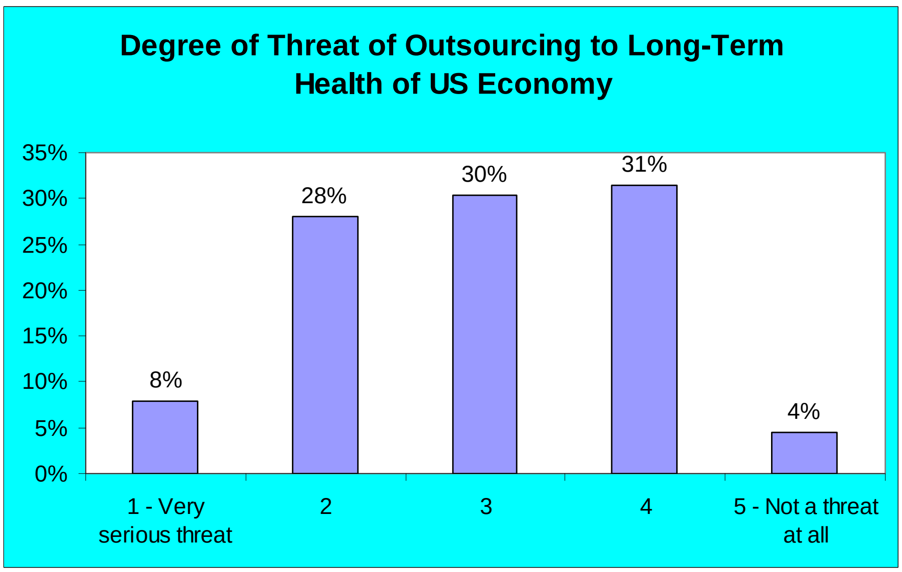
PHOENIX
"LENDING CLIMATE IN AMERICA"
QUARTERLY SURVEY

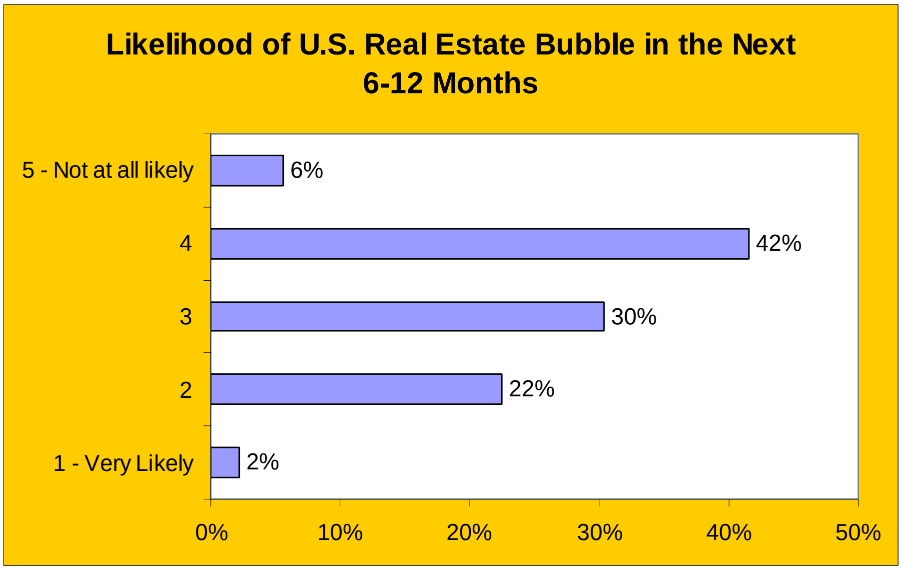
2nd Quarter 2004

SUMMARY, TRENDS AND IMPLICATIONS

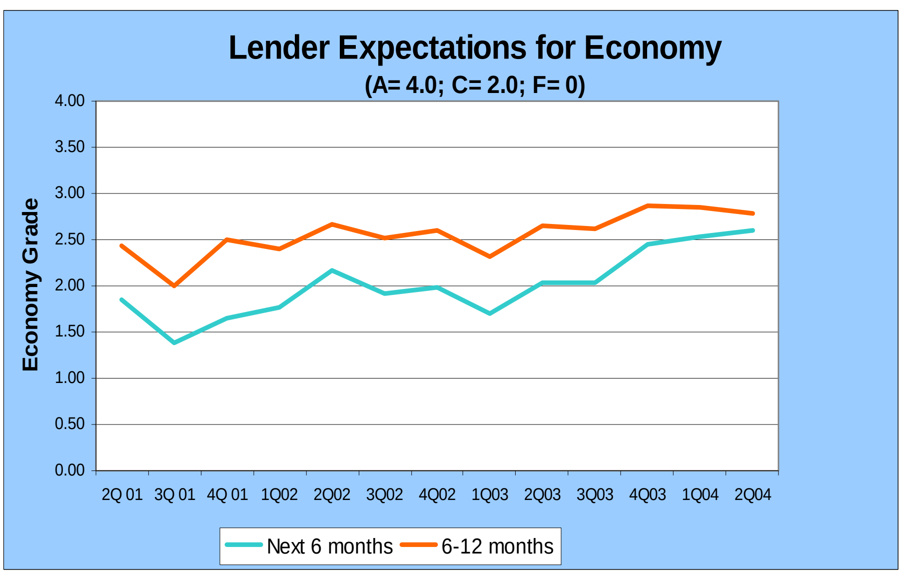
1. **Three-quarters or more of lenders believe that outsourcing is a natural byproduct of the global economy and that while the practice eliminates American jobs, it also results in more competitively priced products and services.** When asked how serious a threat outsourcing is to the long-term health of the American economy, lenders were almost evenly split on whether it was a mild threat, a serious threat or a neutral factor. On a scale of 1 to 5, with 1 representing "a very serious threat" and 5 being "not a threat at all," the gross majority of lenders split their assessments between 2, 3 and 4. Fifty-nine percent believe outsourcing will ultimately make the U.S. more competitive and productive, and 37 percent believe the issue of outsourcing has been over-hyped by the media. Only three percent of lenders believe outsourcing should be regulated by the government.



2. **Although nearly half of lenders do not anticipate a real estate bubble in the U.S. in the next 6 - 12 months, 24 percent think it is somewhat likely and 30 percent believe it is equally possible that it may or may not occur.** When asked to predict how likely they thought a real estate bubble was in the next six to 12 months, 48 percent selected 4 (not very likely) on a five-point scale. Six percent believe it is not at all likely, while two percent said it was very likely.

