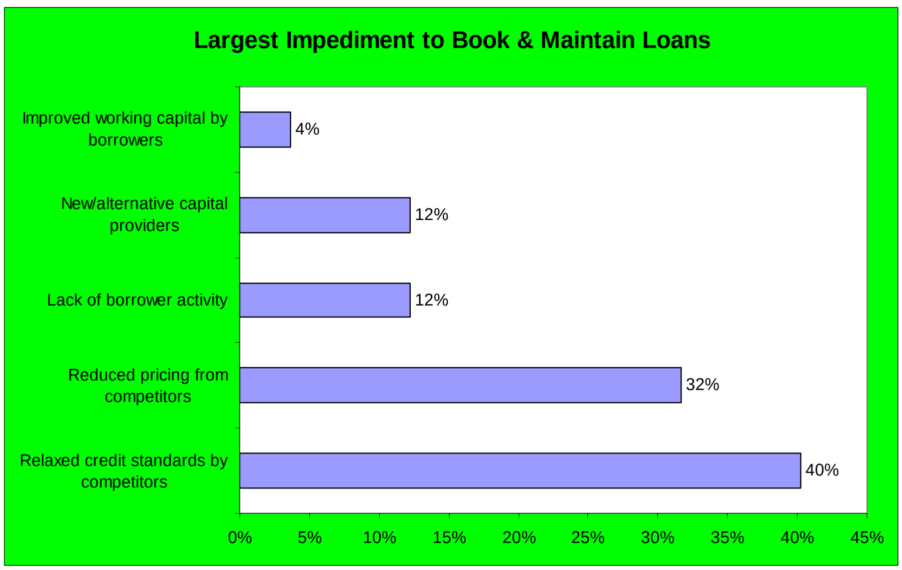
PHOENIX
"LENDING CLIMATE IN AMERICA"
QUARTERLY SURVEY

2nd Quarter 2005

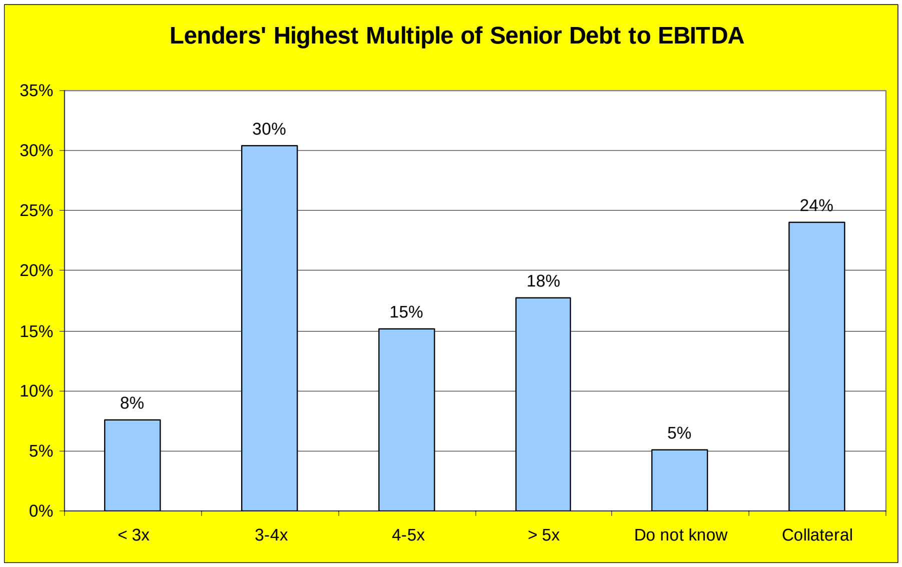
SUMMARY, TRENDS AND IMPLICATIONS

1. **Relaxed credit quality standards among competitors were identified as the largest impediment that financial institutions face in their efforts to book and maintain loans.** Approximately forty percent of lenders cited relaxed credit quality standards as their largest impediment. Thirty-two percent of respondents selected reduced pricing from competitors as the largest impediment. Twelve percent of lenders each chose the following responses: lack of activity by borrowers and new or alternative providers of capital entering the marketplace. The remaining four percent chose improved working capital by borrowers as the single largest impediment.



