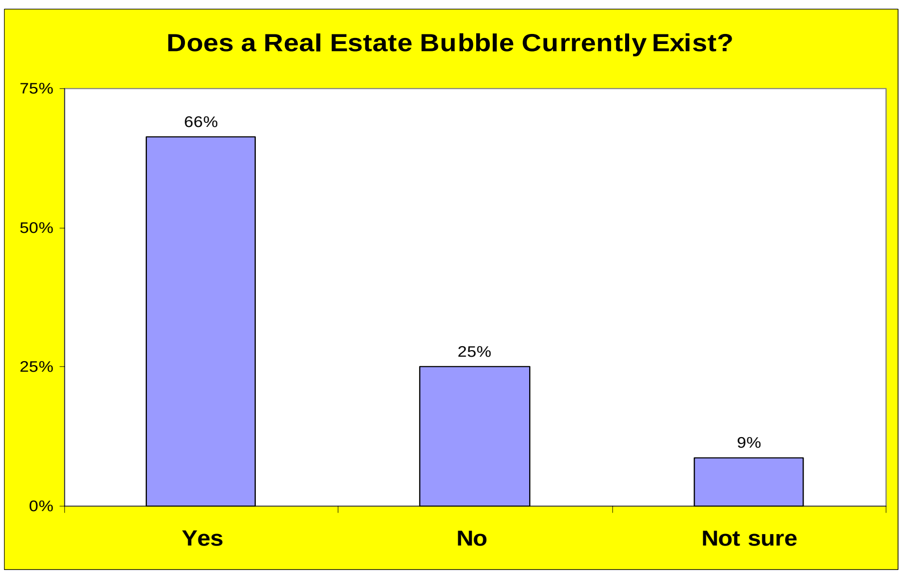
PHOENIX
"LENDING CLIMATE IN AMERICA"
QUARTERLY SURVEY

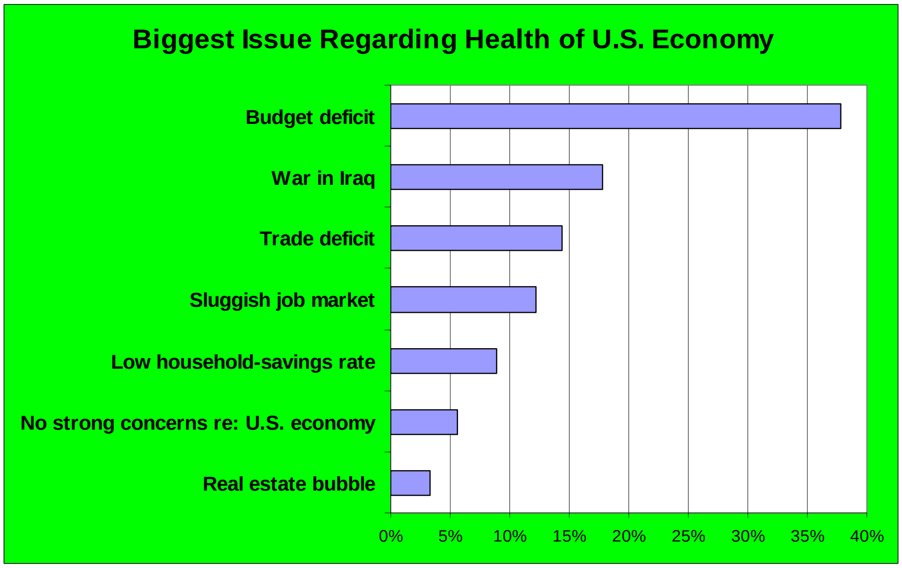
1st Quarter 2006

SUMMARY, TRENDS AND IMPLICATIONS

1. **Two-thirds of lenders nationwide now believe a real estate bubble currently exists in the United States – and half believe it is has already begun to burst or will within the next six months.** This marks a notable increase in lender attitudes toward a possible real estate bubble; last year, only 46 percent believed a real estate bubble existed. Of the 66 percent of respondents who said this quarter that a bubble existed, 86 percent termed themselves "mildly concerned" about it. Twenty-five percent of lenders do not believe that a domestic real estate bubble exists, while the remaining nine percent are not sure. Lenders believe that the Northeast – named by 30 percent – and the West Coast – named by 27 percent – will be the regions most affected by a housing bubble correction.

