# Phoenix Management Services
# “Lending Climate in America” Survey

## 3rd Quarter 2009
## Summary, Trends and Implications

# PHOENIX
# "LENDING CLIMATE IN AMERICA"
# QUARTERLY SURVEY

## SUMMARY, TRENDS AND IMPLICATIONS

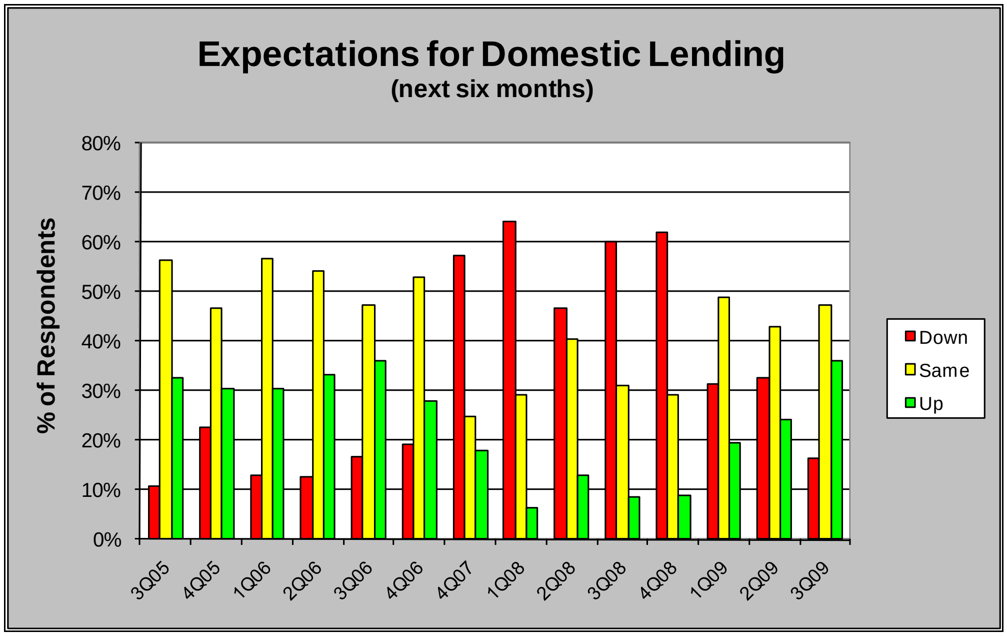
1. **More than half of all respondents – 55 percent – believe that today's business owners' main emphasis regarding their own business model is focused on short-term survival with an anticipated recovery.** Even though over 50 percent of polled lenders indicate concern regarding their clients' business models in the current economic environment, 17 percent believe that business owners' are capitalizing on market opportunities as a result of other competitors' struggles, while 16 percent are confident in their business model navigating them through the current economic environment. According to lenders, twelve percent are solely focused on surviving the recession.

2. **Lenders are mixed regarding the U.S. Government's impact on the financial industry during the past year.** Forty-five percent of respondents believe the economy is in a better position today because of the government's interaction than it would have been without its aid. Twenty-two percent of lenders feel that massive government spending of over $1 trillion in order to aid the economy will have a devastating impact on our nation's massive fiscal deficit, which will hurt our long-term economic growth. Twenty percent of lenders are thankful that the government used quick and decisive actions which prevented the economy to fall into a deeper tailspin. Eleven percent believes that the government imposed too many restrictive regulations, which will hurt the country's short- and long-term economic growth. The remaining two percent gave "Other" responses.