2. **More than a two-thirds of respondents (69 percent) believe that hedge funds pose a threat as an alternative source of funding.** Of these respondents, nine percent viewed hedge funds as a "very serious threat", 38 percent viewed hedge funds as a "moderate threat", and twenty-two percent of lenders opined that they were a "neutral threat" to the marketplace. Six percent of respondents believe that hedge funds have a "positive effect" on the marketplace, and finally twenty-five percent "did not know" hedge funds' impact.

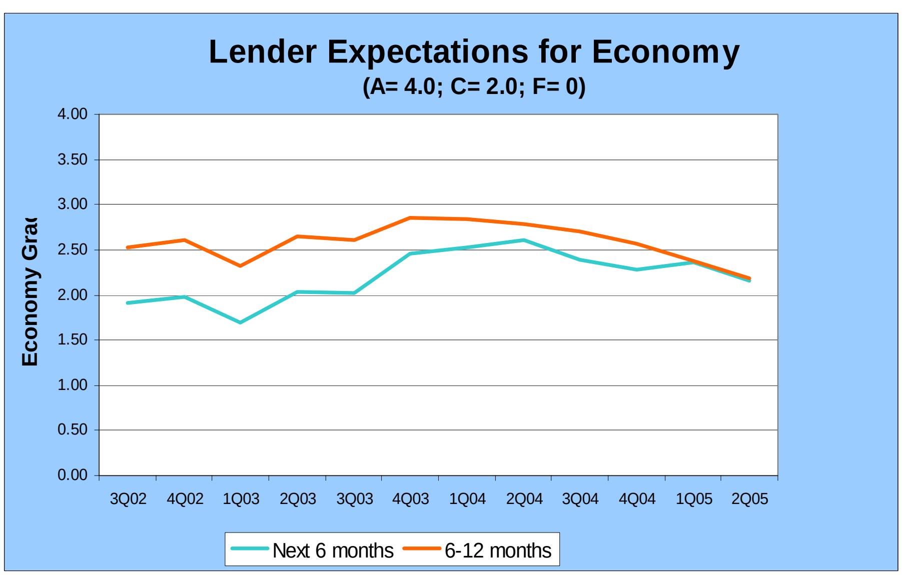
3. **Thirty-three percent of respondents indicated that the highest Senior Debt to EBITDA multiple their financial institution will consider with regard to a loan request is greater than 4.0x, and of this group, 18 percent would consider a loan request with a Senior Debt to EBITDA multiple greater than 5.0x .** Twenty-four percent of the respondents indicated they were collateral lenders and therefore do not consider EBITDA multiples when considering a loan request. When these respondents are removed from the data, **43 percent of the survey respondents who consider EBITDA multiples indicated that the highest Senior Debt to EBITDA multiple their financial institution will consider with regard to a loan request is greater than 4.0x**. Thirty percent of lenders indicated their institution would consider a loan request with a multiple as high as the 3.0 - 4.0x range.



4. **Approximately half of respondents (49 percent) predicted there will be no change in the average Senior Debt to EBITDA multiple at their financial institution over the next six months.** As mentioned above, twenty-four percent indicated they are asset-based lenders and that their institution does not focus specifically on cash flow multiples. The remaining lenders were evenly divided (increase/decrease 1.0x) in their anticipation of the direction of Senior Debt to EBITDA multiples at their respective institutions.

