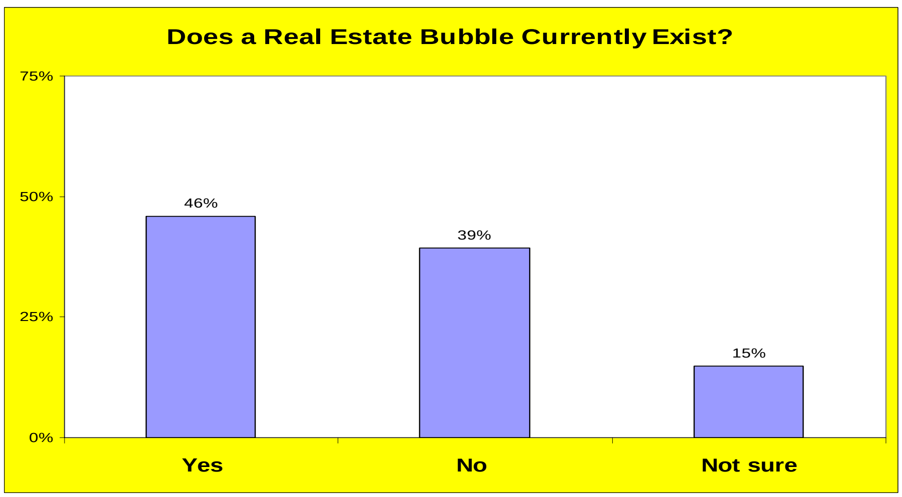
PHOENIX
"LENDING CLIMATE IN AMERICA"
QUARTERLY SURVEY

1st Quarter 2005

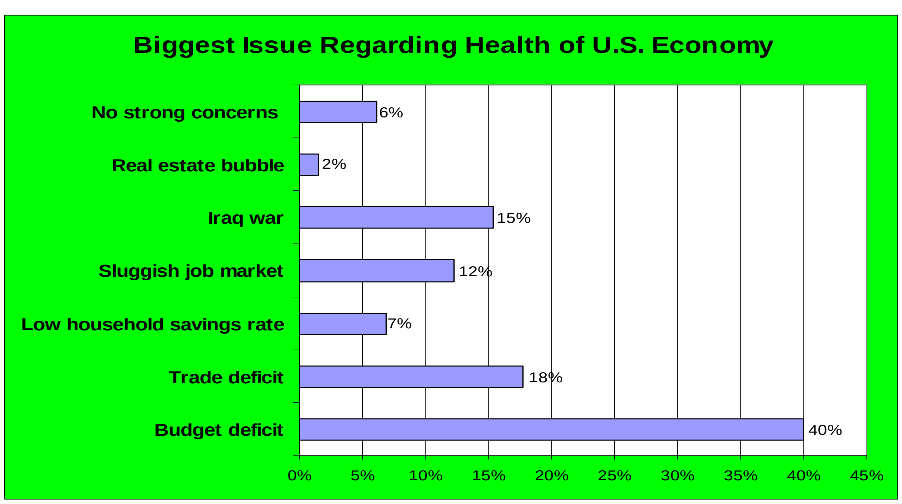
SUMMARY, TRENDS AND IMPLICATIONS

1. **Almost half of Lender Survey respondents (46%) indicated that they believe a real estate bubble – a significant overvaluation in the real estate market - exists.** Of the forty-six percent of respondents who believe there is a real estate bubble, ninety-one percent indicated they were "mildly concerned" regarding the market overvaluation. Roughly 39% of lenders opined that they do not believe that a real estate bubble exists. Finally, the remaining 15% percent are not sure that a real estate bubble currently exists.