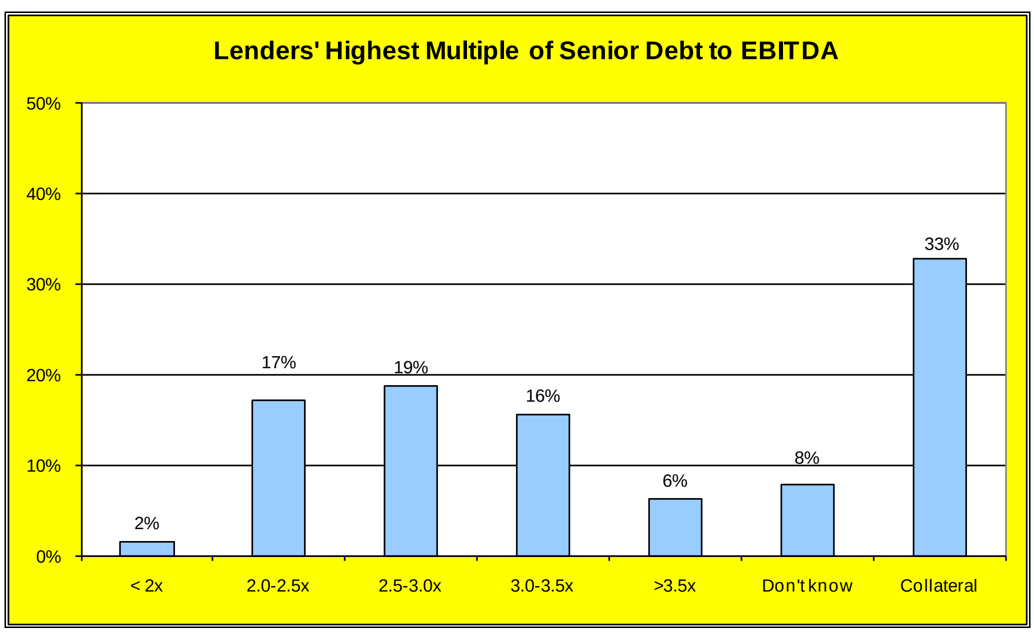
3. **Sixty-three percent of respondents believe the 2009 holiday retail spending activity will be very similar compared to 2008.** Twenty-eight percent of lenders believe that the 2009 holiday retail spending activity will decrease compared to last year's activity, as a result of increased consumer fiscal awareness and less disposable income. Nine percent of respondents are hopeful that holiday retail spending in 2009 will be higher than in 2008 due to improvements in consumer confidence. This is an extremely important economic indicator as consumer spending represents approximately $2/3^{rd}$ of our nation's economy.

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

5. **Improved expectations for domestic lending were evident for the fourth consecutive survey.** The overall diffusion index for all lending segments improved a positive fourteen percentage points (from negative sixteen percentage points in the prior survey). Respondents indicated that, on average for all domestic lending categories, 36 percent have expectations for increased loan demand (versus 24 percent in the prior quarter).