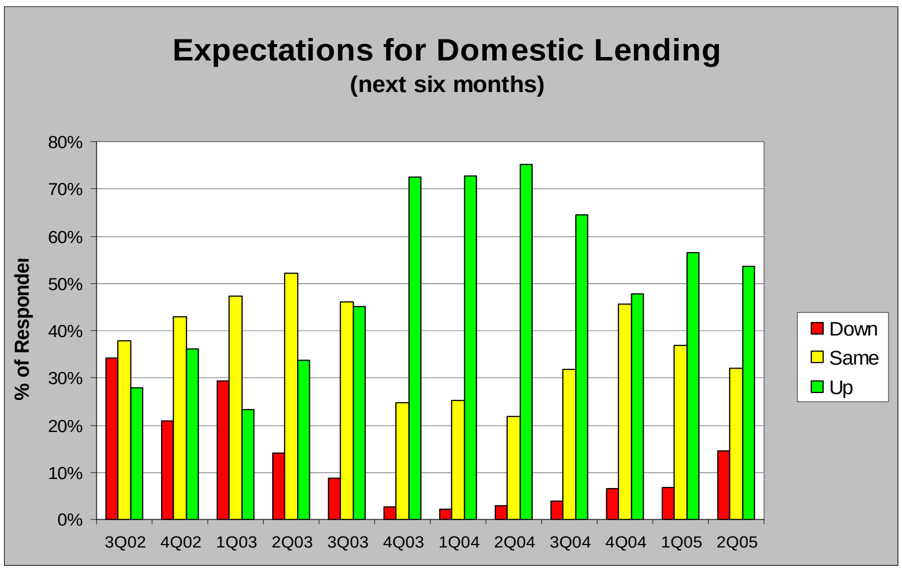
5. **Twenty-two percent of respondents indicated their customers plan to make new capital investments in the next six to twelve months.** The next largest percentage (17 percent) responded that their customers plan on making an acquisition. The remaining lenders were evenly divided with regard to their customers plans for the following actions: hiring new employees, entering new markets, introducing new products or services, raising additional capital, and making an acquisition.

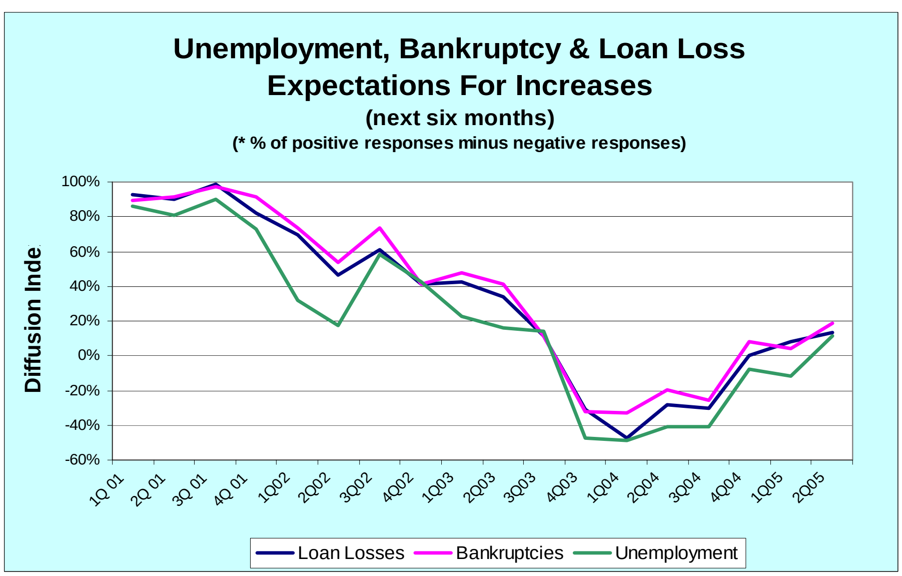
6. **Lenders expect the economy to perform at a C level during the next six months, its lowest expectation in the last eight quarters.** The respondents' expectations for longer-term improvement fell for the sixth consecutive quarter with nearly sixty percent of all respondents (versus fifty-four percent in the previous quarter) anticipating the economy will perform at a C or worse level during the first half of 2006.



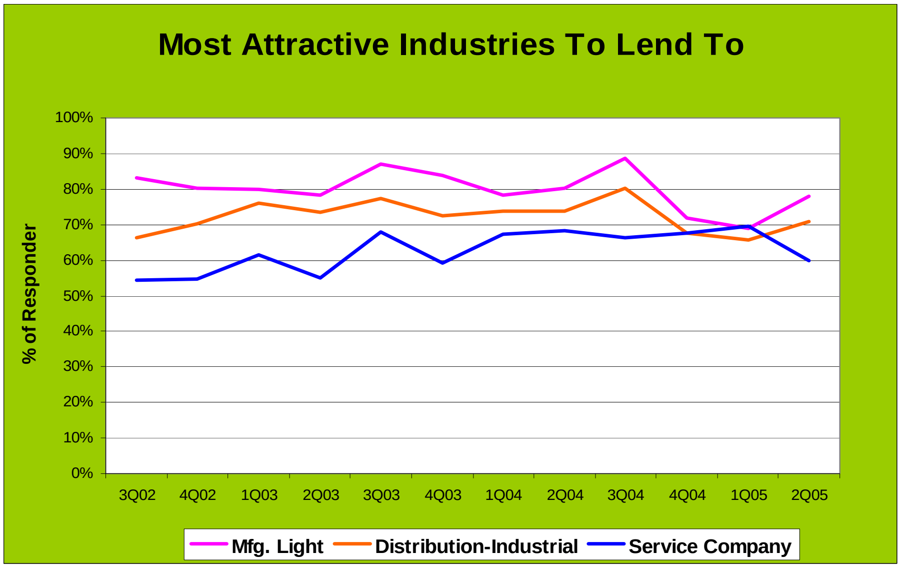
7. **Customer growth expectations over the next 6-12 months declined for the quarter,** as only nine percent of lenders believe their customers have strong or very strong growth expectations (versus fifteen percent in the previous quarter). The percent of lenders stating their customers had modest growth expectations remained consistent at 84%.