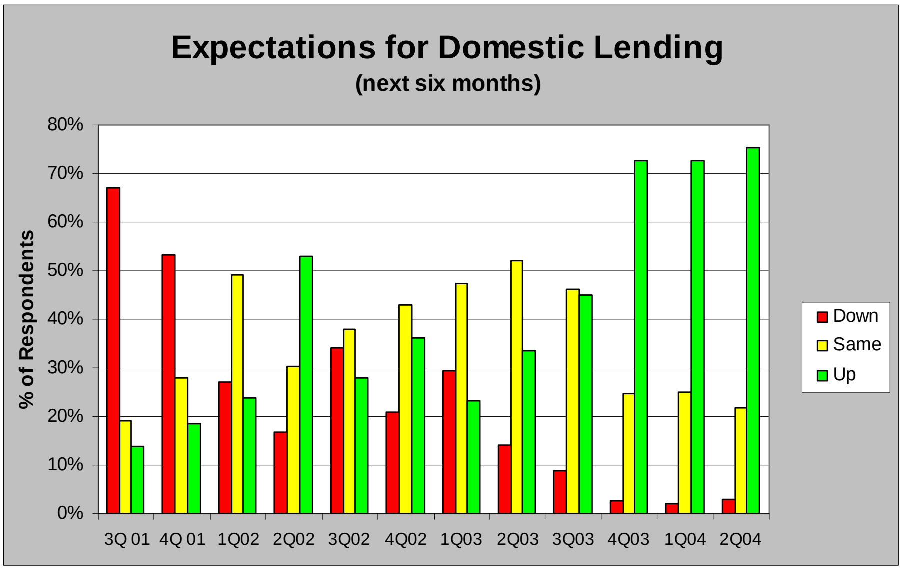


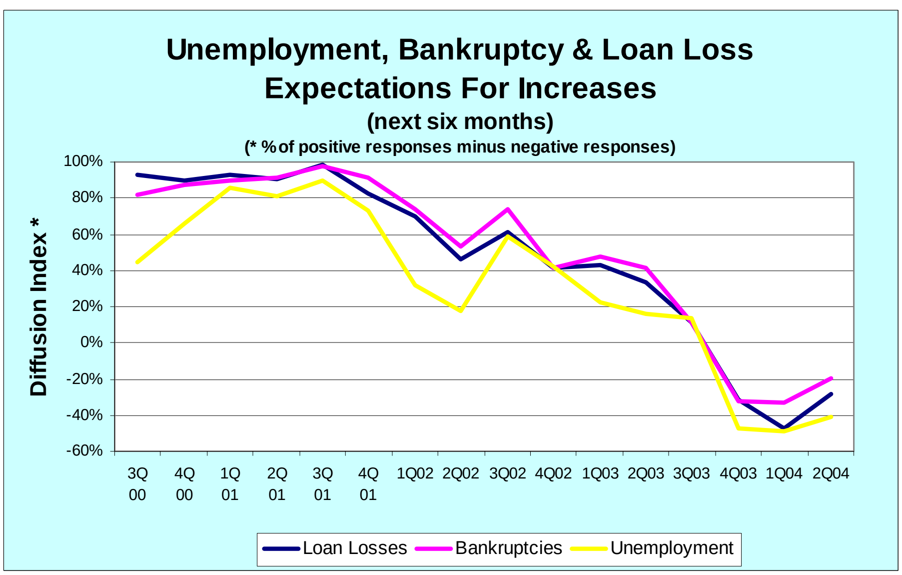
3. **Lenders expect the economy to perform at a B- level during the next six months, their highest expectation for short-term economic performance since the summer of 2000.** The respondents' expectations for longer-term improvement are even stronger; with three-quarters of all respondents anticipating the economy will perform at a B or better level during the first half of 2005.



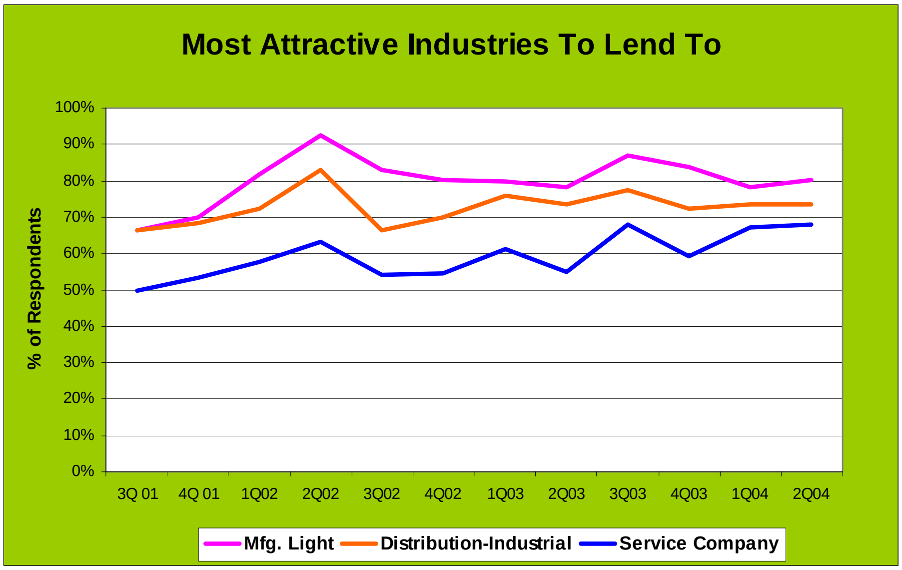
4. **Expectations for customer growth over the next six to 12 months increased for the sixth consecutive quarter.** Twenty-seven percent of lenders believe their customers have strong growth expectations (versus 20 percent in the previous quarter), the largest percentage responding this way since Spring 2000. The percentage of lenders stating their customers had modest growth expectations declined slightly (73 percent this quarter versus 76 percent in the previous quarter).