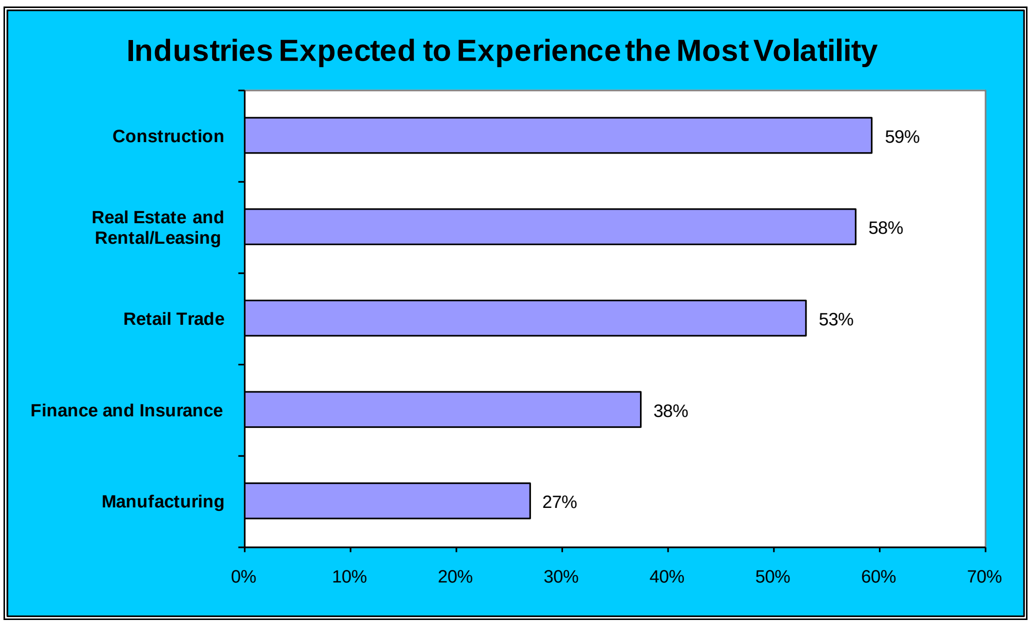



6. **Seventeen percent of lenders indicated their financial institution would consider a loan request with a Senior Debt to EBITDA multiple as high as 2.0-2.5x, seven percentage points lower than the previous survey.** Nineteen percent of respondents indicated their institution would only consider a loan request with a multiple as high as 2.5-3.0x (previous survey: twenty-one percent). Sixteen 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: fifteen percent). Thirty-three percent of respondents indicated they are collateral lenders and do not utilize cash flow multiples as the primary factor in credit decisions.



7. **Fifty 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.** Sixteen percent of respondents believe that the highest multiple will increase less than 0.5x (up from seven percent in the previous quarter), while only three percent anticipate the multiple will increase 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.

8. **Sixty-two percent 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, fifty-nine percent chose the Construction industry as the most likely to experience volatility and fifty-eight percent of lenders chose the Real Estate and Rental/Leasing industry. Fifty-three percent of lenders believe the Retail Trade industry will experience the most volatility. Thirty-eight percent of lenders believe the Finance and Insurance industries will experience the most volatility, and twenty-seven percent elected the Manufacturing industry will experience the most volatility.