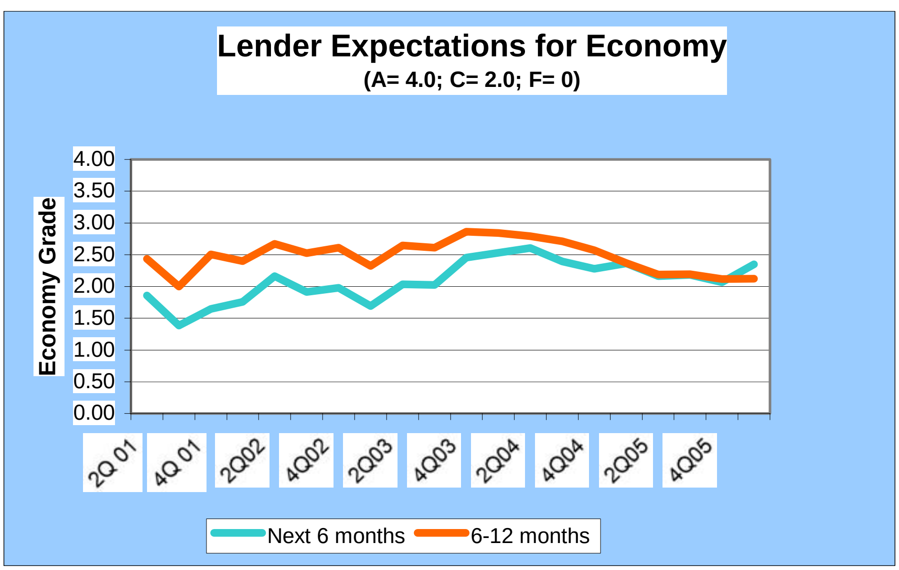


2. **By a 2:1 margin, lenders said the federal budget deficit was the single biggest issue of concern to them about the overall health of the U.S. economy.** Thirty-eight percent of lenders selected the deficit, from a list of six, as the issue that most concerned them. Eighteen percent of lenders designated the war in Iraq as their most pressing economic concern, while another 14 percent indicated the current trade deficit was the single greatest concern relative to the U.S. economy. Twelve percent of respondents believe that the sluggish job market presents the most reason for concern. The low household savings rate was named by nine percent of lenders, and six percent said they have no strong concerns regarding the U.S. economy. Finally, the remaining three percent indicated that a potential real estate bubble is the single issue that concerns them the most about the overall health of the U.S. economy.



3. **Lenders continue to report lukewarm growth plans by customers.** When asked which actions their customers planned to undertake in the next six to 12 months, 22 percent of respondents reported that their customers plan to make new capital investments. Sixteen percent, each, named the following: enter new markets; introduce new products / services; raise additional capital; or make an acquisition. Fourteen percent of lenders opined that their customers plan to hire new employees.

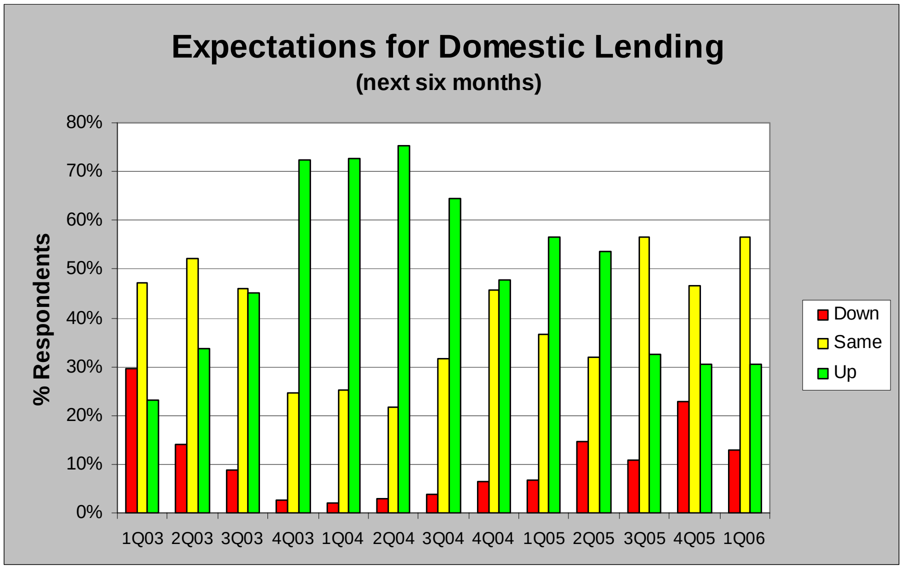
4. **For the first time in five years, lenders are more pessimistic about the long-term expectation for the economy than they are about its short-term outlook.** Lenders expect the economy to perform at a high "C" level during the next six months, its first upward movement in the last four quarters. The respondents' expectations for longer-term improvement maintained its lowest level – a low "C" – in the past four years.