5. **Expectations for increased demand for domestic loans remained historically high across the board this quarter.** Sixty-eight percent of respondents indicated corporate lending will increase (versus 63 percent in the previous quarter), while nearly identical percentages (80 and 78 percent, respectively) feel both middle market and small business lending will rise. Those figures are similar to last quarter's. While the overall outlook for credit-related topics is generally positive, this quarter saw modest upward spikes in expectations of increased loan losses, bankruptcies, and the unemployment rate.

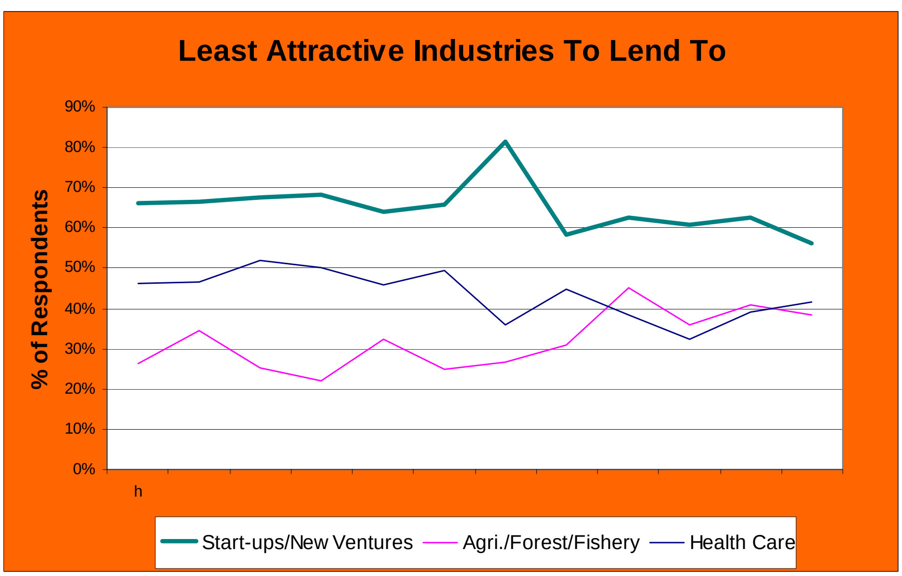




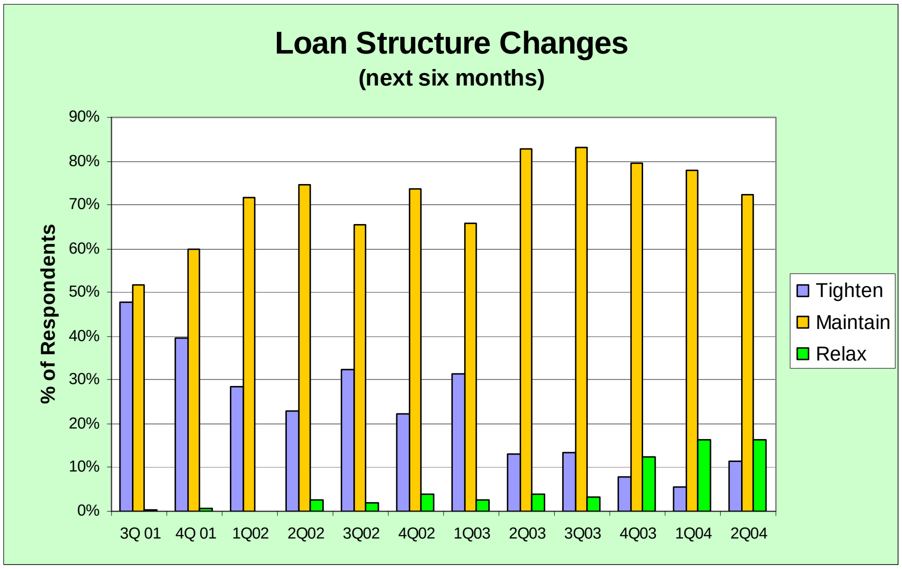
6. **Lenders continue to favor the Light Manufacturing, Industrial Distribution and Service Companies industries.** When asked which industries were most attractive to their lending institution, 80 percent of lenders named Light Manufacturing, 74 percent selected Industrial Distribution, and 68 percent named Service Companies. Of the remaining selections, Start-ups/New Ventures was the industry having the largest percentage increase of respondents designating a "Most Attractive" status (up six points to 11 percent).



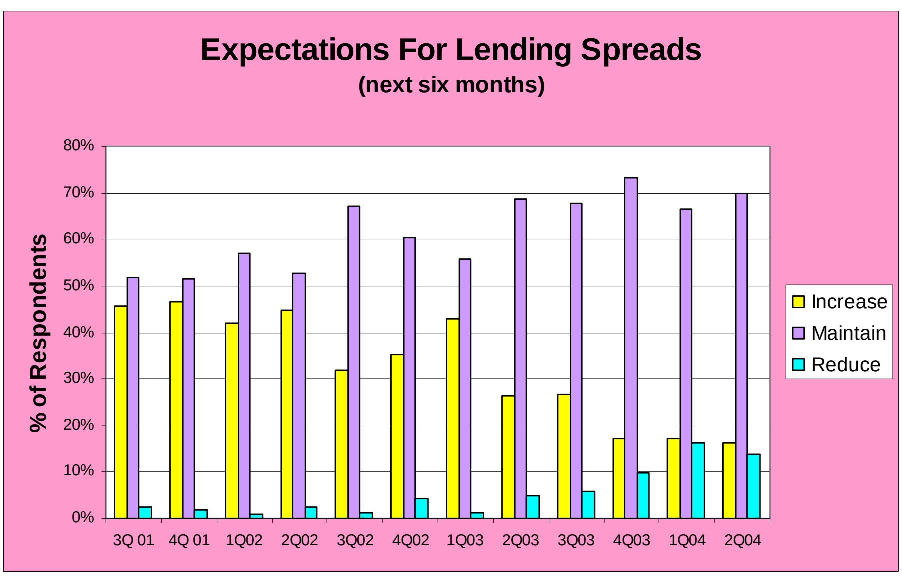
7. **Lenders are avoiding Start-ups, Healthcare, and Mining industries.** Fifty-six percent of lenders said Start-ups is an industry their institution found unattractive, while 42 percent repeated that sentiment in regards to the Healthcare industry. Forty percent of lenders named the Mining industry 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 of tightening their terms and conditions remained at multi-year lows. The overall percentage of respondents who said they expected to loosen existing loan structures remained at sixteen percent from last quarter – the highest percentage since Phoenix Management began this quarterly lending survey.



9. **Lenders anticipate maintaining current lending spreads in this interest rate environment.** Seventy percent of respondents (versus 67 percent in the previous quarter) expect to maintain lending spreads at their current levels. Across all ranges of loan sizes, lenders expressed an anticipation of reduced interest rate spreads in the next six months.



9. **Survey respondents maintain their belief in a rising interest rate environment.** This quarter, 92 percent of lenders (versus 74 percent in the previous quarter) believe interest rates will rise over the next six months. The percentage of lenders expecting no change in rates over the next six months fell to 8 percent (versus 25 percent in the previous quarter).