8. **After an apparent one-quarter blip, expectations for increased demand for domestic loans continued their recent negative sentiment.** Roughly identical percentages of respondents indicated corporate lending will increase (45 percent versus 43 percent in the previous quarter), yet the diffusion index (the percentage of positive responses less the negative responses) for all domestic lending fell sharply this quarter to 39 percent (from 50 percent in the previous quarter) – its lowest level in the past eight quarters. While the forecast is for interest rates to continue to rise, this quarter saw significant increases in the percentage of lenders anticipating increased bankruptcies (40 percent compared to 30 percent last quarter) and higher unemployment (30 percent versus 16 percent in the previous quarter).

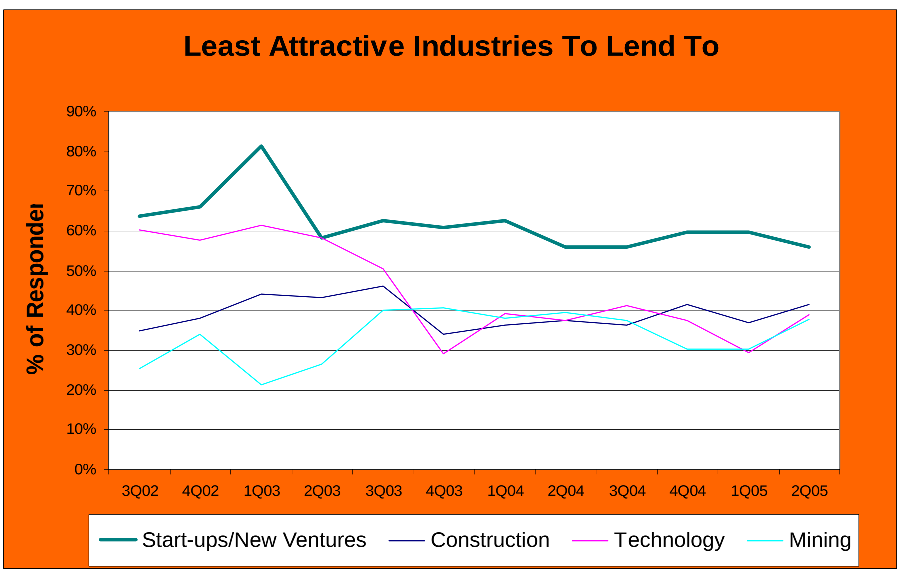




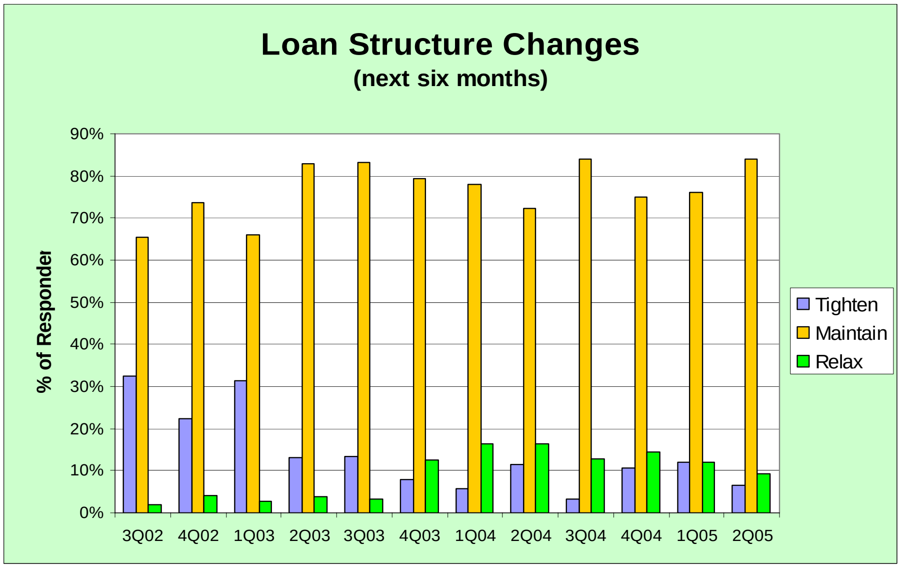
9. **Lenders continue to favor the Light Manufacturing, Industrial Distribution and Service Companies industries.** Of the remaining selections, Retail (+5%) was the industry having the largest percentage increase of respondents designating a "Most Attractive" status.