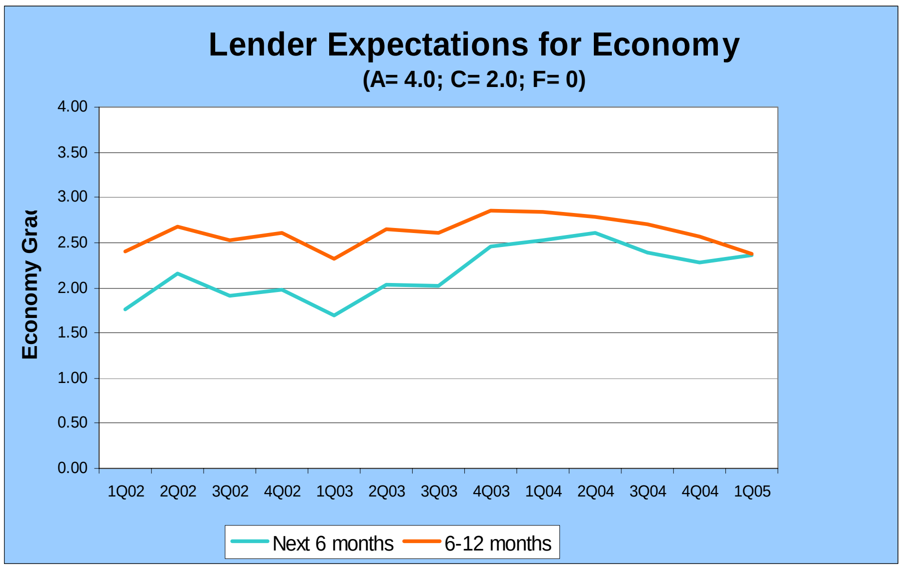
2. **More than half of respondents (60 percent) opined that the U.S. economy is "not at all likely" to slip into a recession this year.** Thirty-nine percent of respondents indicated that a 2005 recession was "somewhat likely", while the remaining few respondents were split between "very likely" and "almost certainty" possibilities.

3. **Approximately 40% of all respondents indicated that the budget deficit is the single greatest concern in relation to the overall health of the U.S. economy.** Eighteen percent is most concerned about the trade deficit and its impact on the U.S. economy. Roughly equivalent percentages (15% and 12%, respectively) opined that the war in Iraq and a sluggish job market were the biggest issues to the American economy's health.



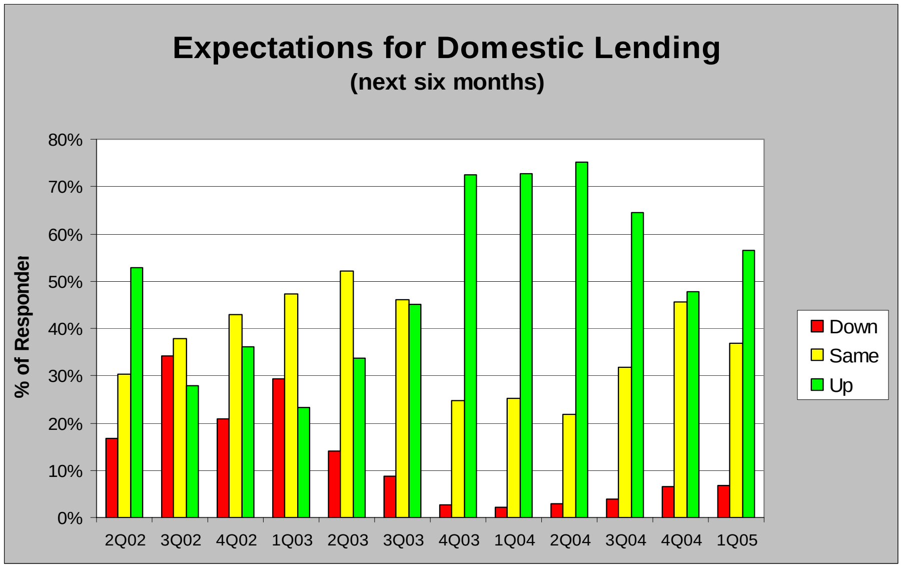
4. **Nearly one quarter of respondents (24%) indicated their customers plan to make new capital investments in the next six to twelve months.** The remaining lenders were evenly divided with regard to their customers plans for the following actions: hiring new employees, entering new markets, introducing new products or services, raising additional capital, and making an acquisition.