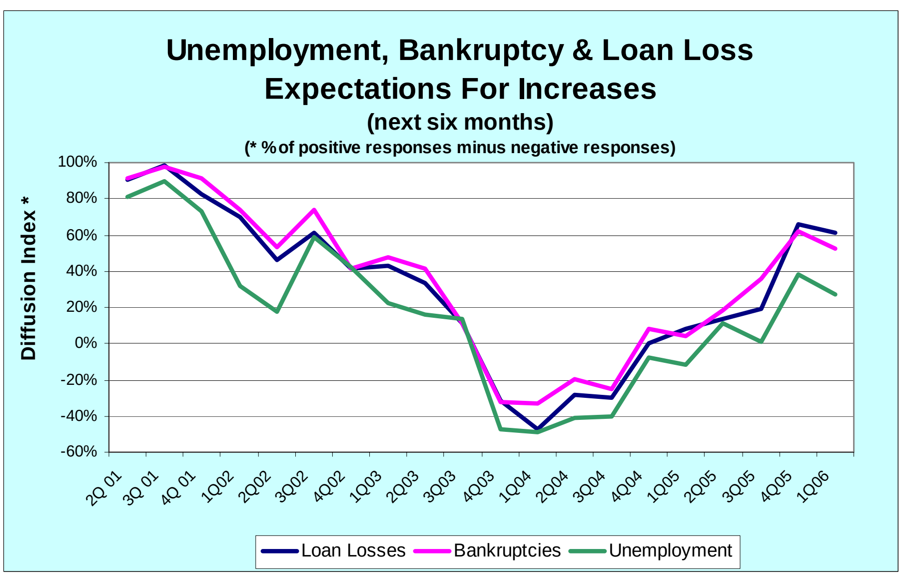
5. **Customer growth expectations over the next 6 - 12 months were slightly higher than recent quarters,** with 16 percent of lenders believing their customers have strong or very strong growth expectations (versus 12 percent the previous quarter). Conversely, the

percentage of lenders stating their customers had no growth expectations decreased to three percent (versus 11 percent the previous quarter).