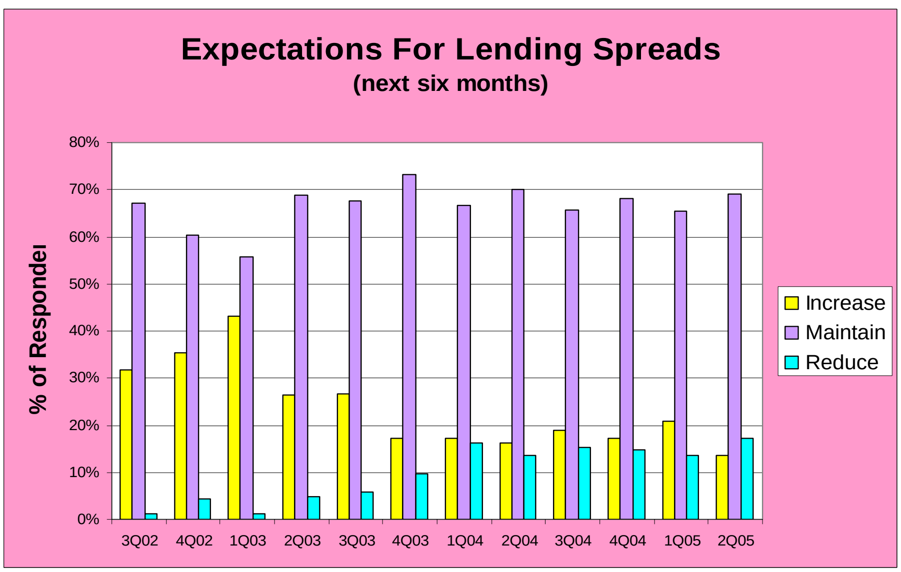
10. **Lenders chose the Start-ups, Construction, Technology, and Mining industries as their least attractive industries in which to lend.** Fifty-six percent of lenders said Start-ups is an industry their institution found unattractive, while roughly 40 percent indicated that sentiment in regards to the Construction, Technology, and Mining industries.



11. **The vast majority of lenders expect to maintain their existing loan structures.** The percentage of respondents planning to maintain their loan structures reached an all-time high of 84 percent for the second time in the last four quarters.



12. **Lenders anticipate maintaining the current lending spreads in this interest rate environment.** Sixty-nine percent of respondents (versus 65 percent in the previous quarter) expect to maintain lending spreads at their current levels. While still quantitatively small, the percentage of lenders expecting reduced lending spreads reached 17 percent, continuing recent momentum of the past 8-10 quarters.



13. **Survey respondents maintain their belief in a rising interest rate environment.** This quarter, every lender surveyed (versus ninety-nine percent in the previous quarter) believes interest rates will rise over the next six month.

Phoenix Management
"Lending Climate in America"
2nd Quarter 2005

Survey Results

1. Largest Impediment to Booking and Maintaining Loans

Respondents were asked what is the single largest impediment to their financial institution in its efforts to book and maintain loans.

- Forty percent indicated the largest impediment is relaxed credit quality standards among its competitors.

- Thirty-two percent responded reduced pricing by its competitors.

- Twelve percent gave the following two responses: lack of borrowing activity by borrowers and the presence of new or alternative providers of capital entering the marketplace.