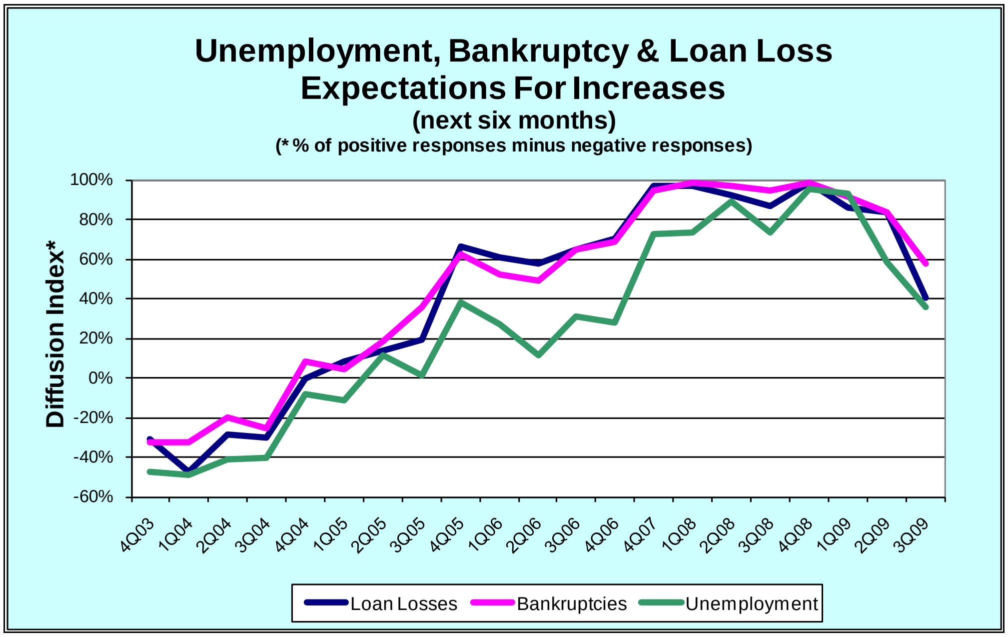


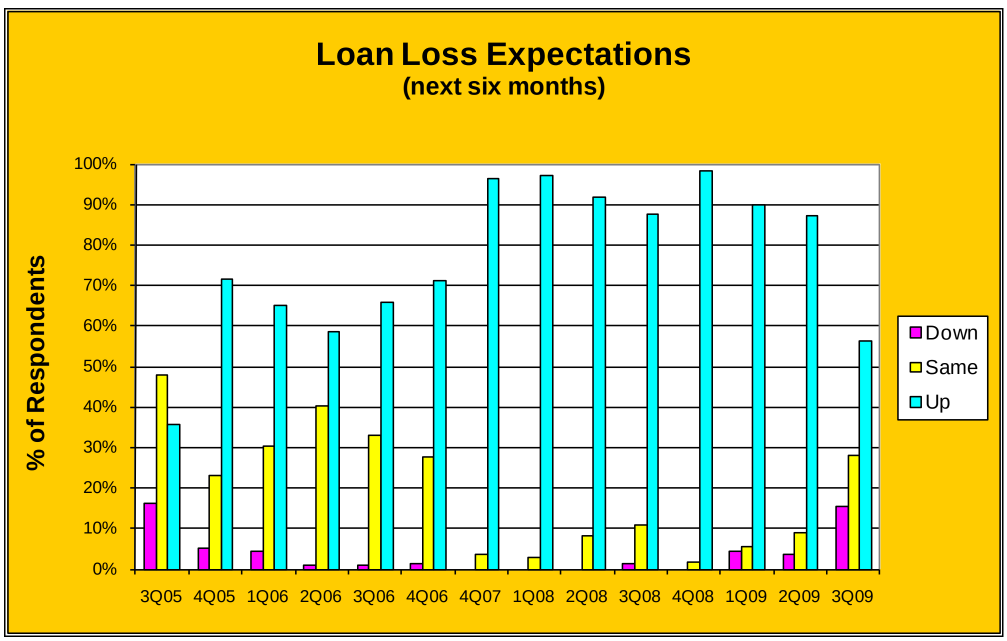

9. **Fifty-eight percent of respondents' customers anticipate raising additional capital in the next six months.** Thirty-one percent responded their customers are planning on introducing new products or services. Twenty-three percent replied their customers are planning to enter new markets, followed by twenty percent making an acquisition, sixteen percent making new capital investments and only eight percent anticipate their customers hiring new employees.

10. **Lenders expectations for the economy showed continued improvement for the next six months and even further optimism for the following six-month outlook.** Lenders expect the economy to perform at a "high-C" level during the next six months. The "out six months" outlook improved to a "moderate-B" expectation level which is the highest forecasted level in the previous nine surveys.

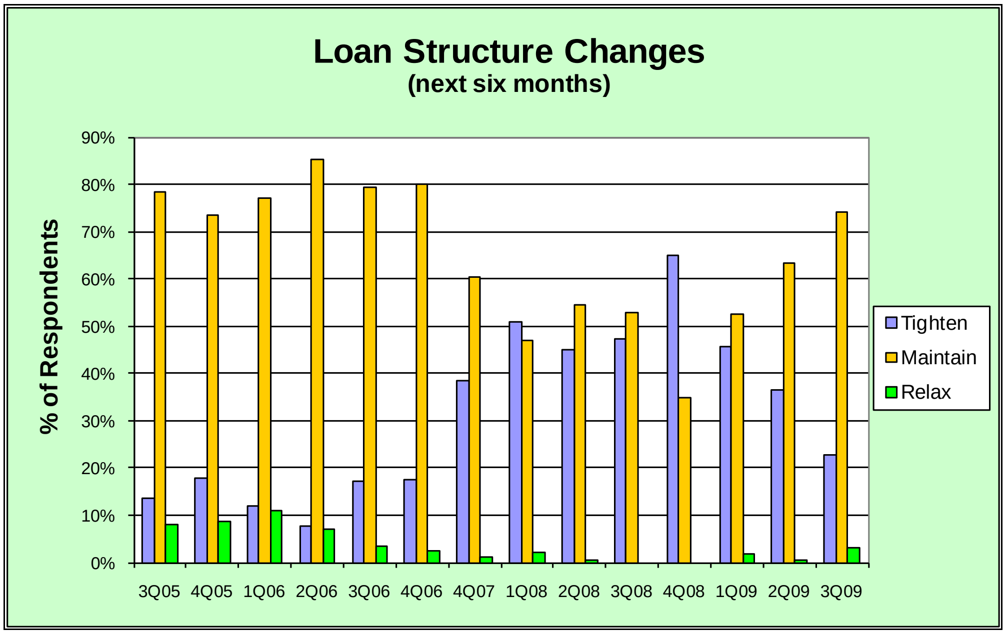
11. **The percentage of respondents with customers having moderate growth expectations over the next 6-12 months rose to nearly 60 percent, as compared to just 35 in the previous survey**. As a result, the percent of lenders with customers having no growth expectations fell 24 percentage points to 41 percent, down from 65 percent in the previous quarter.