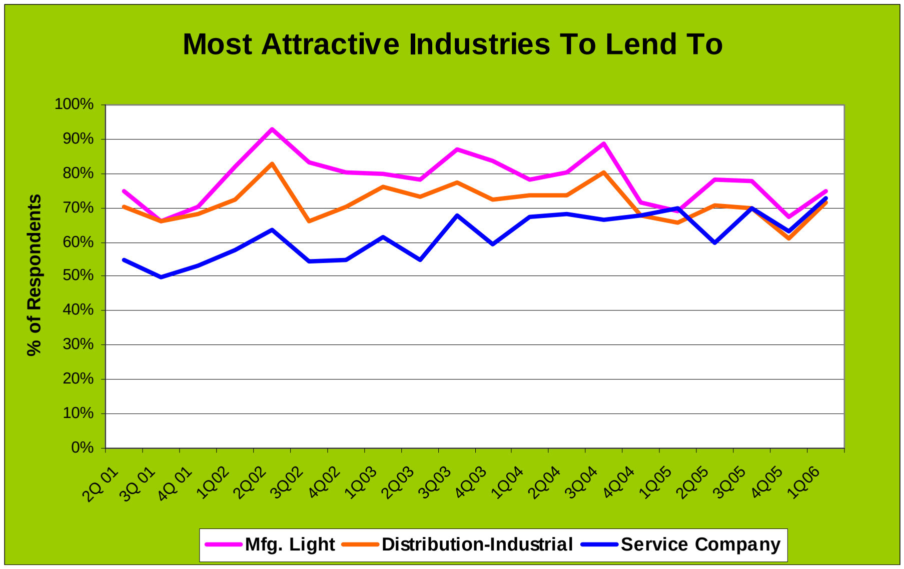
6. **Lenders continue to have low expectations for loan demand, with most predicting little change in the next six months.** Lenders last expressed enthusiasm for high loan demand seven quarters ago when 75 percent predicted it would be high; today, that number has drifted down to the 30 percent range in three sectors – Corporate Lending (predicted to increase by 24 percent of lenders), Middle Marketing Lending (32 percent) and Small Business Lending (35 percent). One bright spot was the International Lending sector where forecasts for increased loan demand rose to 39 percent this quarter (versus 21 percent in the previous quarter).



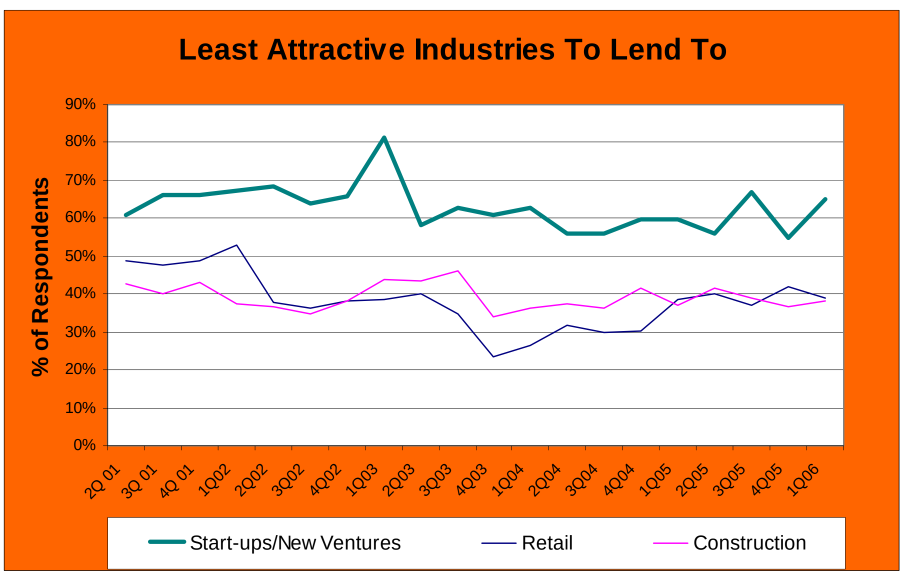
7. **In what may turn out to be a single quarter blip, forecasts for credit quality metrics reversed their recent negative trending.** The loan loss diffusion index (the percentage of respondents forecasting a higher percentage less those anticipating a lower percentage) fell to 61 percent from 67 percent in the previous quarter. Lenders anticipating higher bankruptcies dropped to 58 percent (down from 71 percent one quarter earlier). Finally, the percentage of respondents anticipating higher unemployment fell to 36 percent – down from 50 percent the previous quarter.



