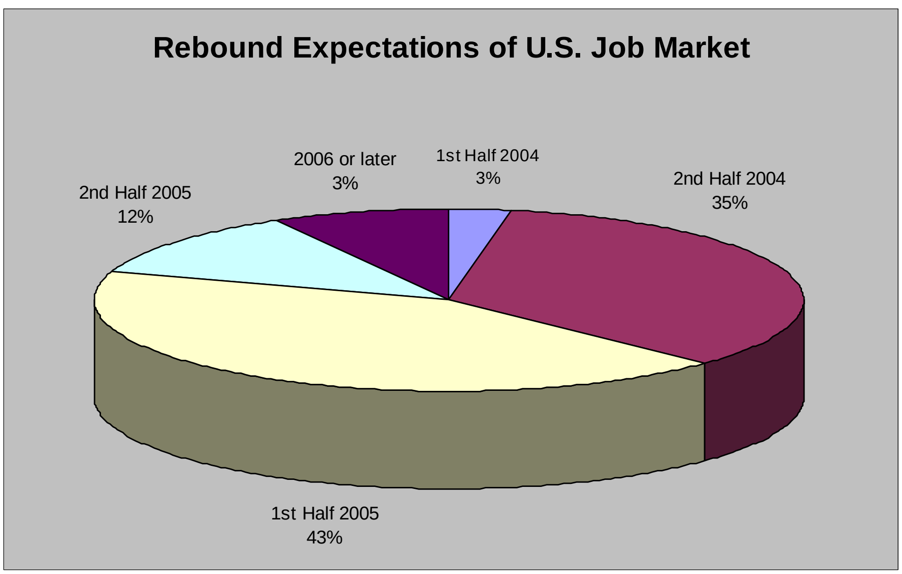
PHOENIX
"LENDING CLIMATE IN AMERICA"
QUARTERLY SURVEY

1st Quarter 2004

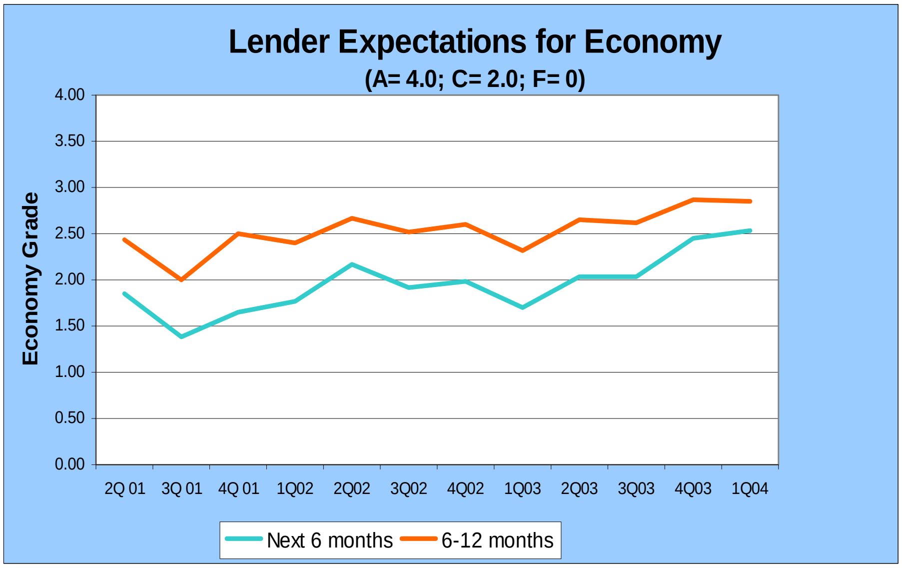
SUMMARY, TRENDS AND IMPLICATIONS

1. **Another terrorist attack is viewed as the greatest single threat to derailing the current economic recovery.** Forty-six percent of respondents designated another terrorist attack as the single greatest potential threat, while twenty-six percent opined the greatest threat was the failure of the U.S. job market to rebound. The lone remaining choice chosen by more than ten percent of respondents was a potential sharp drop in the real estate market (12%).