12. **Lenders maintained their deteriorating credit quality outlook, yet some metrics saw material directional shifts.** The loan losses diffusion index was at 41 percent, decreasing 43 percentage points from the previous quarter. The percentage of respondents anticipating higher interest rates decreased 18 percentage points – decreasing to 44 percent.

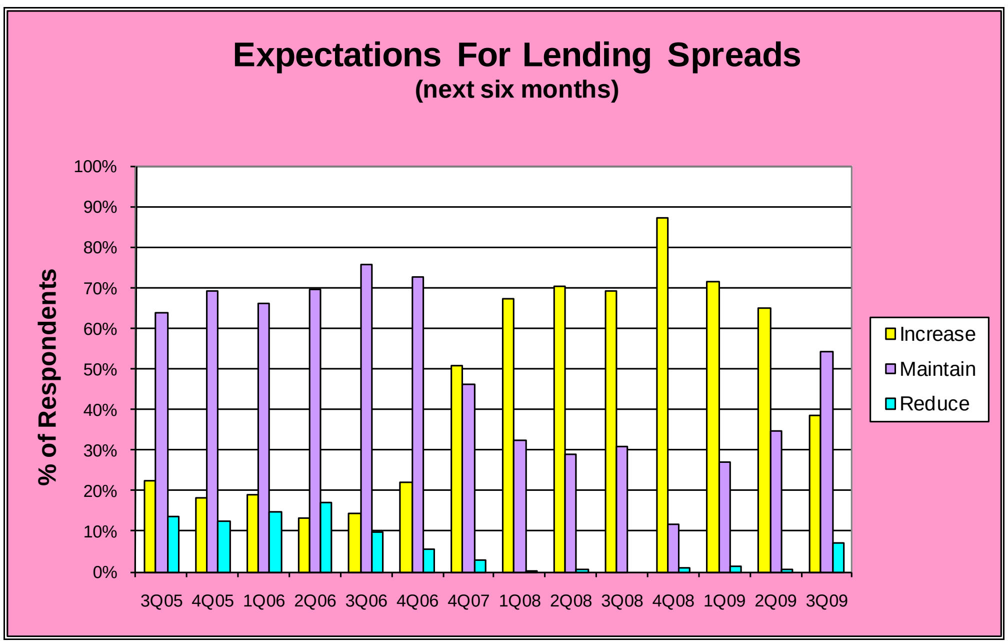



13. **The percentage of lenders expecting to maintain their existing loan structures increased to 74 percent (versus 63 percent in the previous survey).** As a result, the percentage of respondents planning to tighten their loan structure fell to 23 percent (versus 36 percent in the previous survey).




14. **A majority percentage of lenders anticipate maintaining their current lending spreads in this interest rate environment.** Fifty-four percent of respondents (versus thirty-five percent in the previous quarter) expect to maintain lending spreads from their current levels.



**Phoenix Management**
**"Lending Climate in America"**
**3rd Quarter 2009**

## Survey Results

### 1. Perspective on Companies' Business Models in Today's Economic Environment

Lenders were asked: In today's current economic environment, which of the following best describes companies' perspectives of their own business models?

