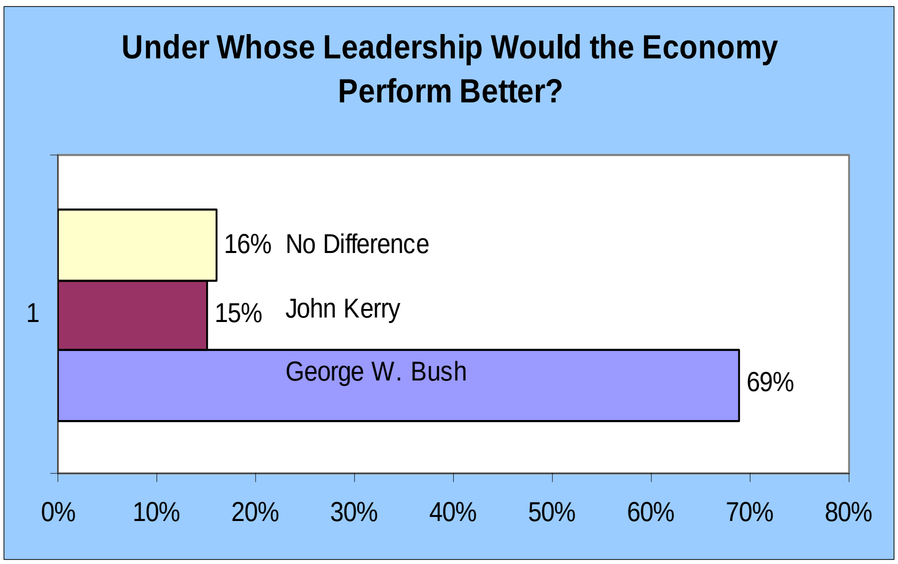
PHOENIX
"LENDING CLIMATE IN AMERICA"
QUARTERLY SURVEY

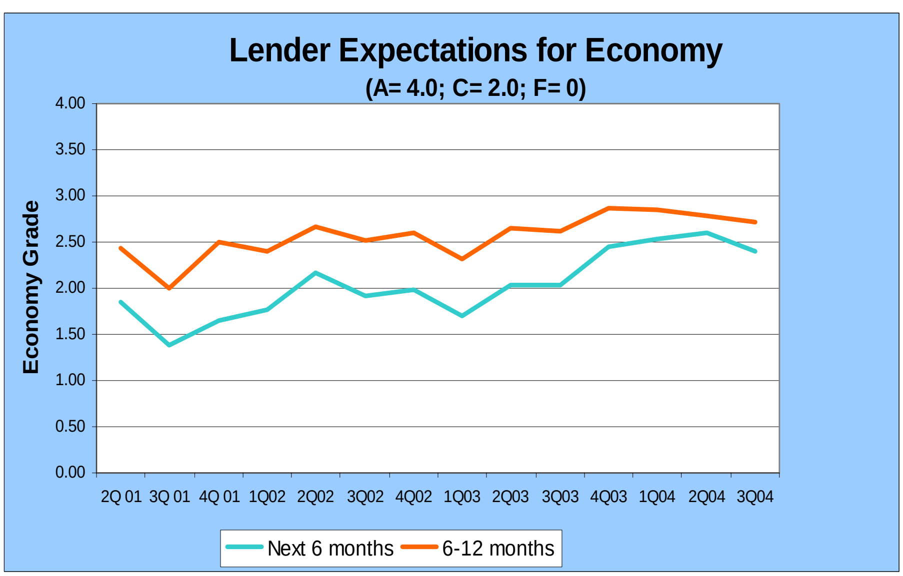
3rd Quarter 2004

SUMMARY, TRENDS AND IMPLICATIONS

1. **By more than a 4-to-1 ratio, lenders believe the economy would perform better under George W. Bush's leadership than it would under John Kerry.** Sixty-nine percent of lenders said that the economy would perform better under a Bush Administration, while 15 percent said it would benefit more if John Kerry won the Presidency. The remaining 16 percent said the performance of the economy would not be influenced either way.