2. **More than half of lenders do not expect the job market to rebound until next year, a marked turnaround from expectations three months ago.** Forty-three percent of respondents expect the U.S. job market to rebound in the first half of 2005, with an additional 12 percent predicting a rebound during the second half of 2005. Slightly more than a third were more optimistic, predicting a domestic employment rebound in the second half of this year. These figures are in contrast to the previous quarter in which nearly half of all respondents (49%) expected the U.S. job market to rebound in the first half of 2004.

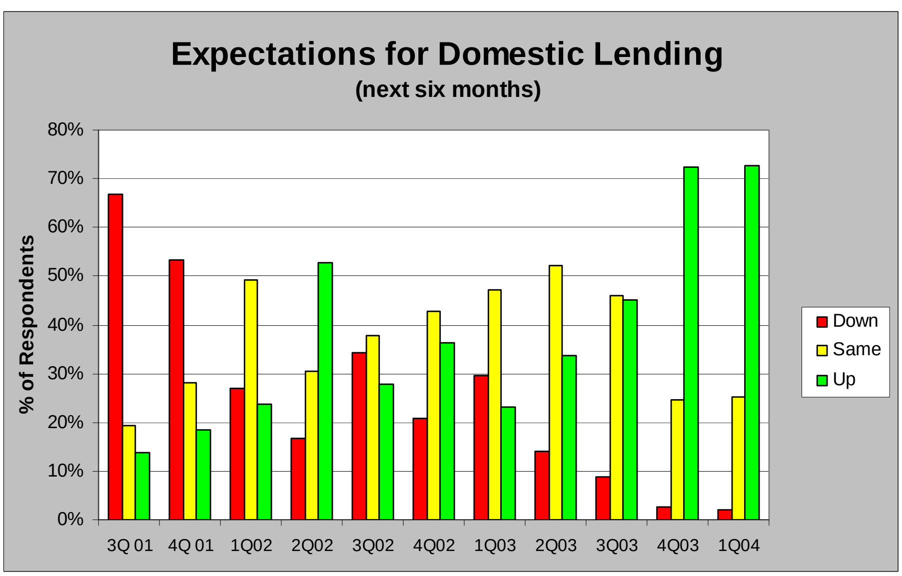


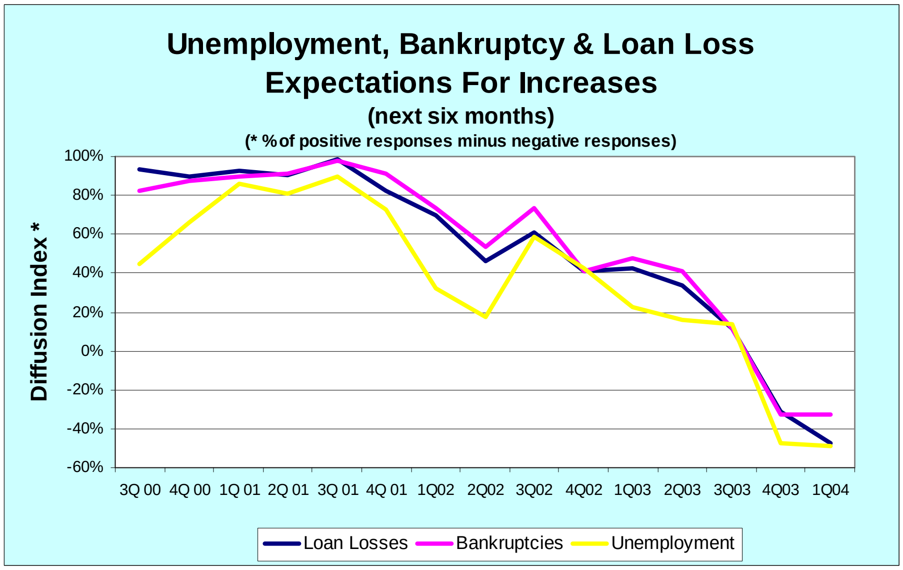
3. **Lenders expect the economy to perform at a high C+ level during the next six months, roughly equivalent to the previous quarter.** The respondents' expectations for longer-term improvement are even stronger; with three-quarters of all respondents anticipating the economy will perform at a B or better level during the second half of 2004.



