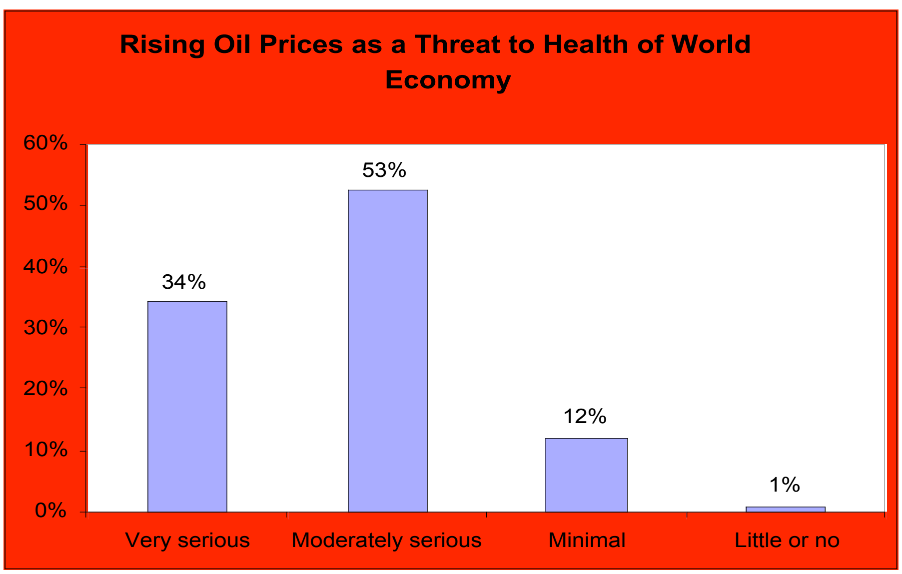
PHOENIX
"LENDING CLIMATE IN AMERICA"
QUARTERLY SURVEY

4th Quarter 2004

SUMMARY, TRENDS AND IMPLICATIONS

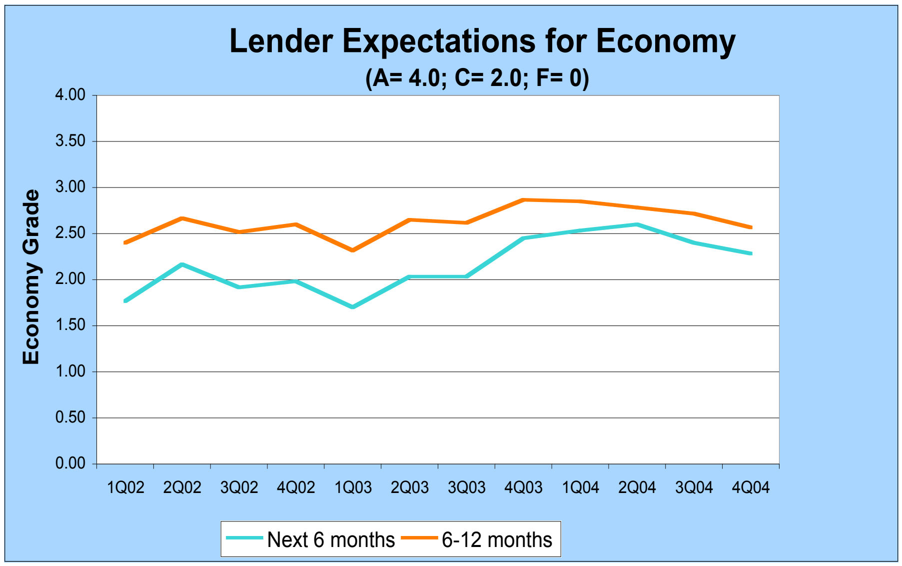
1. **Nearly a third of lenders worry that taxpayers may have to bail out Fannie Mae, similar to the S&L crisis of the 1980's.** When asked which potential outcome of the Fannie Mae situation concerned them most, 31 percent of lenders said a consumer bail-out was their biggest worry**.** Roughly 24% of lenders opined that they are not that concerned about the crisis. Fifteen percent said they worried that homeowners would have less access to affordable mortgage loans, 12 percent said they feared exacerbated swings in U.S. interest rates, and ten percent said they were concerned that the Fannie Mae crisis could launch a new round of corporate scandals. But a quarter of lenders said that they were not that concerned about fallout from the Fannie Mae situation.