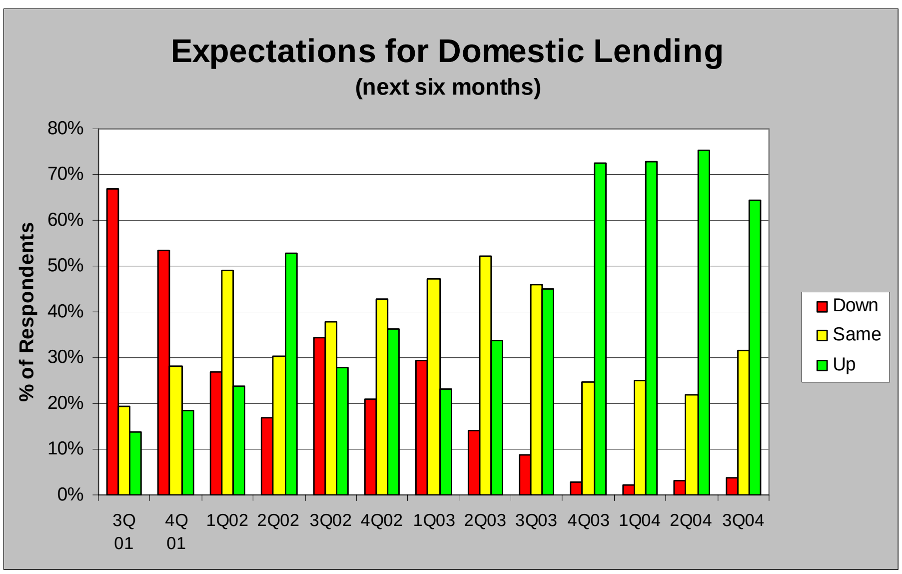
2. **Lenders downgraded their expectations for the economy's performance during the next six months to a C+, the lowest level for near-term performance reported by lenders in the last four quarters.** Respondents' expectations for longer-term improvement were stronger; 70 percent said the economy would perform at a B or better level, but 30 percent said it would turn in a C or worse performance during the first half of 2005.

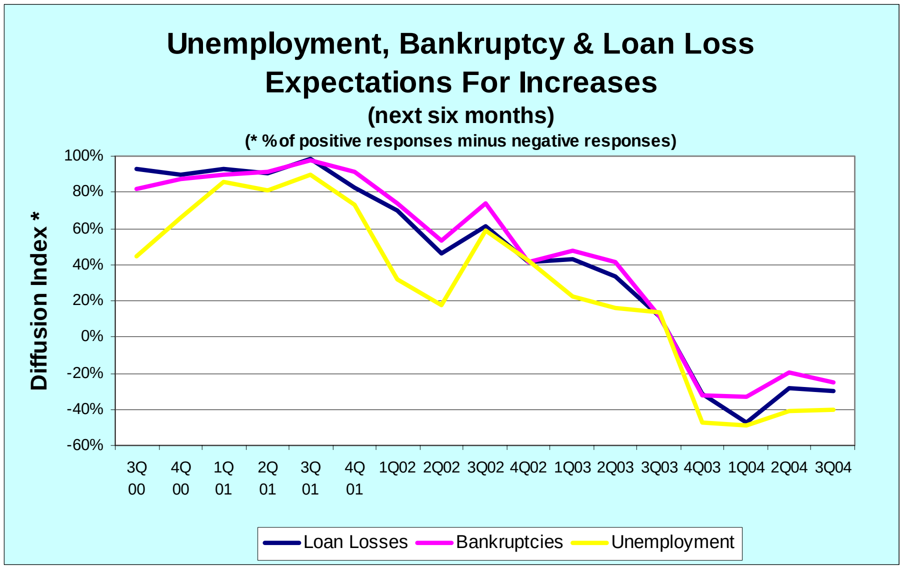


3. **Lenders' expectations for customer growth decreased this quarter, after six consecutive quarters of increasing optimism.** Twenty-one percent of lenders believe their customers have strong growth expectations (versus 27 percent the previous quarter) for the next six to 12 months; 76 percent said their customers anticipated moderate growth, and three percent predicted no growth during the coming year.