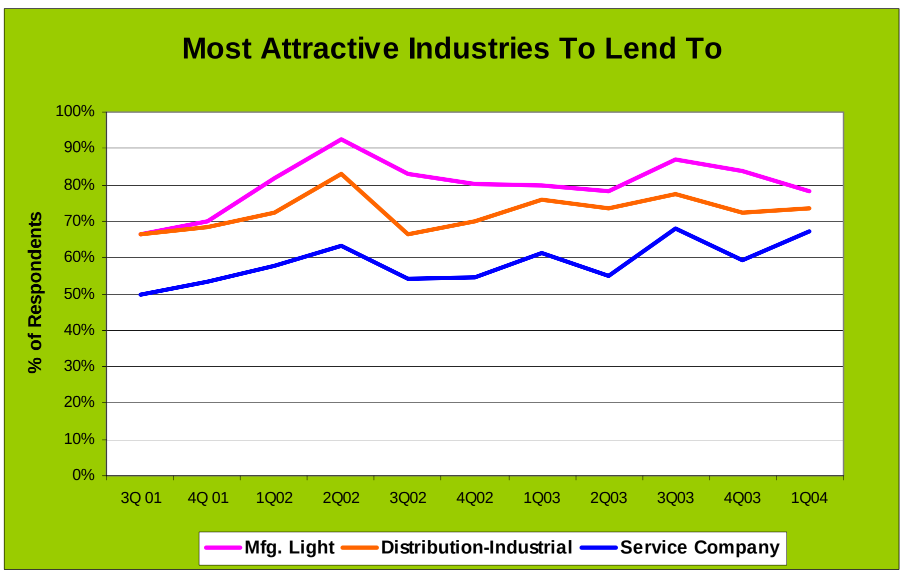
4. **Customer growth expectations over the next six to 12 months increased for the fifth consecutive quarter.** Twenty percent of lenders believe their customers have strong growth expectations (versus seventeen percent in the previous quarter), the largest percentage in this category since Spring 2000. The percent of lenders stating their customers had modest growth expectations declined modestly (76 percent this quarter versus 78 percent in the previous quarter).

5. **Expectations for increased demand for domestic loans remained historically high across the board this quarter.** Sixty-three percent of respondents indicated corporate lending will increase (versus 61 percent in the previous quarter), while nearly identical percentage (78 percent) feel both middle market and small business lending will rise (statistically consistent with the previous quarter). The increasingly positive outlook for credit-related topics continued as well. Lenders' expectations for increased loan losses, bankruptcies, and unemployment all fell in relation to previous surveys.