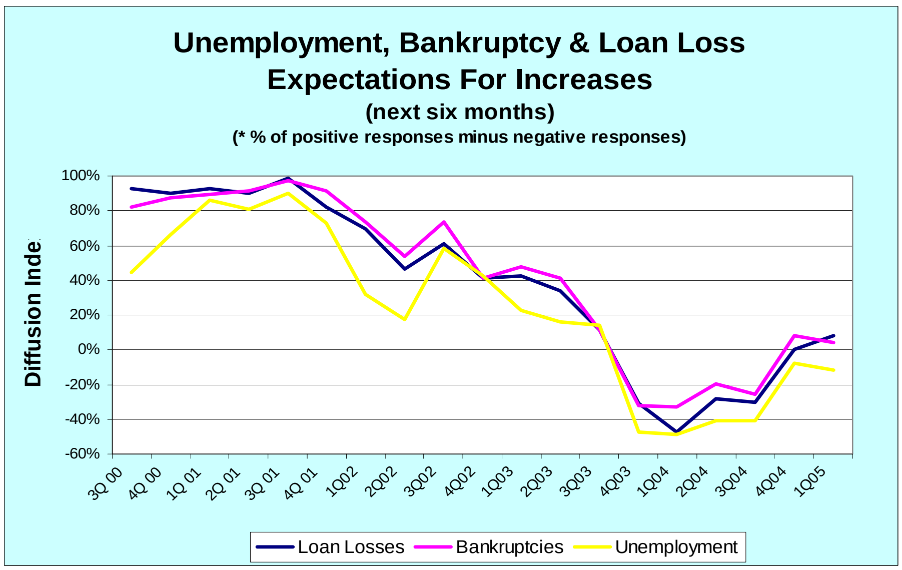
5. **Lenders expect the economy to perform at a C+ level during the next six months, albeit slightly higher than the previous quarter.** The respondents' expectations for longer-term improvement fell for the fifth consecutive quarter with fifty-four percent of all respondents (versus thirty-nine percent in the previous quarter) anticipating the economy will perform at a C or worse level during the second half of 2005.



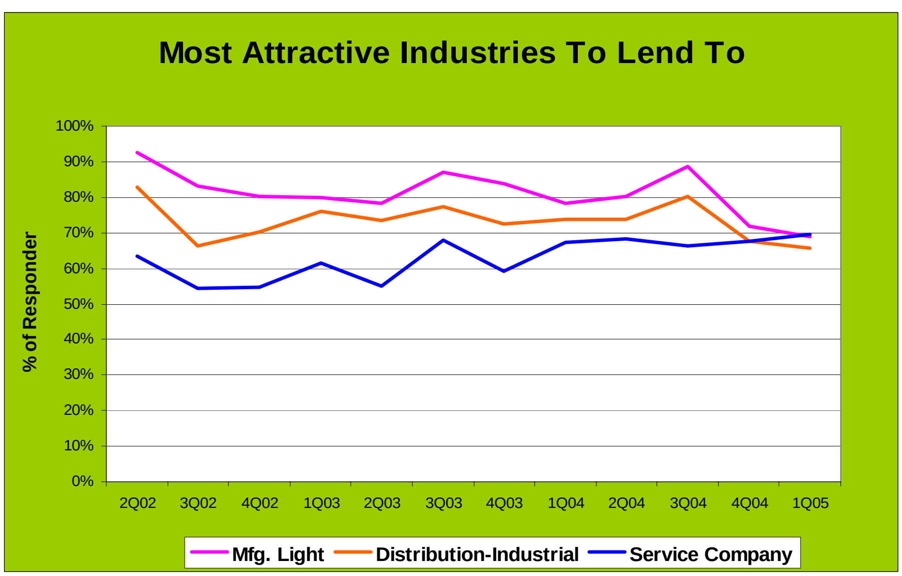
6. **Customer growth expectations over the next 6-12 months increased for the quarter,** as fifteen percent of lenders believe their customers have strong or very strong growth expectations (versus eleven percent in the previous quarter). The percent of lenders stating their customers had modest growth expectations remained consistent at 82%.

7. **Expectations for increased demand for domestic loans reversed recent negative sentiment.** Forty-three percent of respondents indicated corporate lending will increase (versus 32 percent in the previous quarter), while similar percentages (62 and 64 percent, respectively) feel both middle market and small business lending will rise (each rising from 56% for the previous quarter). Expectations for the credit environment are mixed. While the forecast is improving for bankruptcies and unemployment, respondents believe loan losses will rise and that interest rates will continue to rise.