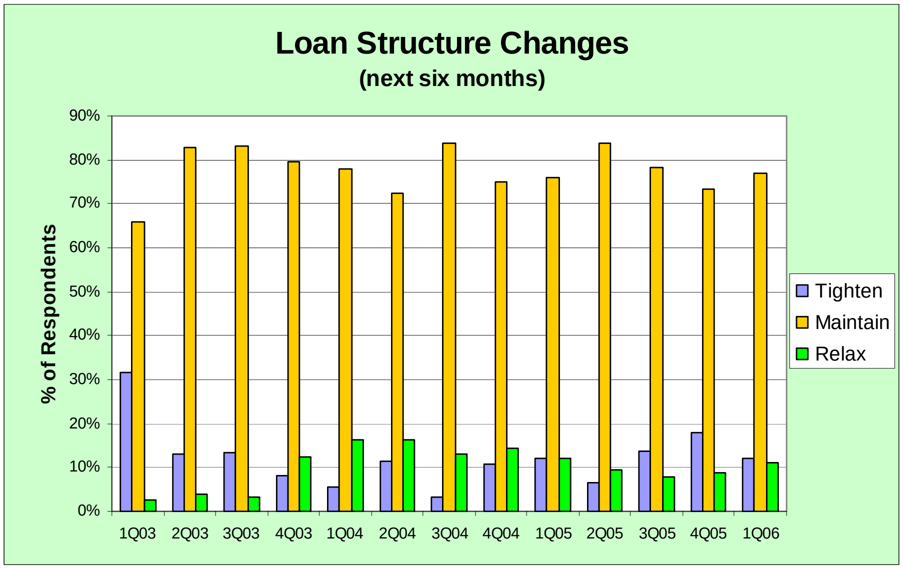
8. **Lenders continue to favor the Light Manufacturing, Industrial Distribution and Service Companies industries.** Of the remaining selections, Retail (up ten points) was the industry having the largest percentage increase of respondents designating a "Most Attractive" status.



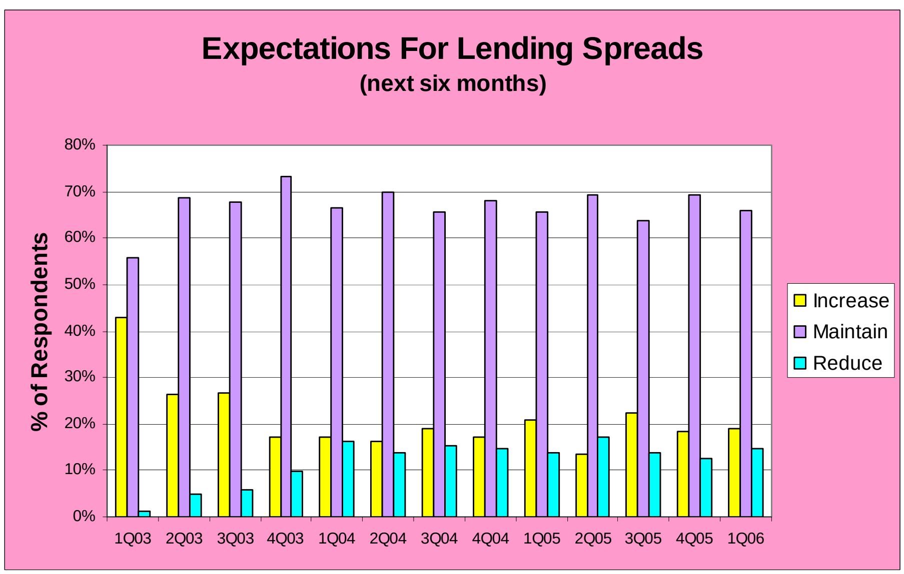
9. **Lenders chose the Start-up, Retail, and Construction industries as their least attractive industries to which to lend.** Sixty-five percent of lenders said Start-ups is an industry their institution found unattractive, while nearly 40 percent indicated that sentiment with respect to the Retail and Construction industries.



10. **The vast majority of lenders expect to maintain their existing loan structures.** The percentage of respondents planning to maintain their loan structure totaled 77 percent (versus 74 percent in the previous quarter). The percentage of respondents expecting to tighten their loan structure decreased to 12 percent this quarter – from 18 percent in the previous quarter – the highest level for this designation since the first quarter of 2003.



11. **Lenders anticipate maintaining the current lending spreads in this interest rate environment.** Sixty-six percent of respondents (versus 69 percent in the previous quarter) expect to maintain lending spreads at their current levels.



12. **Survey respondents maintain their belief in a rising interest rate environment, albeit with reduced rate increase expectations.** This quarter, 52 percent of the lenders surveyed (versus 86 percent the previous quarter) believe interest rates will rise by at least 50 basis points over the next six months.