2. **More than half of respondents (53 percent) said that rising oil prices are a "moderately serious" threat to the health of the world economy.** Thirty-four percent of respondents indicated that the rising oil prices are a "very serious" threat, while twelve percent believe that the escalating commodity price is a "minimal" threat to the health of the world economy.



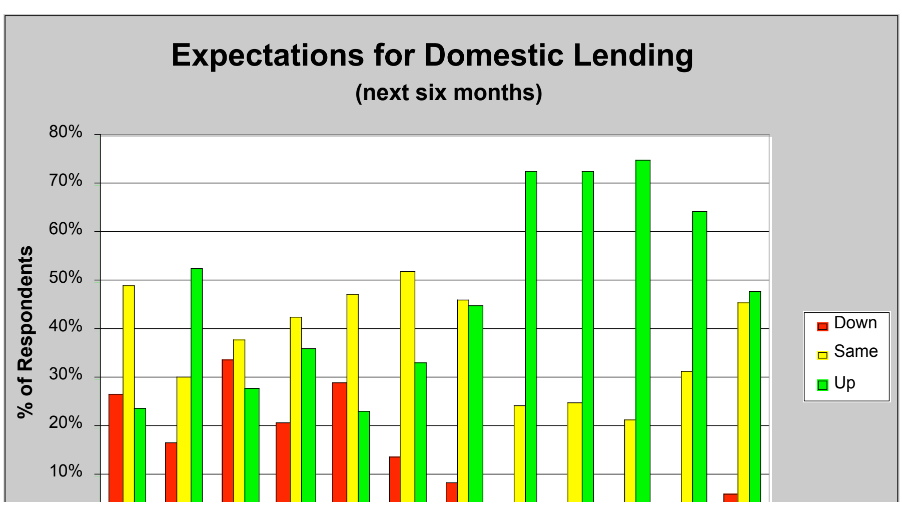
3. **Lenders do not expect their customers to engage in much expansion next year.** Only 22 percent said their customers planned to make new capital investments in the next six to twelve months. Eighteen percent said their customers planned to make an acquisition. Seventeen percent, each, said their customers planned to raise additional capital or introduce new products of services. Fourteen percent said customers planned to hire more employees and 12 percent said customers planned to enter new markets in the next six to 12 months.

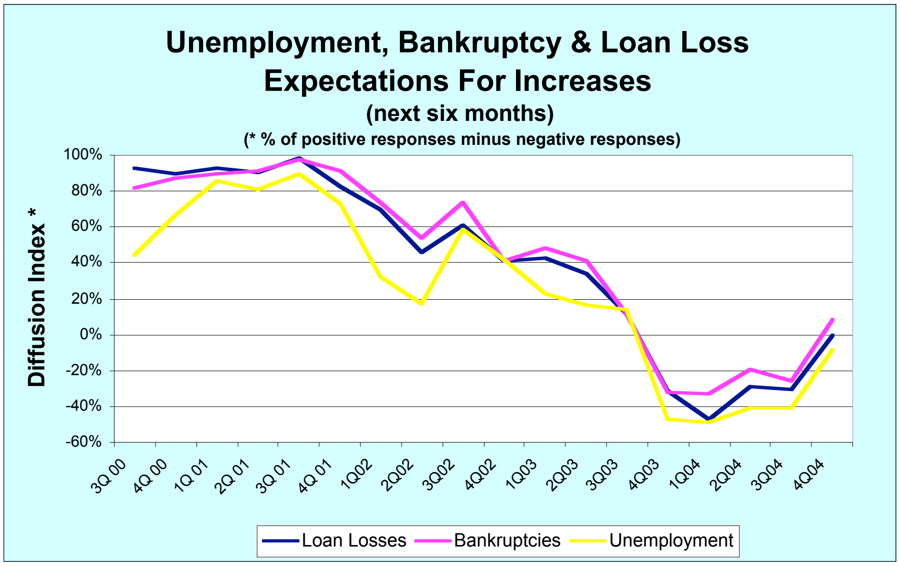
4. **Lenders expect the economy to perform at a C+ level during the next six months, lower than the previous quarter.** The respondents' expectations for longer-term improvement are only marginally better, with 61 percent of all respondents anticipating the economy will perform at a B or better level during the second half of 2005.