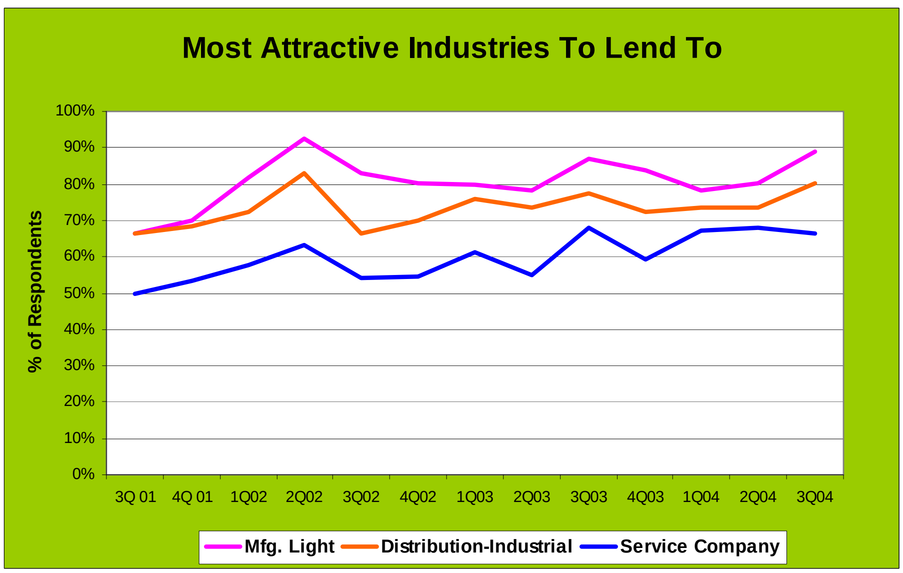
4. **Less than a quarter of lenders said their customers were planning to take any growth actions in the next six to 12 months.** Only 23 percent of lenders said their customers planned to make new capital investments in the next six to twelve months. Lenders were equally reserved when asked how many of their customers planned to enter new markets (17 percent); hire new employees, raise additional capital or make an acquisition (each received 16 percent positive responses); or introduce new products or services (13 percent).

5. **Expectations for increased demand for domestic loans declined across the board this quarter.** Fifty-five percent of respondents said corporate lending would increase, but that represented a drop from the 68 percent who said the same last quarter. Nearly identical percentages (69 and 70 percent, respectively) said middle market and small business lending would rise, but those percentages dropped nearly 10 points in both instances. While the outlook for credit-related topics remains, historically-speaking, positive, this quarter represents a drop in overall optimism. Almost half of lenders said the unemployment rate would remain the same, although a significant 44 percent expected it to rise further. Nearly all lenders – 95 percent – said interest rates would rise in the coming six to 12 months.