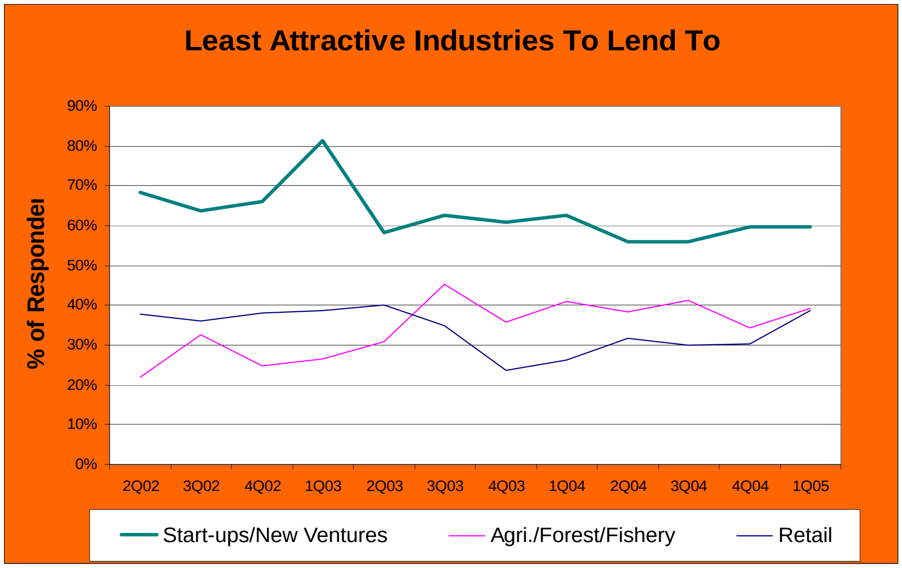




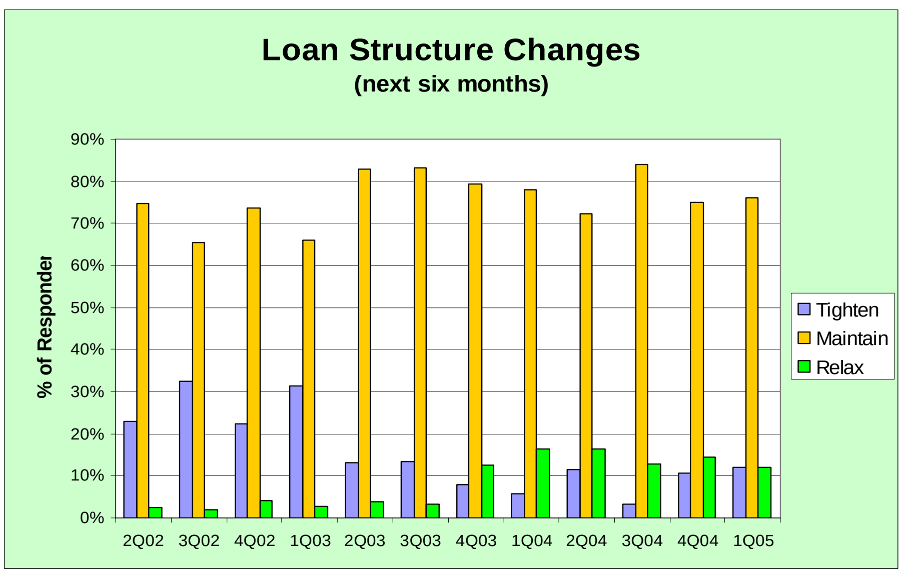
8. **Lenders continue to favor the Light Manufacturing, Industrial Distribution and Service Companies industries.** Of the remaining selections, Health Care (+12%) and Heavy Manufacturing (+11%) were the industries having the largest percentage increase of respondents designating a "Most Attractive" status.



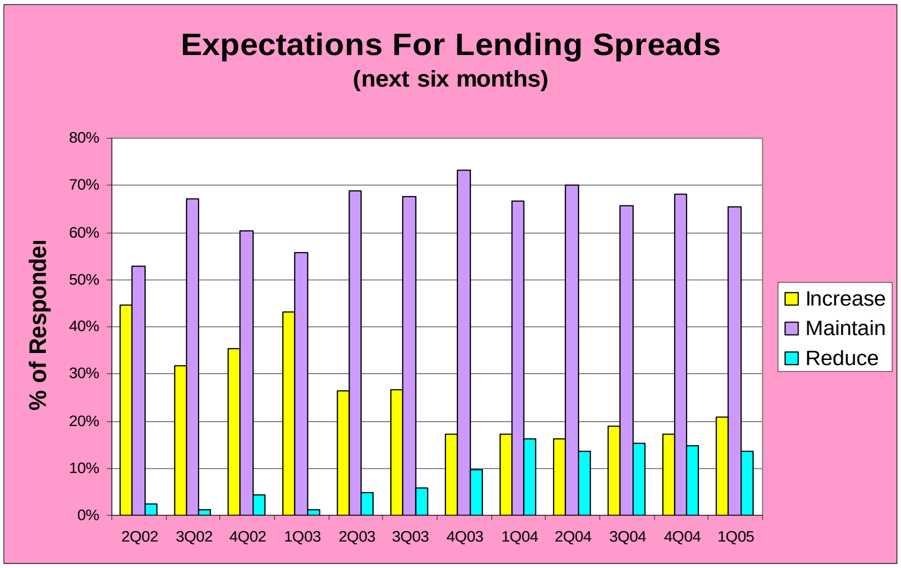
9. **Lenders chose the Start-ups, Construction, and Agriculture/Forest/Fishery industries as their primary industries to avoid.** Sixty percent of lenders said Start-ups is an industry their institution found unattractive, while roughly 40 percent indicated that sentiment in regards to the Agriculture/Forest/Fishery and Retail industries.