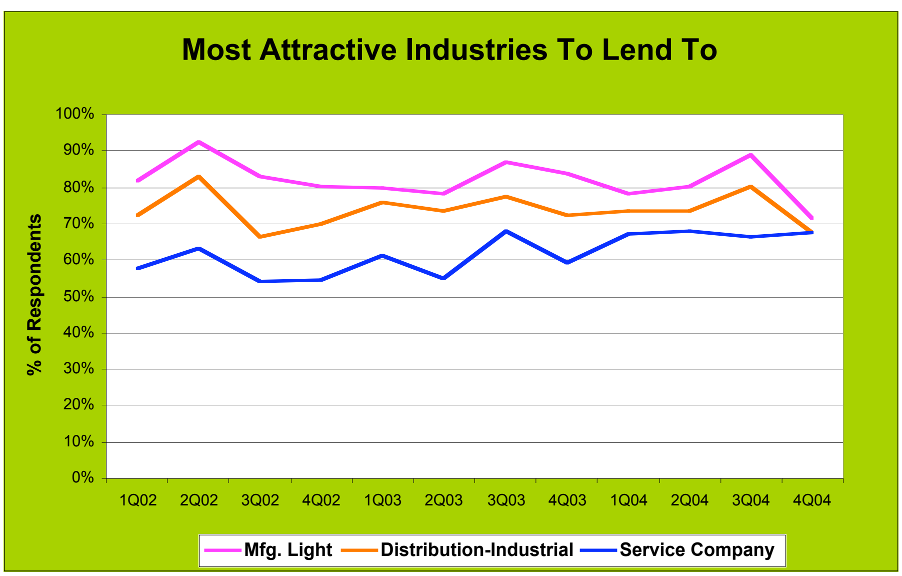
5. **Customer growth expectations over the next six to 12 months decreased for the second consecutive quarter.** Eleven percent of lenders believe their customers have strong growth expectations (versus 21 percent the previous quarter). The percentage of lenders stating their customers had modest growth expectations increased (82 percent this quarter versus 76 percent in the previous quarter).

6. **Expectations for increased demand for domestic loans declined across the board this quarter.** Thirty-two percent of respondents said corporate lending would increase, down markedly from the 55 percent who said the same last quarter. More than half of lenders (56 percent each) said that middle market and small business lending would rise, but those percentages were also down from last quarter. The expectation for loan losses, bankruptcies, and unemployment trended upwards for the third consecutive quarter.