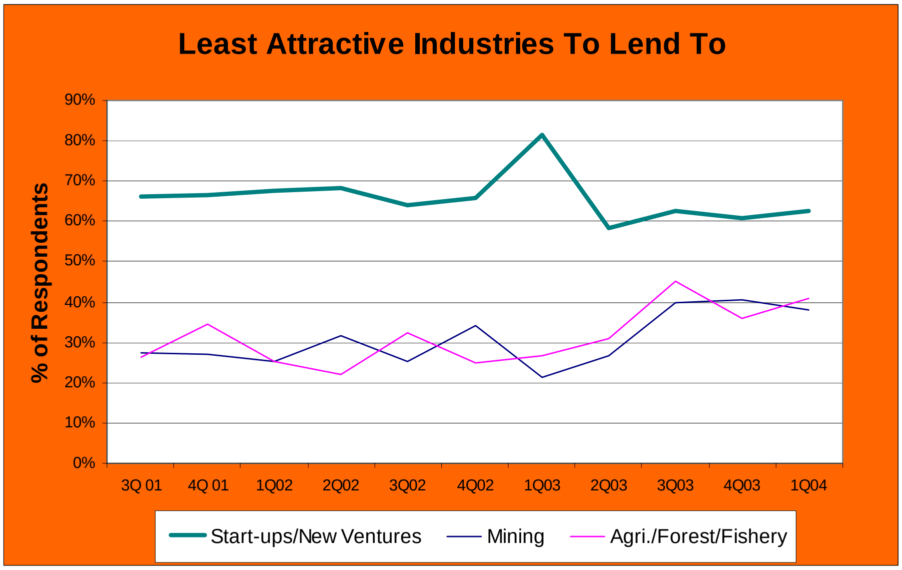




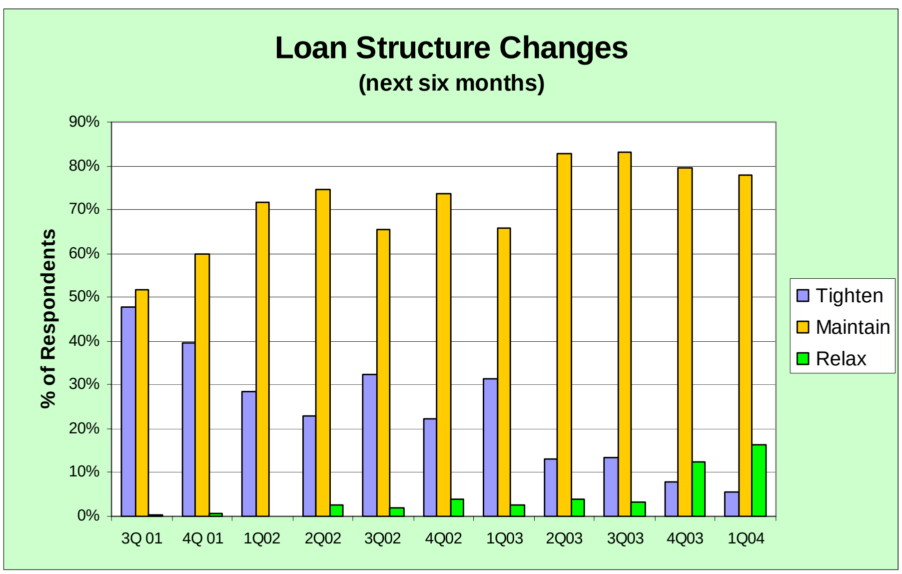
6. **Lenders continue to favor the Light Manufacturing, Industrial Distribution and Service Companies industries.** When asked which industries were most attractive to their lending institution, 78 percent of lenders named Light Manufacturing, 74 percent selected Industrial Distribution, and 67 percent named Service Companies. Of the remaining selections, Retail and Health Care were the industries having the largest percentage increase of respondents designating a "Most Attractive" status.