- Fifty-five percent believe there is concern about short-term survival issues, but anticipate a recovery.
- Seventeen percent believe companies are taking advantage of opportunities in their own marketplace.
- Sixteen percent of lenders responded that companies are expecting their long-standing strategy/business model to be well-served moving forward.
- Thirteen percent conclude that companies are solely focused on surviving the recession.

### 2. U.S. Government's Impact on the Financial Industry

Respondents were asked: Now looking back at the one-year anniversary of the Lehman Brothers collapse, which of the following best reflects your view on the U.S. government's policies and actions regarding our financial system?

- Forty-five percent of respondents believe the economy is currently in a better position as a result of the government's interaction than it would have been without its aid.
- Twenty-two percent of lenders believe government spending of over $1 trillion in order to aid the economy will have a catastrophic impact on our country's massive fiscal deficit which will hurt our long-term economic growth.
- Twenty percent of respondents commented that they are thankful that the government intervened using quick and decisive actions which prevented the economy from falling into an even deeper recession or depression.
- Eleven percent of lenders believe the government imposed too many restrictive regulations that will hurt our short- and long-term economic growth.
- Two percent of respondents believe that the U.S. government's policies and actions will have "Other" impacts on the future of the U.S. financial system.

### 3. 2009 Holiday Retail Expectations

Lenders were asked how the 2009 holiday retail spending activity will compare against 2008.

- Sixty-three percent of respondents suggest that holiday spending activity in 2009 will be very similar versus 2008.

- Twenty-eight percent of lenders responded that 2009 holiday retail spending will decrease compared to last year as a result of increased consumer fiscal awareness and less disposable income.

- Nine percent of lenders believe 2009 holiday retail spending will be higher due to improvements in consumer confidence compared to last year.

## 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.

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

- Seventeen 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: twenty-five percent).

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

- Sixteen 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: fifteen 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: seven percent).

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

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

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

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

- Two percent opined the Senior Debt to EBITDA multiple will decrease less than 0.5x during the next six months (previous survey: two 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-nine percent designated constrained liquidity in the capital markets as the factor with the strongest potential to affect the near-term economy (previous survey: fifty-three percent).

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

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

- Twenty 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: twenty-nine percent).

- Fourteen percent conclude that unstable energy prices had the strongest potential to affect the economy during the next six months (previous survey: thirteen percent).

- Two percent opined that the wars in Iraq and Afghanistan had the strongest potential to affect the economy during the next six months (previous survey: three percent).

- Nine percent designated “Other” factors to have the strongest potential to affect the economy during the next six months.

## 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.

- Fifty-nine percent designated the construction industry as the industry expected to weather the greatest volatility in the near term (previous survey: forty-seven percent).

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

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

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

- Twenty-seven percent opined the manufacturing industry would experience the most volatility (previous survey: thirty-six percent).

- Nineteen percent believe the arts, entertainment and recreation industries would experience the most volatility (previous survey: eight percent).

- Eleven percent concludes the wholesale trade industry would experience the most volatility (previous survey: eight 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.

- Fifty-eight percent indicated their customers are planning on raising additional capital in the next months (previous survey: forty-nine percent).

- Thirty-one percent of lenders believe their customers are planning on introducing new products or services (previous survey: nineteen percent).

- Twenty-three percent responded their customers are planning on entering new markets (previous survey: twenty-seven percent).

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

- Sixteen percent of lenders believe their customers will be making new capital investments (previous survey: twelve percent).

- Thirteen percent of respondents indicated their customers plan on hiring new employees in the next six months (previous survey: eight percent).