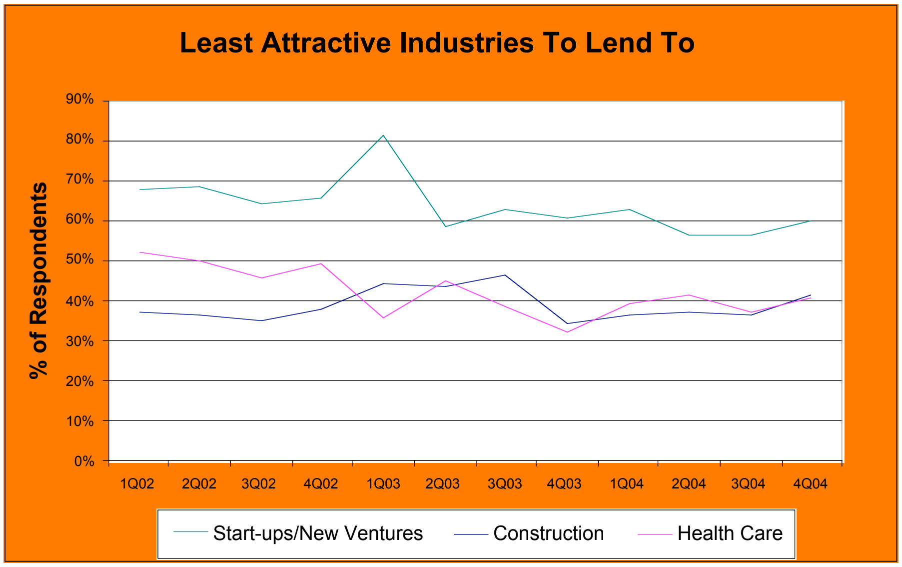




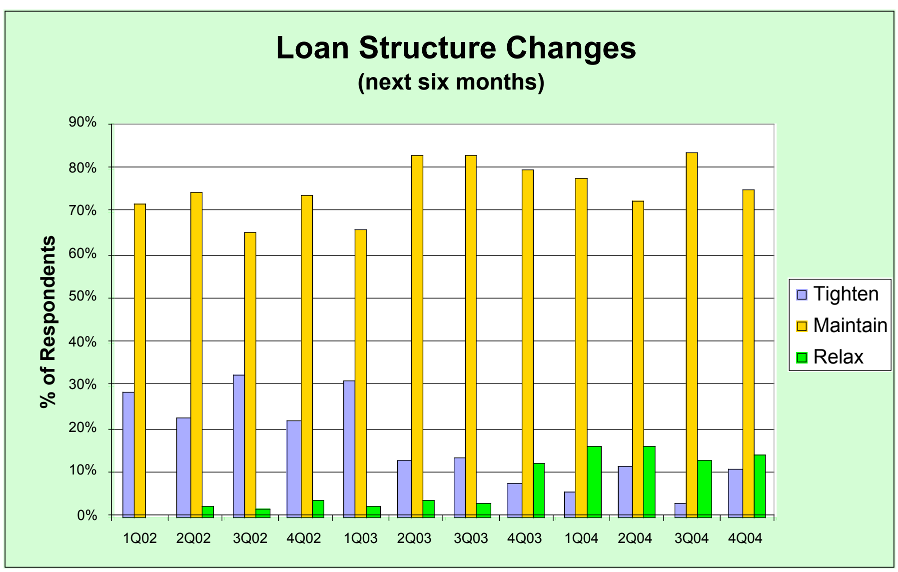
7. **Lenders continue to favor the Light Manufacturing, Industrial Distribution and Service Companies industries.** When asked which industries were most attractive to their lending institution, 72 percent of lenders named Light Manufacturing, 68 percent selected Industrial Distribution and Service Companies. Of the remaining selections, Mining was the industry (+5%) having the largest percentage increase of respondents designating a "Most Attractive" status.



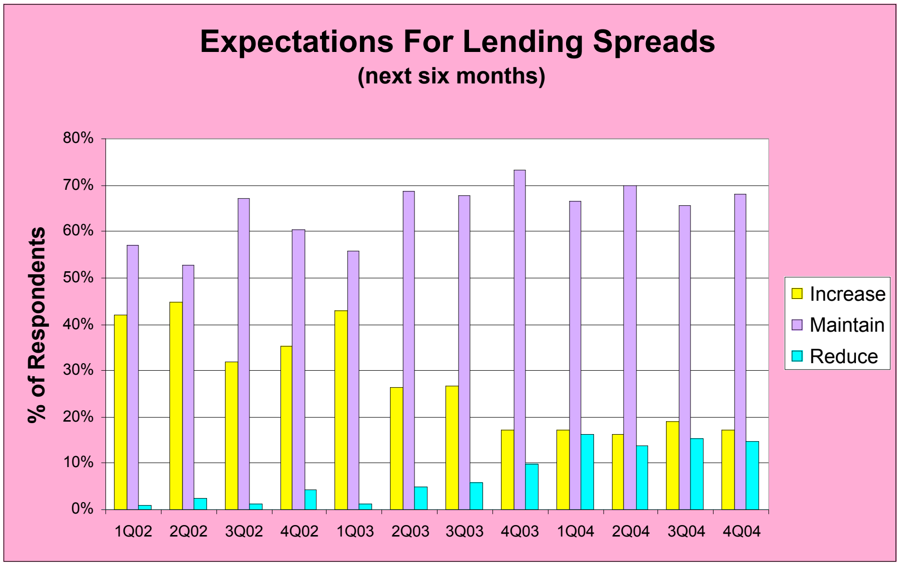
8. **Lenders chose the Start-ups, Construction, and Healthcare industries as their primary industries to avoid.** Sixty percent of lenders said Start-ups was an industry their institution found unattractive, while roughly 40 percent repeated that sentiment in regards to the Construction and Health Care industries.