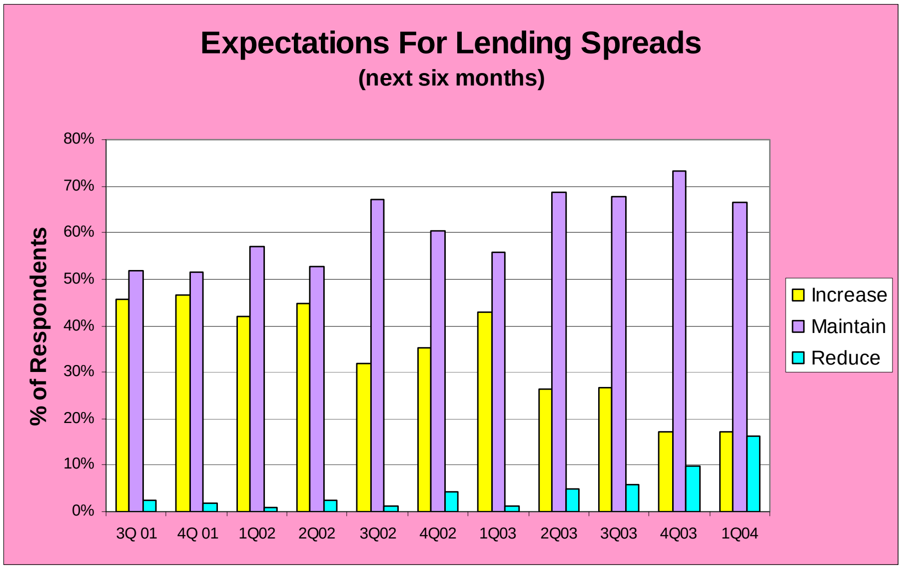
7. **Lenders chose the Start-ups, Agriculture/Forestry/Fishery, and Mining industries as industries to avoid.** Sixty-three percent of lenders said Start-ups is an industry their institution found unattractive, while 41 percent repeated that sentiment in regards to the Agriculture/Forestry/Fishery industry. Thirty-nine percent of lenders named the Mining industry a "Least Attractive" industry in which to lend.



8. **The vast majority of lenders expect to maintain their existing loan structures.** The number of lenders reporting an expectation to tighten their terms and conditions remained at multi-year lows. The percentage of respondents reporting an expectation to loosen existing loan structures climbed to sixteen percent – the highest percentage since Phoenix Management began this quarterly lending survey.



9. **Lenders anticipate maintaining the current lending spreads in this interest rate environment.** Sixty-seven percent of respondents (versus 73 percent in the previous quarter) expect to maintain lending spreads at their current levels. Across all ranges of loan sizes, lenders express an anticipation of reduced interest rate spreads in the next six months.



10. **Survey respondents maintain their belief in a rising interest rate environment.** This quarter 74 percent of lenders (versus 61 percent in the previous quarter) believe interest rates will rise over the next six month. The percentage of lenders expecting no change in rates over the next six months fell to 25 percent (versus 36 percent in the previous quarter).

Phoenix Management
"Lending Climate in America"
1st Quarter 2004

Survey Results

1. Threat to Possible Derailing of Current Economic Recovery

Respondents were asked which of the following, should it occur, poses the greatest **single** threat to the possible derailing of the economic recovery now underway.

- Forty-six percent indicated the greatest single threat would be another terrorist attack.
- Twenty-six percent responded the failure of the job market to rebound would be the largest threat to further economic recovery.
- Twelve percent chose a sharp drop in the real estate market as the biggest threat to a continued economic recovery.
- Eight percent responded that the greatest single threat was a reversal of the stock market turnaround.
- Five percent indicated a steep increase in the national debt as the biggest threat to a continued economic recovery.
- The remaining three percent indicated they felt the current economic recovery was too strong to be derailed.

2. Timing of Rebound for U.S. Job Market

Respondents were asked when they expected the U.S. job market to rebound.

- Forty-three percent indicated they felt the U.S. job market would rebound in the first half of 2005.
- Thirty-five percent responded they felt the U.S. job market would rebound in the second half of 2004.
- Twelve percent indicated they felt the U.S. job market would rebound in the second half of 2005.
- Seven percent indicated they felt that any future U.S. job market rebound wouldn't occur until 2006 or later.
- The remaining three percent responded they felt the U.S. job market would rebound in the first half of 2004.

3. Anticipated Customers' Plans for Next 6 - 12 Months

Lenders were asked which of the following initiatives their customers were planning in the next six to twelve months.

	Percentages
Making new capital investments	26%
Introducing new products or services	18%
Raising additional capital	17%
Making an acquisition	16%
Hiring new employees	14%
Entering new markets	9%

4. 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.