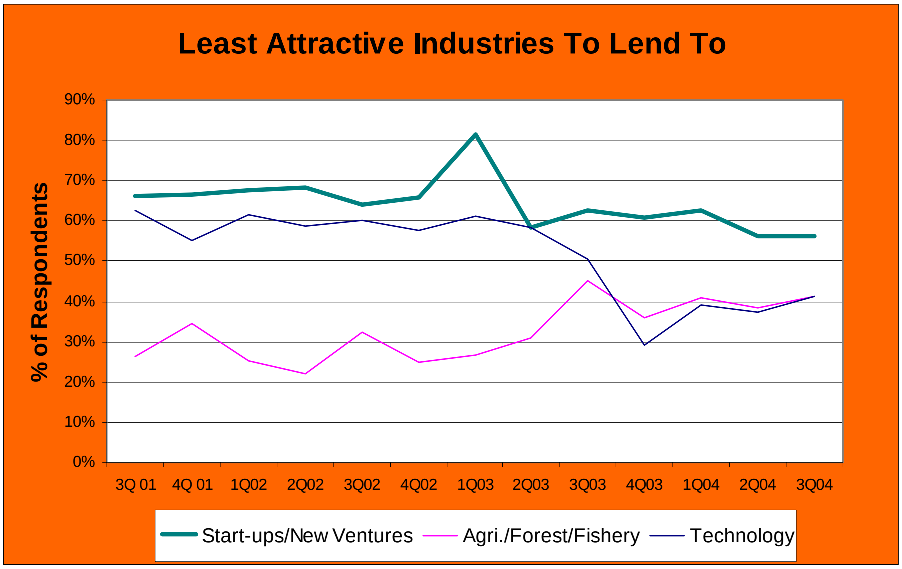




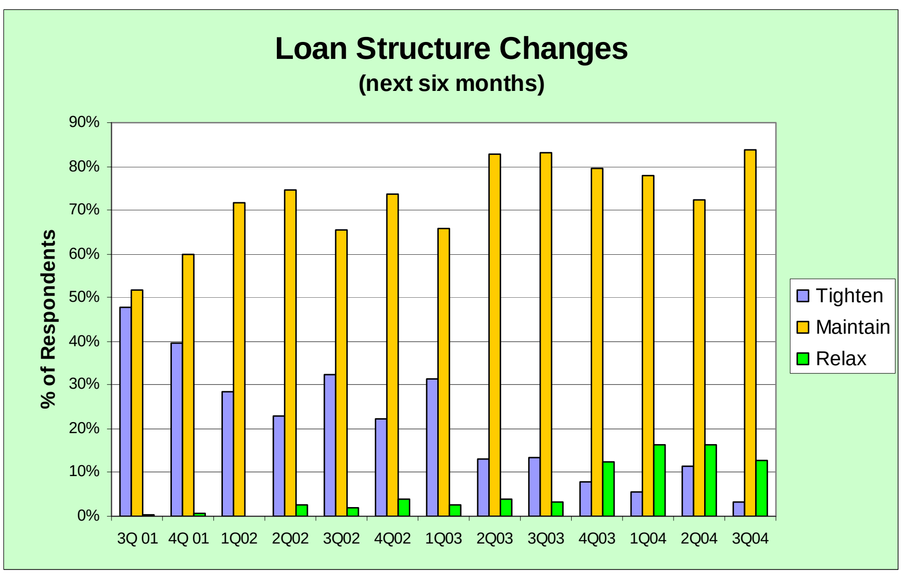
6. **Lenders continue to favor the Light Manufacturing, Industrial Distribution and Service Companies industries.** When asked which industries were most attractive to their lending institution, 89 percent of lenders named Light Manufacturing, 80 percent selected Industrial Distribution, and 66 percent named Service Companies. Finance and Insurance experienced a jump in attractiveness from 10 percent last quarter to 18 percent this quarter.



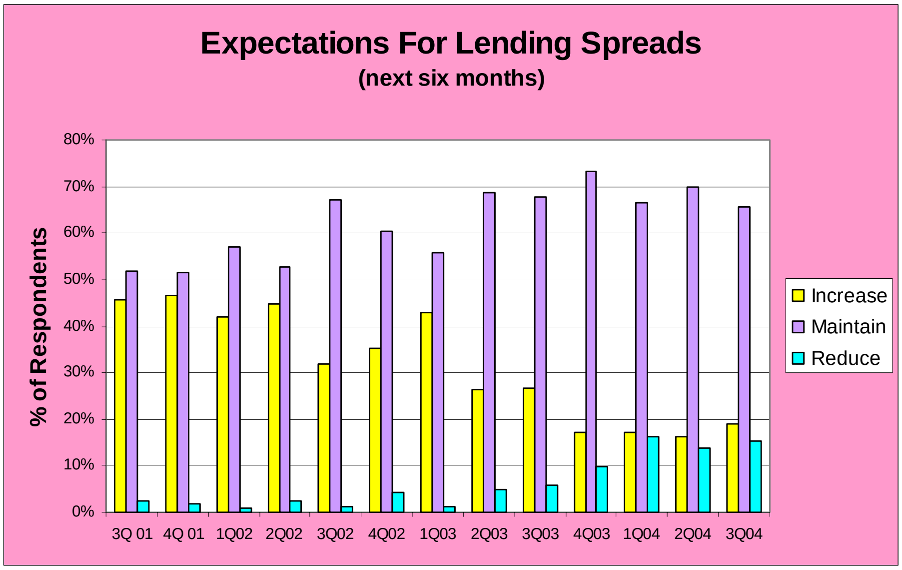
7. **Lenders aren't interested in lending to the Start-up, Agriculture or Technology industries.** Fifty-six percent of lenders said Start-ups was an industry their institution found unattractive, while 41 percent, each, named Agriculture/Forestry/Fishing and Technology as industries their institution found unattractive.