9. **The vast majority of lenders expect to maintain their existing loan structures.** That being said, the percentage of respondents planning to tighten their loan structures rose above ten percent for only the second time in the past eighteen months.



10. **Lenders anticipate maintaining the current lending spreads in this interest rate environment.** Sixty-eight percent of respondents (versus 66 percent in the previous quarter) expect to maintain lending spreads at their current levels.



11. **Survey respondents maintain their belief in a rising interest rate environment.** This quarter, 97 percent of lenders (versus 95 percent the previous quarter) believe interest rates will rise over the next six month. The percentage of lenders expecting lower or no change in rates over the next six months remains at historically low levels.

Phoenix Management
"Lending Climate in America"
4th Quarter 2004

Survey Results

1. Possible Outcomes of the Fannie Mae Crisis That Cause Concern

Respondents were asked which **single** possible outcome of the current Fannie Mae crisis concerns them most.

- Thirty-one percent indicated they were concerned that taxpayers may have to bail out Fannie Mae, similar to the S&L crisis of the 1980s.
- Twenty-four percent responded that they were not concerned about the Fannie Mae crisis.
- Fifteen percent expressed concern that homeowners will have less access to affordable mortgage loans.
- Twelve percent felt that swings in U.S. interest rates could be exacerbated as Fannie Mae hedges against rate increases.
- Ten percent indicated they were concerned that the crisis could launch a new round of corporate scandals.

2. Threat of Rising Oil Prices

Respondents were asked how serious a threat to the health of the world economy rising oil prices pose.

- Fifty-three percent indicated that rising oil prices pose a "moderately serious" threat.
- Thirty-four percent responded that rising oil prices pose a "very serious" threat.
- Twelve percent felt that rising oil prices pose a "minimal" threat.
- The remaining one percent indicated that rising oil prices pose a "little or no" threat.

3. Customers Plans in the Next Six to Twelve Months

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

- Twenty-two percent indicated their customers planned to make new capital investments.
- Eighteen percent said their customers intended to make an acquisition.
- Seventeen percent, each, said their customers planned to raise additional capital or introduce new products or services.
- Fourteen percent indicated their customers planned to hire new employees.

- Twelve percent indicated their customers would be entering new markets.

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 more pessimistic for the second consecutive quarter. The percentage of respondents indicating an "Up" trend for domestic lending fell at all levels.

- Respondents' forecasts for credit quality followed a similar course. The percentage of lenders indicating anticipated increases in loan losses, bankruptcies, and unemployment increased for the third consecutive quarter.

	Last Quarter			**This Quarter**		
	Up	Down	Same	Up	Down	Same
Corporate Lending	55%	3%	42%	32%	7%	61%
Middle Market Lending	69%	5%	26%	56%	4%	40%
Small Business Lending	70%	4%	26%	56%	8%	36%
International Lending	29%	12%	59%	26%	18%	56%
	Up	Down	Same	Up	Down	Same
Loan Losses	14%	44%	42%	26%	26%	48%
Bankruptcies	16%	42%	42%	33%	24%	43%
Interest Rates	95%	0%	5%	93%	0%	7%
Unemployment	8%	48%	44%	19%	27%	54%
Bank Failures	3%	34%	63%	2%	15%	83%

5. 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.

- Respondents' outlook for the economy's performance declined to approximately a "high" C grade for the first half of 2005.

- Lenders' expectations for the economy's near-term future performance fell to its lowest level since the Summer of 2003.

	Last Quarter	**This Quarter**
A	0%	1%
B	43%	31%
C	53%	63%
D	4%	5%
F	0%	0%
Weighted Average Grade	2.39	2.28

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

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

- For the fourth quarter in a row, respondents indicated a downward estimation of the U.S. economy's performance in the "out" six-month period. At its lowest forecasted level in the past eight quarters, respondents see the economy's performance at approximately a B-grade for the second half of 2005.

	Last Quarter	**This Quarter**
A	5%	3%
B	65%	58%
C	27%	32%
D	2%	7%
F	1%	0%
Weighted Average	2.71	2.57

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" growth expectations has fallen from 27 percent to 21 percent to 11 percent in the last three quarterly surveys. Conversely, the percentage of respondents expecting "moderate" growth has risen to 82 percent.