Phoenix Management
"Lending Climate in America"
2nd Quarter 2004

Survey Results

1. Threat of Outsourcing to Long-Term Health of U.S. Economy

Respondents were asked to assess, on a five-point scale, how serious a threat outsourcing and offshoring pose to the overall, long-term health of the U.S. economy.

- The vast majority of lenders were almost evenly split on whether the trend would have a slightly negative, slightly positive or neutral impact on the economy.
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- Thirty-one percent of respondents ranked the threat a "4" – a mild threat.
- Thirty percent said the threat was neither strong nor weak.
- Twenty-eight percent ranked the threat a "2" – a somewhat serious threat.
- Eight percent said it posed a "very serious threat" and four percent said it posed "no threat at all."

2. Likelihood of U.S. Real Estate Bubble in the Next 6-12 Months

Respondents were asked the likelihood, on a scale of 1 to 5 with 1 being "very likely" and 5 being "not at likely," that the U.S. would experience a real estate bubble in the next 6-12 months.

- Forty-two percent ranked the threat a "4" – not very likely.
- Thirty percent ranked the threat a "3" – neither likely nor unlikely.
- Twenty-two percent ranked the threat a "2," believing a bubble is somewhat likely.
- Six percent believe it is not at all likely, and two percent believe it is very likely.

3. Institution's Approach to Owner-Occupied Lending

Respondents were asked if their institution has changed its approach to owner-occupied real estate loans in the PAST 6-12 months and if they anticipated any institutional changes in the NEXT 6-12 months.

- Four percent indicated their institution has changed its approach to owner-occupied real estate loans in the past 6-12 months, and thirteen percent anticipate an institutional change in the next 6-12 months.
- Eighty-one percent indicated their institution has not changed its approach to owner-occupied real estate loans in the past 6-12 months, and seventy-one percent do not anticipate an institutional change in the next 6-12 months.
- The remaining fifteen percent (in the near term) and thirteen percent (in the long term) are not sure if their institution has changed and/or will change its approach to owner-occupied real estate loans.

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. The percentage of respondents indicating an "Up" or "Same" trend for international lending improved for the fifth consecutive quarter.

- Respondents forecasted a reversal in the previous downward trend in loan losses, bankruptcies, and unemployment. While not significant percentage increases, the change in sentiment is a significant change from recent Lenders' Surveys.

	Last Quarter			This Quarter		
	Up	Down	Same	Up	Down	Same
Corporate Lending	63%	3%	34%	68%	3%	29%
Middle Market Lending	77%	0%	23%	80%	1%	19%
Small Business Lending	78%	4%	18%	78%	4%	18%
International Lending	29%	21%	50%	23%	16%	61%
	Up	Down	Same	Up	Down	Same
Loan Losses	11%	58%	31%	19%	47%	34%
Bankruptcies	14%	46%	40%	21%	41%	38%
Interest Rates	60%	0%	40%	93%	0%	7%
Unemployment	5%	54%	42%	12%	53%	34%
Bank Failures	1%	37%	62%	7%	25%	68%

5. U.S. Economy Grade – Second Half of 2004

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

- Respondents improved their outlook for the economy's performance to approximately a "low" B grade for the second half of 2004. Last quarter, they predicted the economy would perform at a "high" C / "low" B during the second half of this year.

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

	Last Quarter	This Quarter
A	4%	2%
B	47%	57%
C	57%	40%
D	4%	1%
F	0%	0%
Weighted Average Grade	2.53	2.60

6. U.S. Economy Grade – First Half of 2005

Respondents were asked how they expected the U.S. economy to perform during the first half of 2005 on a grading scale of A through F.

- For the second quarter in a row, respondents slightly downgraded their expectations for the six-month-plus period. Respondents place the economy's performance at approximately a B- grade for the first half of 2005.