- The remaining four percent indicated the largest impediment was improved working capital by borrowers.

2. Impact of Hedge Funds as an Alternative Source of Financing

Respondents were asked to summarize the impact that hedge funds are having on the marketplace as an alternative source of financing.

- Sixty-nine percent of respondents believe that hedge funds pose a threat as an alternative source of funding. Of these respondents:

  - Nine percent viewed hedge funds as a "very serious threat".

  - Thirty-eight percent viewed hedge funds as a "moderate threat".

  - Twenty-two percent of lenders opined that they were a "neutral threat" to the marketplace.

- Six percent of respondents believe that hedge funds have a "positive effect" on the marketplace.

- Finally, twenty-five percent of lenders "did not know" hedge funds' impact.

3. Highest Multiple of Senior Debt to EBITDA

Respondents were asked what is the highest multiple of Senior Debt to EBITDA that their financial institution would consider with regard to a loan request.

- Thirty-three percent of respondents indicated that the highest Senior Debt to EBITDA multiple their financial institution will consider with regard to a loan request is greater than 4.0x, and of this group, 18 percent would consider a loan request with a Senior Debt to EBITDA multiple greater than 5.0x.

- Twenty-four percent of the respondents indicated they were collateral lenders and therefore do not consider EBITDA multiples when considering a loan request. When these respondents are removed from the data, 43 percent of the survey respondents who consider EBITDA multiples indicated that the highest Senior Debt to EBITDA multiple their financial institution will consider with regard to a loan request is greater than 4.0x**.**

- Thirty percent of lenders indicated their institution would consider a loan request with a multiple as high as the 3.0 - 4.0x range.

- Eight percent responded they would consider loan requests with Senior Debt to EBITDA multiples of less than 3.0x.

- The remaining respondents (five percent) did not know what Senior Debt to EBITDA range their financial institution would consider in regards to a loan request.

4. Anticipated Changes in the Senior Debt to EBITDA Multiple in Next Six Months

Respondents were asked to predict how the Senior Debt to EBITDA multiple will change at their respective financial institution over the next six months.

- Approximately half (forty-eight percent) of respondents indicated they expect "no change" in the multiple over the next six month.

- Twenty-three percent responded that they were collateral lenders and therefore did not focus on the Senior Debt to EBITDA leverage ratio

- Seven percent said they anticipated the Senior Debt to EBITDA multiple would increase less than 1.0x.

- Six percent said they anticipated the Senior Debt to EBITDA multiple would decrease more than 1.0x.

- Five percent said they anticipated the Senior Debt to EBITDA multiple would increase less than 1.0x.

5. 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-two percent indicated their customers are planning on making new capital investments.

- Seventeen percent said their customers intend on making an acquisition.

- Sixteen percent selected the following three responses: entering new markets, raising additional capital, and introducing new products and/or services.

- Thirteen percent indicated their customers would be hiring new employees in the next 6-12 months.

6. 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 mixed in relation to recent quarters. The percentage of respondents indicating an "Up" trend rose for the Corporate and International Lending segments, yet fell for the Middle Market and Small Business segments.

- The percentage of respondents forecasting an increase in Bankruptcies and Unemployment increased sharply this quarter. Lenders continued to be nearly unanimous in their anticipation of higher interest rates over the next six months.

	Last Quarter			**This Quarter**		
	Up	Down	Same	Up	Down	Same
Corporate Lending	43%	8%	49%	45%	19%	36%
Middle Market Lending	62%	6%	32%	59%	10%	31%
Small Business Lending	64%	7%	29%	57%	14%	29%
International Lending	29%	17%	54%	32%	12%	56%
	Up	Down	Same	Up	Down	Same
Loan Losses	31%	22%	47%	28%	15%	57%
Bankruptcies	30%	26%	45%	40%	21%	39%
Interest Rates	97%	1%	2%	95%	1%	4%
Unemployment	16%	27%	57%	30%	19%	51%
Bank Failures	4%	18%	78%	10%	10%	80%

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.

- Respondents' outlook for the economy's performance fell to an approximate "C" grade for the second half of 2005.

- Lenders' expectations for the economy's near-term future performance fell to its lowest level in the last eight quarterly surveys.