	Last Quarter	**This Quarter**
Very Strong	0%	0%
Strong	21%	11%
Moderate	76%	82%
No Growth	3%	6%

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, albeit with lower percentages.

- Health Care was an industry that exhibited positive momentum in its designation of "Most Attractive" in which to lend.

	Last Quarter	**This Quarter**
Mfg.-Light	89%	72%
Distribution-Industrial	80%	68%
Service Companies	66%	68%
Health Care	21%	24%

Mfg.-Heavy	32%	21%
Retail	31%	21%
Transportation	22%	21%
Real Estate	22%	21%
Finance/Insurance	18%	11%
Technology	12%	11%
Start-Ups/ New Ventures	8%	9%
Utilities	6%	9%
Mining	4%	9%
Communications	9%	8%
Construction	16%	7%
Agriculture/Forestry/Fishing	3%	6%
Other	0%	3%

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.
- Finance/Insurance and Construction 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	56%	60%
Construction	36%	41%
Health Care	37%	40%
Technology	41%	37%
Agriculture/Forestry/Fishing	41%	34%
Utilities	30%	32%
Mining	37%	30%
Retail	30%	30%
Mfg.-Heavy	25%	24%
Real Estate	24%	23%
Finance/Insurance	11%	23%
Communications	34%	19%
Transportation	14%	11%
Service Companies	8%	5%
Mfg.-Light	7%	3%
Distribution-Industrial	5%	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.

- An increased percentage of lenders, albeit still at low percentages, indicated plans to tighten their current loan structures.

	Last Quarter			This Quarter		
	Tighten	Maintain	Relax	Tighten	Maintain	Relax
Loans> $10 million	3%	71%	26%	10%	70%	20%
$6 – 10 million	2%	82%	16%	7%	79%	14%
$1-5 million	5%	90%	5%	10%	80%	10%
Under $1 million	2%	93%	5%	14%	71%	15%
Overall Average	3%	84%	13%	11%	75%	14%

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% representing all loan sizes) indicated their anticipation of a reduction of interest rate spreads. That being said, most lenders plan to maintain their current interest rate spreads and fee structures on all sizes of loans following the historical trend of the last eight quarters.

	Last Quarter			This Quarter		
	Reduce	Maintain	Increase	Reduce	Maintain	Increase
Loans> $10 million	36%	53%	11%	30%	57%	13%
$6 – 10 million	17%	69%	14%	18%	70%	12%
$1-5 million	5%	72%	23%	6%	77%	17%
Under $1 million	3%	68%	29%	5%	68%	27%
Overall Average	15%	66%	19%	15%	68%	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.

- Responses indicated continued anticipation of a rising interest rate environment. Twenty-three percent of respondents (versus 14 percent in the previous survey) anticipate an increase in interest rates of 75 basis points or more in the coming six months.

	Last Quarter	This Quarter
-More than 1.0	0%	0%
-1.0	0%	0%
-.75	0%	0%
-.50	2%	0%
-.25	2%	1%
0	1%	2%
+.25	28%	29%
+.50	54%	45%
+.75	8%	16%
+1.0	5%	5%
More than 1.0	1%	2%
Weighted Average	+44 basis points	+49 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 marginal decreases in the designated percentages of Commercial Finance Organizations and Local Commercial/ Community Banks.

	Last Quarter	This Quarter
Money Center Banks	11%	13%
Local Commercial/ Community Banks	22%	19%
Factors	6%	6%
Regional Banks	55%	56%
Commercial Finance Organizations	24%	19%
Other	1%	5%

14. Type of Institution

Respondents were asked for what type of institution they worked.

- Ninety-nine respondents participated in this quarter's survey.
- Fifty-seven percent of respondents report working for a Commercial Bank.
- Twenty-seven percent work for a Commercial Finance Organization.
- Eleven percent work for a Factor (a type of financial organization that handles riskier loans by purchasing a company's accounts receivable).
- The remaining five 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	25%	20%
$1-5 million	20%	17%
$ 6-10 million	20%	23%
Over $ 10 million	35%	40%
Average Loan	$6.8 Million	$7.5 Million