	Last Quarter	**This Quarter**
A	10%	5%
B	65%	70%
C	24%	22%
D	1%	2%
F	0%	0%
Weighted Average	2.84	2.79

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 who report their customers have "strong" or "very strong" growth expectations has risen from four percent as recently as Summer 2004 to 27 percent this quarter. The percentage of respondents expecting "moderate" growth remained fairly constant.

	Last Quarter	**This Quarter**
Very Strong	1%	0%
Strong	20%	27%
Moderate	76%	73%
No Growth	3%	0%

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.

- Transportation and Start-ups / New Ventures exhibited positive momentum in their designation as "Most Attractive" industries, contrasted with Service Companies, Retail and Health Care, which indicated the most positive momentum last quarter.

	Last Quarter	This Quarter
Mfg.-Light	78%	80%
Distribution-Industrial	74%	74%
Service Companies	67%	68%
Mfg.-Heavy	29%	31%
Retail	33%	27%
Transportation	18%	23%
Health Care	19%	21%
Real Estate	25%	19%
Technology	13%	12%
Construction	12%	12%
Start-Ups/ New Ventures	5%	11%
Communications	12%	10%
Finance/Insurance	12%	10%
Utilities	3%	5%
Mining	2%	4%
Agriculture/Forestry/Fishing	2%	4%
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.
- Utilities and Retail experienced notable increases in perceived unattractiveness, compared to last quarter.

	Last Quarter	This Quarter
Start-Ups/ New Ventures	63%	56%
Health Care	39%	42%
Mining	39%	40%
Agriculture/Forestry/Fishing	41%	38%
Technology	39%	37%
Construction	36%	37%
Retail	26%	32%
Utilities	21%	31%
Communications	30%	26%
Mfg.-Heavy	25%	24%
Finance/Insurance	15%	19%
Real Estate	18%	18%
Transportation	15%	12%
Mfg.-Light	4%	4%
Distribution-Industrial	2%	3%
Service Companies	7%	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 tighten their terms and conditions rose for the first time in five quarters.

	Last Quarter			This Quarter		
	Tighten	Maintain	Relax	Tighten	Maintain	Relax
Loans> $10 million	4%	79%	17%	11%	63%	26%
$6 – 10 million	4%	80%	16%	11%	69%	19%
$1-5 million	7%	77%	16%	12%	78%	10%
Under $1 million	8%	76%	16%	12%	79%	9%
Overall Average	6%	78%	16%	11%	72%	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.

- A historically-high percentage of respondents (14% representing all loan sizes) indicated 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	26%	64%	10%	26%	64%	10%
$6 – 10 million	20%	66%	15%	17%	68%	15%
$1-5 million	12%	67%	21%	5%	78%	17%
Under $1 million	7%	70%	23%	6%	71%	23%
Overall Average	16%	67%	17%	14%	70%	16%

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 an anticipated shift toward a rising interest rate environment. Ninety-two percent of respondents (versus seventy-four 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	1%	0%
0	25%	8%
+.25	44%	31%
+.50	24%	59%
+.75	2%	1%
+1.0	4%	1%
More than 1.0	0%	0%
Weighted Average	+28 basis points	+39 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 saw substantial increases in the designated percentages of Regional Banks and Local Commercial/Community Banks.

	Last Quarter	This Quarter
Money Center Banks	14%	3%
Local Commercial/ Community Banks	17%	21%
Factors	4%	3%
Regional Banks	43%	50%
Commercial Finance Organizations	26%	20%
Other	3%	3%

14. Type of Institution

Respondents were asked for what type of institution they worked.

- Ninety-one respondents participated in this quarter’s survey.

- Fifty-seven percent of respondents report working for a Commercial Bank.

- Thirty-two percent work for a Commercial Finance Organization.

- None percent work for a Factor (a type of financial organization that handles riskier loans by purchasing a company’s accounts receivable).

- The remaining two 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%	13%
$1-5 million	24%	32%
$ 6-10 million	25%	28%
Over $ 10 million	33%	27%
Average Loan	$7.1 Million	$6.8 Million