10. **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 remained above ten percent for the second consecutive quarter.



11. **Lenders anticipate maintaining the current lending spreads in this interest rate environment.** Sixty-five percent of respondents (versus 68 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 ninety-nine percent of lenders (versus ninety-seven percent in 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"
1st Quarter 2005

Survey Results

1. Possible Existence of a Real Estate Bubble

Respondents were asked whether they believed there is currently a real estate bubble – a significant overvaluation in the real estate market.

- Forty-six percent indicated they do believe there is currently a real estate bubble.
  - Of the forty-six percent of respondents who do believe there is currently a real estate bubble, a gross majority (ninety-one percent) opined that they were "mildly concerned" regarding its overall impact on the U.S. economy.
- Thirty-nine percent responded that a real estate bubble did not currently exist.
- The remaining fifteen percent indicated they were not sure regarding the current real estate market.

2. Likelihood of U.S. Economic Recession

Respondents were asked the likelihood of the U.S. economy slipping into a recession in 2005.

- A majority, sixty percent in total, indicated they believed a recession was "not at all likely."
- Thirty-nine percent responded that it was "somewhat likely" that the economy would slip into a recession.
- The remaining respondents were split between "very likely" and "almost certainly" responses.

3. Issues Concerning the Health of the U.S. Economy

Respondents were asked which of the following issues concern them the MOST about the overall health of the U.S. economy.

- Forty percent indicated that the budget deficit was the issue that concerned them the most about the health of the U.S. economy.
- Eighteen percent responded the biggest issue was the trade deficit.
- Fifteen percent felt that the war in Iraq was the issue that concerned them the most.
- Twelve percent responded the biggest issue was the sluggish job market.
- Approximately seven percent felt the low household savings rate was the issue that concerned them the most.

4. Customers Plans in the Next Six to Twelve Months

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

- Twenty-four percent indicated their customers are planning on making new capital investments.
- Seventeen percent said their customers intend on hiring new employees over the near-term future.
- Sixteen percent selected the following two responses: raising additional capital and making an acquisition.
- Fourteen percent indicated their customers plan on introducing new products and/or services.
- Thirteen percent indicated their customers would be entering new markets in the next 6-12 months.

5. 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 optimistic this quarter in contrast to recent "down" quarters. The percentage of respondents indicating an "Up" trend for domestic lending rose at all levels.
- Respondents forecasts for credit quality was mixed this quarter. The percentage of lenders indicating anticipated increases in loan losses and bank failures increased, yet fewer respondents indicated an anticipated increase in bankruptcies and unemployment.

	Last Quarter			This Quarter		
	Up	Down	Same	Up	Down	Same
Corporate Lending	32%	7%	61%	43%	8%	49%
Middle Market Lending	56%	4%	40%	62%	6%	32%
Small Business Lending	56%	8%	36%	64%	7%	29%
International Lending	26%	18%	56%	29%	17%	54%
	Up	Down	Same	Up	Down	Same
Loan Losses	26%	26%	48%	31%	22%	47%
Bankruptcies	33%	24%	43%	30%	26%	45%
Interest Rates	93%	0%	7%	97%	1%	2%
Unemployment	19%	27%	54%	16%	27%	57%
Bank Failures	2%	15%	83%	4%	18%	78%

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.

- Respondents' outlook for the economy's performance remained at an approximate "high" C grade for the first half of 2005.
- Lenders' expectations for the economy's near-term future performance rose modestly from the previous quarter as 41% of respondents expected the economy to perform at an "A" or "B" level in the first half of 2005 (as compared to 32% in the previous quarter).