- Lenders' expectations for the domestic lending environment were consistent with the positive sentiment of the previous quarter. Expectations for international lending improved for the fourth consecutive quarter.

- In line with their overall outlook for the lending environment, respondents forecasted declines in loan losses, bankruptcies, and unemployment, a positive trend for the past four quarters.

	Last Quarter			**This Quarter**		
	Up	Down	Same	Up	Down	Same
Corporate Lending	61%	5%	34%	63%	3%	34%
Middle Market Lending	78%	2%	20%	77%	0%	23%
Small Business Lending	78%	2%	20%	78%	4%	18%
International Lending	22%	17%	61%	29%	21%	50%
	Up	Down	Same	Up	Down	Same
Loan Losses	22%	53%	25%	11%	58%	31%
Bankruptcies	19%	51%	30%	14%	46%	40%
Interest Rates	53%	0%	47%	60%	0%	40%
Unemployment	10%	57%	33%	5%	54%	42%
Bank Failures	2%	34%	64%	1%	37%	62%

5. U.S. Economy Grade – First Six Months of 2004

Respondents were asked how they expected the U.S. economy to perform during the first six months of 2004 on a grading scale of A through F.

- Respondents maintained their outlook for the economy's performance at approximately a "high" C / "low" B grade for the first half of 2004.

- Lenders' expectations for the economy's near-term future performance are currently at their highest level since Summer 2000.

	Last Quarter	**This Quarter**
A	2%	4%
B	42%	47%
C	54%	57%
D	2%	4%
F	0%	0%
Weighted Average Grade	2.45	2.53

6. U.S. Economy Grade – Second Six Months of 2004

Respondents were asked how they expected the U.S. economy to perform during the second six months of 2004 on a grading scale of A through F.

- In conjunction with lenders' expectations for the first half of 2004, respondents were similarly optimistic in their belief that the second six months of 2004 will see the economy's performance at approximately a B- grade.

	Last Quarter	**This Quarter**
A	6%	10%
B	74%	65%
C	20%	24%
D	0%	1%
F	0%	0%
Weighted Average	2.86	2.84

7. Customers' Future Growth Expectations

Lenders were asked to assess their customers' growth expectations for the next six months to one year.

- The percentage of lenders with customers having "Strong" or "Very Strong" has risen from 4% as recently as Summer 2004 to 21% in this quarterly survey. The percentage of respondents expecting "moderate" growth was relatively unchanged.

	Last Quarter	**This Quarter**
Very Strong	0%	1%
Strong	17%	20%
Moderate	78%	76%
No Growth	5%	3%

8. Most Attractive Industries

Lenders were asked which of the following industries would be **most attractive** to their institutions over the next six months. (Multiple answers were permitted.)

- Light Manufacturing, Industrial Distribution and Service Companies continue to be viewed most positively by lenders.
- Service Companies, Retail, and Health Care were the primary industries that exhibited positive momentum in their designation of "Most Attractive" in which to lend. Excluding those industries, the respondents continued their recent "pull back" in affinity for lending to any one industry.

	Last Quarter	**This Quarter**
Mfg.-Light	84%	78%
Distribution-Industrial	72%	74%
Service Companies	59%	67%
Retail	25%	33%
Mfg.-Heavy	31%	29%
Real Estate	23%	25%
Health Care	15%	19%
Transportation	22%	18%
Technology	16%	13%
Construction	14%	12%
Communications	10%	12%
Finance/Insurance	9%	12%
Start-Ups/ New Ventures	7%	5%
Utilities	2%	3%
Mining	3%	2%
Agriculture/Forestry/Fishing	2%	2%
Other	0%	0%

9. Least Attractive Industries

Lenders were asked which of the following industries would be **least attractive** to their institution over the next six months. (Multiple answers were permitted.)

