and fee structures on all size loans, a decrease of four percentage points versus the previous survey and a dramatic decrease of forty-eight percentage points compared to one year prior.

	2Q/2010			1Q/2010		
	Reduce	Maintain	Increase	Reduce	Maintain	Increase
Loans> $25 million	37%	50%	13%	31%	50%	19%
$15 – 25 million	27%	60%	13%	19%	64%	17%
$5-15 million	15%	67%	18%	16%	61%	23%
Under $5 million	15%	63%	22%	13%	61%	26%
Overall Average	23%	60%	17%	20%	59%	21%

15. 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.

- The percentage of lenders anticipating a 25 bps or more increase in interest rates decreased significantly as seventy-two percent of respondents in Q1 2010 believed the Fed would increase rates by at least 25 bps versus only forty-four percent in Q2 2010. More than half (54 percent) believe the Fed will hold rates at their current level in the coming six months compared to only twenty-eight percent in the previous quarter.

Bps Change	2Q/2010	1Q/2010
-More than 1.0	0%	0%
-1.0	0%	0%
-.75	0%	0%
-.50	0%	0%
-.25	2%	0%
0	54%	28%
+.25	28%	46%
+.50	16%	20%
+.75	0%	4%
+1.0	0%	2%
More than 1.0	0%	0%
Weighted Average	+ 15 basis points	+ 27 basis points

16. Current Competition

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

- Fifty-four percent identified local commercial/community banks as the primary source of competition – as compared to 50 percent last quarter.

	2Q/2010	1Q/2010
Money Center Banks	15%	12%
Local Commercial/ Community Banks	54%	50%
Factors	13%	10%
Regional Banks	15%	18%
Commercial Finance Organizations	3%	8%
Other	0%	2%