	Last Quarter	**This Quarter**
A	1%	1%
B	31%	40%
C	63%	54%
D	5%	4%
F	0%	1%
Weighted Average Grade	2.28	2.36

7. 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 fifth 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 nine quarters, respondents see the economy's performance at approximately a C+ grade for the second half of 2005.

	Last Quarter	**This Quarter**
A	3%	2%
B	58%	43%
C	32%	43%
D	7%	10%
F	0%	2%
Weighted Average	2.57	2.37

8. Customers' Future Growth Expectations

Lenders assessed their customers' growth expectations for the next six months to a year.

- The percentage of lenders with customers having "Strong" or "Very Strong" growth expectations rose to 15% combined, albeit still at historically low levels. The percentage of respondents expecting "moderate" growth was consistent at 82%.

	Last Quarter	**This Quarter**
Very Strong	0%	2%
Strong	11%	13%
Moderate	82%	82%
No Growth	6%	3%

9. 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.)

- Service Companies, Light Manufacturing, and Industrial Distribution continue to be viewed most positively by lenders, albeit with lower percentages.

- Health Care and Heavy Manufacturing were the industries that exhibited the most positive momentum in its designation of "Most Attractive" in which to lend.

	Last Quarter	**This Quarter**
Service Companies	68%	70%
Mfg.-Light	72%	69%
Distribution-Industrial	68%	66%
Health Care	24%	36%
Mfg.-Heavy	21%	32%
Transportation	21%	25%
Real Estate	21%	24%
Retail	21%	18%
Finance/Insurance	11%	17%
Technology	11%	16%
Construction	7%	16%
Mining	9%	11%
Communications	8%	11%
Utilities	9%	7%
Agriculture/Forestry/Fishing	6%	6%
Start-Ups/ New Ventures	9%	5%
Other	3%	3%

10. 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.

- Retail 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	60%	60%
Agriculture/Forestry/Fishing	34%	39%
Retail	30%	39%
Health Care	40%	38%
Construction	41%	37%
Technology	37%	30%
Utilities	32%	30%
Mining	30%	30%

Real Estate	23%	25%
Mfg.-Heavy	24%	20%
Finance/Insurance	23%	18%
Communications	19%	17%
Transportation	11%	10%
Service Companies	5%	5%
Distribution-Industrial	2%	5%
Mfg.-Light	3%	3%

11. 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 with average loans in the $1-10 million range indicated plans to tighten their current loan structures.

	Last Quarter			This Quarter		
	Tighten	Maintain	Relax	Tighten	Maintain	Relax
Loans> $10 million	10%	70%	20%	10%	76%	14%
$6 – 10 million	7%	79%	14%	12%	75%	12%
$1-5 million	10%	80%	10%	12%	80%	8%
Under $1 million	14%	71%	15%	14%	73%	13%
Overall Average	11%	75%	14%	12%	76%	12%

12. 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 highest percentage of respondents in the last six quarters (21% representing all loan sizes) indicated their anticipation of a increase 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	30%	57%	13%	26%	63%	11%
$6 – 10 million	18%	70%	12%	13%	71%	16%
$1-5 million	6%	77%	17%	8%	65%	27%
Under $1 million	5%	68%	27%	7%	63%	30%
Overall Average	15%	68%	17%	14%	65%	21%

13. 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 anticipated shift towards a rising interest rate environment. Thirty percent of respondents (versus twenty-three 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	0%	0%
-.25	1%	0%
0	2%	1%
+.25	29%	20%
+.50	45%	49%
+.75	16%	15%
+1.0	5%	12%
More than 1.0	2%	3%
Weighted Average	+49 basis points	+56 basis points

14. 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	13%	13%
Local Commercial/ Community Banks	19%	20%
Factors	6%	7%
Regional Banks	56%	45%
Commercial Finance Organizations	19%	22%
Other	5%	8%

15. Type of Institution

Respondents were asked for what type of institution they worked.

- One hundred twenty-two respondents participated in this quarter's survey.
- Sixty percent of respondents report working for a Commercial Bank.
- Twenty-seven percent work for a Commercial Finance Organization.
- Eight 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.

16. Average Loan Size

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

	Last Quarter	**This Quarter**
Under $1 million	20%	20%
$1-5 million	17%	17%
$ 6-10 million	23%	23%
Over $ 10 million	40%	39%
Average Loan	$7.5 Million	$7.0 Million