- Start-ups/New Ventures maintained its position at the top the list of least attractive industries.
- Technology, Health Care, Heavy Manufacturing, and Agriculture/Forestry/Fishing experienced the largest increases of respondents designating them as "least attractive" industries to lend to in the recent quarter.

	Last Quarter	**This Quarter**
Start-Ups/ New Ventures	61%	63%
Agriculture/Forestry/Fishing	36%	41%
Mining	41%	39%
Health Care	33%	39%
Technology	29%	39%
Construction	34%	36%
Communications	33%	30%
Retail	24%	26%
Mfg.-Heavy	20%	25%
Utilities	23%	21%
Real Estate	22%	18%
Finance/Insurance	14%	15%
Transportation	7%	15%
Service Companies	3%	7%
Mfg.-Light	4%	4%
Distribution-Industrial	1%	2%

10. 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.

- While the gross majority of lenders expect to maintain the current loan structures, the percentages of lenders reporting an intention to relax their terms and conditions continued their upward trend of the previous three quarters.

	Last Quarter			**This Quarter**		
	Tighten	Maintain	Relax	Tighten	Maintain	Relax
Loans> $10 million	6%	79%	15%	4%	79%	17%
$6 – 10 million	5%	83%	12%	4%	80%	16%
$1-5 million	9%	80%	11%	7%	77%	16%
Under $1 million	12%	76%	12%	8%	76%	16%
Overall Average	8%	79%	13%	6%	78%	16%

11. 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.

- The largest percentage of respondents (16%) in the last eight years, representing all loan sizes, indicates their anticipation of a reduction of interest rate spreads. That being said, lenders plan to maintain their current interest rate spreads and fee structures on all sizes of loans following the historical trend of the last six quarters.

	Last Quarter			**This Quarter**		
	Reduce	Maintain	Increase	Reduce	Maintain	Increase
Loans> $10 million	17%	72%	11%	26%	64%	10%
$6 – 10 million	10%	76%	14%	20%	66%	15%
$1-5 million	7%	72%	21%	12%	67%	21%
Under $1 million	5%	73%	22%	7%	70%	23%
Overall Average	10%	73%	17%	16%	67%	17%

12. 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.

- This quarterly survey demonstrated a continued shift towards a rising interest rate environment. Seventy-six percent of respondents (versus sixty-one percent in the previous survey) anticipate an increase in interest rates in the coming six months.

	Last Quarter	**This Quarter**
-More than 1.0	0%	0%
-1.0	0%	0%
-.75	0%	0%
-.50	0%	0%
-.25	3%	1%
0	36%	25%
+.25	39%	44%
+.50	20%	24%
+.75	2%	2%
+1.0	0%	4%
More than 1.0	0%	0%
Weighted Average	+20 basis points	+28 basis points

13. Current Competition

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

- The responses from lenders in regards to current competition remained fairly consistent with previous quarters, with Money Center Banks being the sole choice exhibiting an increase.

	Last Quarter	This Quarter
Money Center Banks	8%	14%
Local Commercial/ Community Banks	17%	17%
Factors	6%	4%
Regional Banks	50%	43%
Commercial Finance Organizations	28%	26%
Other	4%	3%

14. Type of Institution

Respondents were asked for what type of institution they worked.

- One hundred ten respondents participated in this quarter's survey.
- Fifty-two percent of respondents report working for a Commercial Bank.
- Thirty-six percent work for a Commercial Finance Organization.
- Six percent work for a Factor (a type of financial organization that handles riskier loans by purchasing a company's accounts receivable).
- The remaining six percent work for other types of financial organizations.

15. Average Loan Size

Respondents were asked to identify the typical size loan at their institution.

	Last Quarter	This Quarter
Under $1 million	18%	18%
$1-5 million	24%	24%
$ 6-10 million	20%	25%
Over $ 10 million	38%	33%
Average Loan	$7.3 Million	$5.2 Million