	Last Quarter	This Quarter
A	1%	0%
B	40%	22%
C	54%	72%
D	4%	6%
F	1%	0%
Weighted Average Grade	2.36	2.16

8. U.S. Economy Grade – First Half of 2006

Respondents were asked how they expected the U.S. economy to perform during the first half of 2006 on a grading scale of A through F.

- Continuing a six-quarter trend, 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 four years, respondents see the economy's performance at approximately a C grade for the first half of 2006.

	Last Quarter	This Quarter
A	2%	0%
B	43%	41%
C	43%	37%
D	10%	22%
F	2%	0%
Weighted Average	2.37	2.19

9. 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 fell to 9%, down from 15% combined in the previous quarter. The percentage of respondents expecting "moderate" growth rose modestly to 84%.

	Last Quarter	This Quarter
Very Strong	2%	0%
Strong	13%	9%
Moderate	82%	84%
No Growth	3%	7%

10. 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.

- Light Manufacturing was the industry that exhibited the most positive momentum in its designation of “Most Attractive” in which to lend.

	Last Quarter	This Quarter
Mfg.-Light	69%	78%
Distribution-Industrial	66%	71%
Service Companies	70%	60%
Mfg.-Heavy	32%	32%
Health Care	36%	29%
Real Estate	24%	26%
Transportation	25%	24%
Retail	18%	23%
Finance/Insurance	17%	16%
Technology	16%	13%
Construction	16%	11%
Communications	11%	11%
Start-Ups/ New Ventures	5%	9%
Utilities	7%	7%
Mining	11%	4%
Agriculture/Forestry/Fishing	6%	4%
Other	3%	1%

11. 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 and Mining 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%	56%
Construction	37%	41%
Agriculture/Forestry/Fishing	39%	40%
Retail	39%	40%
Technology	30%	39%
Mining	30%	38%
Health Care	38%	33%
Utilities	30%	27%
Real Estate	25%	24%
Mfg.-Heavy	20%	21%
Communications	17%	20%
Transportation	10%	16%
Finance/Insurance	18%	15%

Service Companies	5%	6%
Mfg.-Light	3%	4%
Distribution-Industrial	5%	1%

12. 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.

- Across every loan size segment, an increasing percentage of lenders anticipated maintaining their current loan structures.

	Last Quarter			**This Quarter**		
	Tighten	Maintain	Relax	Tighten	Maintain	Relax
Loans> $10 million	10%	76%	14%	6%	85%	9%
$6 – 10 million	12%	75%	12%	3%	88%	9%
$1-5 million	12%	80%	8%	6%	79%	15%
Under $1 million	14%	73%	13%	12%	79%	9%
Overall Average	12%	76%	12%	7%	84%	9%

13. 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 modestly higher percentage of respondents 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 nine quarters.

	Last Quarter			**This Quarter**		
	Reduce	Maintain	Increase	Reduce	Maintain	Increase
Loans> $10 million	26%	63%	11%	23%	68%	9%
$6 – 10 million	13%	71%	16%	22%	70%	8%
$1-5 million	8%	65%	27%	13%	72%	15%
Under $1 million	7%	63%	30%	11%	67%	23%
Overall Average	14%	65%	21%	17%	69%	14%

14. 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-two percent of respondents (versus twenty-nine 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	0%	0%
0	1%	0%
+.25	21%	27%
+.50	49%	41%
+.75	15%	22%
+1.0	11%	5%
More than 1.0	3%	5%
Weighted Average	+56 basis points	+55 basis points

15. 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 continued decreases in the designated percentages of Commercial Finance Organizations and Local Commercial/ Community Banks.

	Last Quarter	This Quarter
Money Center Banks	13%	15%
Local Commercial/ Community Banks	20%	19%
Factors	7%	1%
Regional Banks	45%	44%
Commercial Finance Organizations	22%	15%
Other	8%	6%

16. Type of Institution

Respondents were asked for what type of institution they worked.

- Eighty-two respondents participated in this quarter’s survey.
- Sixty-eight percent of respondents report working for a Commercial Bank.
- Twenty-two percent work for a Commercial Finance Organization.
- Four 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.

17. Average Loan Size

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

	Last Quarter	This Quarter
Under $1 million	20%	11%
$1-5 million	17%	33%
$ 6-10 million	23%	29%
Over $ 10 million	39%	27%
Average Loan	$7.0 Million	$6.8 Million