8. **The vast majority of lenders expect to maintain their existing loan structures.** The number of lenders who said their institution expected to tighten their terms and conditions remained at multi-year lows. The percentage of respondents reporting an expectation to loosen existing loan structures was fifteen percent – near 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-six percent of respondents (versus 70 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. **Lenders continue to expect interest rates to rise, with more than half anticipating a half-point rate hike by the Fed.** This quarter, 95 percent of lenders (versus 92 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 one percent (versus 25 percent two quarters prior).

Phoenix Management
"Lending Climate in America"
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Survey Results

1. Economic Performance under Each Political Party

Respondents were asked under whose leadership the economy would perform better following the Presidential election in November.

- Sixty-nine percent selected George W. Bush.
- Fifteen percent chose John Kerry.
- The remaining sixteen percent said they had no opinion or the choice would make no difference in the performance of the economy.

2. Customers' Plans in the Next Six to Twelve Months

Respondents were asked which of the following growth steps their customers planned to take in the next six to twelve months.

- Twenty-three percent said their customers planned to make new capital investments.
- Seventeen percent said their customers would enter new markets.
- Sixteen percent, each, said their customers planned to: hire new employees, raise additional capital, or make an acquisition.
- Thirteen percent indicated their customers would introduce new products or services in the coming year.

3. 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, while still overall positive, less optimistic than in recent quarters. The percentage of respondents predicting an "Up" trend for domestic lending fell at all levels.
- Respondents were mixed in their forecasts for credit quality going forward. The percentage of respondents anticipating an increase in interest rates reached its highest level in the last four years.

	Last Quarter	This Quarter

	Up	Down	Same	Up	Down	Same
Corporate Lending	68%	3%	29%	55%	3%	42%
Middle Market Lending	80%	1%	19%	69%	5%	26%
Small Business Lending	78%	4%	18%	70%	4%	26%
International Lending	23%	16%	61%	29%	12%	59%

	Up	Down	Same	Up	Down	Same
Loan Losses	19%	47%	34%	14%	44%	42%
Bankruptcies	21%	41%	38%	16%	42%	42%
Interest Rates	93%	0%	7%	95%	0%	5%
Unemployment	12%	53%	34%	8%	48%	44%
Bank Failures	7%	25%	68%	3%	34%	63%

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' outlook for the economy's performance declined to a "high C" grade for the second half of 2004.

- This prediction of the economy's near-term future performance fell to its lowest level in the last four Lenders Surveys.

	Last Quarter	**This Quarter**
A	2%	0%
B	57%	43%
C	40%	53%
D	1%	4%
F	0%	0%
Weighted Average Grade	2.60	2.39

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 third quarter in a row, respondents lowered their prediction for the economy's performance in the "out six months" period. Lenders expect the economy to perform at approximately a B- grade for the first half of 2005.

	Last Quarter	**This Quarter**
A	5%	5%
B	70%	65%
C	22%	27%
D	2%	2%
F	0%	1%
Weighted Average	2.79	2.71

7. Customers' Future Growth Expectations

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

- After four consecutive quarters of an increasing percentage of lenders predicting their customers expected "Strong" or "Very Strong" growth, the percentage of respondents predicting the same this quarter fell to 21 percent. The percentage of respondents expecting "moderate" growth remained relatively unchanged from the prior quarter.