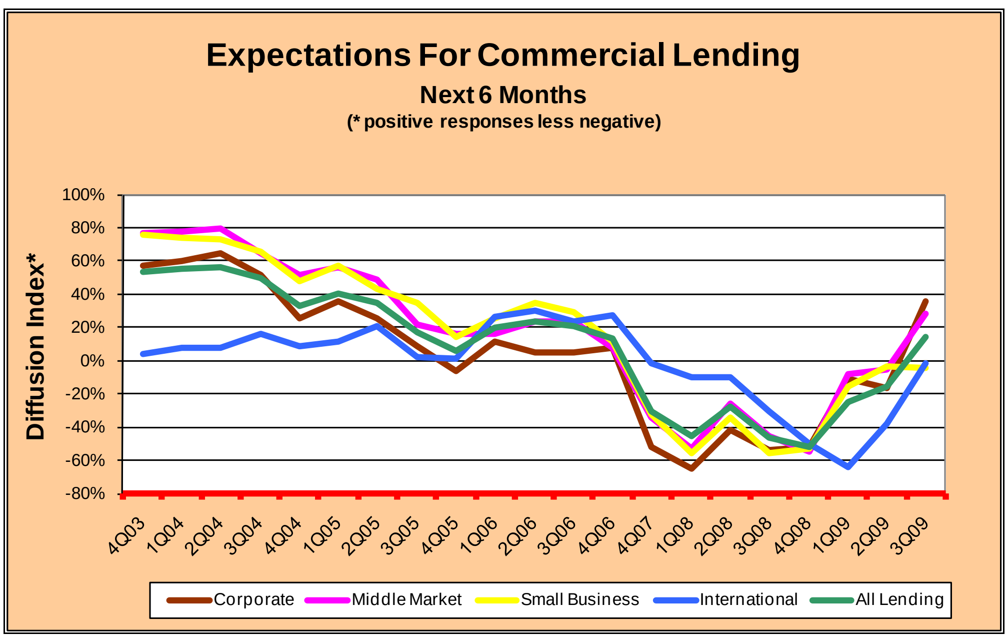
## 9. Economic Indicators

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

- For the first time in seven quarters, respondents were optimistic regarding the economic indicators. The diffusion index for all domestic lending segments equaled positive 20 percentage points – a 28 percentage point improvement versus last quarter and a 73 percentage point improvement versus Q4 2008.

- Credit quality sentiment of lenders showed improvement with regards to the balance of credit quality. Forty-four percent of respondents anticipate higher interest rates, as compared to sixty-two percent in the last survey. Also, the percentage of lenders anticipating higher unemployment fell to forty-seven percent (versus sixty-five percent in the previous survey).

| | 2Q/2009 | | | 3Q/2009 | | |
|---|---|---|---|---|---|---|
| | Up | Down | Same | Up | Down | Same |
| Corporate Lending | 15% | 30% | 55% | 45% | 10% | 45% |
| Middle Market Lending | 25% | 31% | 44% | 41% | 12% | 47% |
| Small Business Lending | 33% | 36% | 31% | 23% | 27% | 50% |
| International Lending | 7% | 45% | 48% | 17% | 19% | 64% |




| | Up | Down | Same | Up | Down | Same |
|---|---|---|---|---|---|---|
| Loan Losses | 87% | 4% | 9% | 56% | 16% | 28% |
| Bankruptcies | 85% | 2% | 13% | 62% | 5% | 33% |
| Interest Rates | 62% | 0% | 38% | 44% | 5% | 51% |
| Unemployment | 65% | 7% | 28% | 47% | 11% | 42% |
| Bank Failures | 76% | 4% | 20% | 70% | 6% | 24% |

## 10. 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. The percentage of lenders who believe that the economy will perform at a "C" level increased dramatically to 63 percent from 36 percent in the prior quarter.

| Grade | 2Q/2009 | 3Q/2009 |
|---|---|---|
| A | 0% | 0% |
| B | 0% | 2% |
| C | 36% | 63% |
| D | 62% | 33% |
| F | 2% | 2% |
| Weighted Average Grade | 1.35 | 1.64 |