	Last Quarter	This Quarter
Very Strong	0%	0%
Strong	27%	21%
Moderate	73%	76%
No Growth	0%	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.

- Light Manufacturing and Finance/Insurance both exhibited positive momentum in lenders' assessment of them, compared to the prior quarter.

	Last Quarter	This Quarter
Mfg.-Light	80%	89%
Distribution-Industrial	74%	80%
Service Companies	68%	66%
Mfg.-Heavy	31%	32%
Retail	27%	31%
Transportation	23%	22%
Real Estate	19%	22%
Health Care	21%	21%
Finance/Insurance	10%	18%
Construction	12%	16%
Technology	12%	12%
Communications	10%	9%
Start-Ups/ New Ventures	11%	8%
Utilities	5%	6%
Mining	4%	4%
Agriculture/Forestry/Fishing	4%	3%
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 of the list of least attractive industries.

- Communications and Real Estate experienced the largest increases in perceived unattractiveness, compared to last quarter.

	Last Quarter	**This Quarter**
Start-Ups/ New Ventures	56%	56%
Agriculture/Forestry/Fishing	38%	41%
Technology	37%	41%
Health Care	42%	37%
Mining	40%	37%
Construction	37%	36%
Communications	26%	34%
Retail	32%	30%
Utilities	31%	30%
Mfg.-Heavy	24%	25%
Real Estate	18%	24%
Transportation	12%	14%
Finance/Insurance	19%	11%
Service Companies	2%	8%
Mfg.-Light	4%	7%
Distribution-Industrial	3%	5%

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.

- The percentage of lenders indicating plans to maintain their current loan structures reached its highest level – 84 percent – in the history of the Lending Survey.

	Last Quarter			**This Quarter**		
	Tighten	Maintain	Relax	Tighten	Maintain	Relax
Loans> $10 million	11%	63%	26%	3%	71%	26%
$6 – 10 million	11%	69%	19%	2%	82%	16%
$1-5 million	12%	78%	10%	5%	90%	5%
Under $1 million	12%	79%	9%	2%	93%	5%
Overall Average	11%	72%	16%	3%	84%	13%

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 (15 percent 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 seven quarters.

	Last Quarter			This Quarter		
	Reduce	Maintain	Increase	Reduce	Maintain	Increase
Loans> $10 million	26%	64%	10%	36%	53%	10%
$6 – 10 million	17%	68%	15%	17%	69%	14%
$1-5 million	5%	78%	17%	5%	72%	23%
Under $1 million	6%	71%	23%	3%	68%	29%
Overall Average	14%	70%	16%	15%	66%	19%

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.

- Lenders continue to expect a rising interest rate environment. Ninety-five percent of respondents (versus ninety-two 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%	2%
-.25	0%	2%
0	8%	1%
+.25	31%	28%
+.50	59%	53%
+.75	1%	8%
+1.0	1%	5%
More than 1.0	0%	1%
Weighted Average	+39 basis points	+44 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 Money Center Banks.

	Last Quarter	This Quarter
Money Center Banks	3%	11%
Local Commercial/ Community Banks	21%	22%
Factors	3%	6%
Regional Banks	50%	55%
Commercial Finance Organizations	20%	24%
Other	3%	1%

14. Type of Institution

Respondents were asked for what type of institution they worked.

- One hundred seven respondents participated in this quarter's survey.
- Fifty-five percent of respondents report working for a Commercial Bank.
- Twenty-eight percent work for a Commercial Finance Organization.
- Nine percent work for a Factor (a type of financial organization that handles riskier loans by purchasing a company's accounts receivable).
- The remaining seven 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	13%	25%
$1-5 million	32%	20%
$ 6-10 million	28%	20%
Over $ 10 million	27%	35%
Average Loan	$6.8 Million	$6.8 Million