## 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 demonstrated continued, measured improvement and confidence in the potential near-term recovery of the financial system. The overall, imputed average of 2.31 was the highest outlook in the last nine surveys. Respondents anticipating the economy to perform at a "B" level increased to 39 percent (from 27 percent in the previous survey). Conversely, lenders anticipating the economy to perform at a "D" level or lower decreased to single digits at 8 percent (down from 13 and 29 percent in the previous 2 surveys).

| Grade | 2Q/2009 | 3Q/2009 |
|---|---|---|
| A | 0% | 0% |
| B | 27% | 39% |
| C | 60% | 53% |
| D | 13% | 8% |
| F | 0% | 0% |
| Weighted Average | 2.15 | 2.31 |

## 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 increased to fifty-nine percent (a twenty-four percentage point increase from the previous survey).

| Indication | 2Q/2009 | 3Q/2009 |
|---|---|---|
| Very Strong | 0% | 0% |
| Strong | 0% | 0% |
| Moderate | 35% | 59% |
| No Growth | 65% | 41% |

## 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.

- A decreasing percentage of respondents expect to tighten their loan structures – for the third straight quarter. The overall average of financial institutions planning to tighten their loan structures declined to 19 percent as compared to 36 percent in the previous survey.

| | 2Q/2009 | | | 3Q/2009 | | |
|---|---|---|---|---|---|---|
| | Tighten | Maintain | Relax | Tighten | Maintain | Relax |
| Loans> $25 million | 36% | 62% | 2% | 19% | 77% | 4% |
| $15 – 25 million | 33% | 67% | 0% | 22% | 75% | 3% |
| $5-15 million | 36% | 64% | 0% | 22% | 75% | 3% |
| Under $5 million | 40% | 60% | 0% | 28% | 70% | 2% |
| Overall Average | 36% | 63% | 1% | 23% | 74% | 3% |

## 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.

- Thirty-nine percent of respondents plan to increase their current interest rate spreads and fee structures on all sizes of loans – 26 percentage points lower than in the previous quarter. Seven percent of lenders plan to actually reduce their current interest rate spreads and fee structures on all size loans, which is a dramatic increase from an average of less than one percent during the past six quarters.

| | 2Q/2009 | | | 3Q/2009 | | |
|---|---|---|---|---|---|---|
| | Reduce | Maintain | Increase | Reduce | Maintain | Increase |
| Loans> $25 million | 2% | 40% | 58% | 14% | 50% | 36% |
| $15 – 25 million | 0% | 40% | 60% | 8% | 58% | 34% |
| $5-15 million | 0% | 33% | 67% | 3% | 56% | 41% |
| Under $5 million | 0% | 25% | 75% | 3% | 53% | 44% |
| Overall Average | 0% | 35% | 65% | 7% | 54% | 39% |

## 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.

- An increasing percentage of respondents forecast an increasing interest rate environment. The percentage of lenders anticipating a 25 bps or more increase in interest rates increased to 44 percent (versus 33 percent in the prior quarter survey).

| Bps Change | 2Q/2009 | 3Q/2009 |
|---|---|---|
| -More than 1.0 | 0% | 0% |
| -1.0 | 0% | 0% |
| -.75 | 0% | 0% |
| -.50 | 0% | 0% |
| -.25 | 2% | 1% |
| 0 | 65% | 56% |
| +.25 | 22% | 27% |
| +.50 | 9% | 13% |
| +.75 | 0% | 2% |
| +1.0 | 0% | 0% |
| More than 1.0 | 2% | 2% |
| Weighted Average | + 12 basis points | + 16 basis points |

## 16. Current Competition

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

- More than half – 59 percent – identified regional banks as the primary source of competition – as compared to 44 percent last quarter. Lenders designating money central banks as the primary source of competition decreased to 14 percent versus 19 percent in the previous survey.

| | 2Q/2009 | 3Q/2009 |
|---|---|---|
| Money Center Banks | 19% | 14% |
| Local Commercial/ Community Banks | 19% | 16% |
| Factors | 7% | 3% |
| Regional Banks | 44% | 59% |
| Commercial Finance Organizations | 7% | 5% |
| Other | 4% | 3% |