Phoenix Management
"Lending Climate in America"
1st Quarter 2006

Survey Results

1. Probability 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.

- Sixty-six percent indicated they do believe there is currently a real estate bubble.
    - Of the 66 percent of respondents who believe there is currently a real estate bubble, a gross majority (86 percent) opined that they were "mildly concerned" regarding its overall impact on the U.S. economy.
- Twenty-five percent responded that a real estate bubble did not currently exist.
- The remaining nine percent indicated they were not sure regarding the current real estate market.

2. Anticipated Timing of U.S Real Estate Market Bubble Burst

Respondents were asked, in their opinion, when they expected the bubble to burst (e.g., when a value correction in the real estate market would occur).

- Thirty percent of respondents believe that a real estate market correction has already begun.
- Twenty-seven percent of lenders indicated that the market correction would begin in the next 7-12 months.
- Twenty percent of lenders indicated that they believe the real estate bubble will burst in the next 1-6 months.
- Nine percent, each, of respondents said the bubble would not burst until 2007 or there would be no bursting of the bubble at all.
- Finally, the remaining five percent of respondents opined they did not know of the possible timing of a burst of the U.S. real estate market.

3. Regional Impact of Potential Housing Bubble Correction

Respondents were asked which geographic region of the U.S. they expected would be most affected by a potential housing bubble correction.

- Thirty percent of respondents believe the Northeast will be the region that is most affected by a housing bubble correction.

- Twenty-seven percent of lenders opined that the West Coast would be the region most affected.

- Fourteen percent of lenders indicated they believe that the Southeast will be the region most affected by a housing bubble correction.

- Nine percent of lenders are of the opinion that there will not be a housing bubble in the United States.

- Five percent of lenders, each, chose the following: the Mid-Atlantic region, the Midwest region, or all geographic regions will be affected equally.

- The remaining respondents (five percent) were split between the Southwest and the Northwest as the regions likely to be most affected by a housing bubble correction.

4. Degree of Correction of the Potential Housing Bubble

Respondents were asked: if they believe there currently is a housing bubble, what effect a correction would have on the housing market.

- Fifty percent of respondents believe that, in the event of a housing correction, average real estate prices will decline up to 10%.

- Forty-three percent of lenders predict that average real estate prices would decline up to 20%.

- Finally, the remaining seven percent of respondents indicated that, if there were a correction, average real estate prices would fall up to 30%.

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

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

- Thirty-eight 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 war in Iraq.

- Fourteen percent felt that the trade deficit was the issue that concerned them the most.

- Twelve percent responded the biggest issue was the sluggish job market.

- Approximately nine percent felt the low household savings rate was the issue that concerned them the most.

- The remaining respondents (nine percent) were split between a real estate bubble and having no strong concerns about the economy.

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

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

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

- Sixteen percent, each, indicated one of the following: entering new markets, introducing new products or services, raising additional capital, or making an acquisition.

- Fourteen percent indicated their customers plan to hire new employees.

7. 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.

- The percentage of respondents indicating a "Down" trend fell across all segments of the lending environment this quarter. Small business lending (down 14 percentage points) and corporate lending (down 13 percentage points) demonstrated the largest decline in the quarter.

- For the first time in the last two years, a material segment of lenders believe that interest rates will maintain their current levels over the next six months. The percentage of respondents forecasting an increase in Loan Losses, Bankruptcies, and Unemployment materially decreased this period.

	Last Quarter			**This Quarter**		
	Up	Down	Same	Up	Down	Same
Corporate Lending	19%	26%	55%	24%	13%	63%
Middle Market Lending	35%	19%	46%	32%	15%	53%
Small Business Lending	37%	24%	39%	35%	10%	55%
International Lending	21%	19%	60%	39%	13%	48%
	Up	Down	Same	Up	Down	Same
Loan Losses	72%	5%	23%	65%	4%	31%
Bankruptcies	71%	8%	21%	58%	5%	37%
Interest Rates	95%	0%	5%	75%	1%	24%
Unemployment	50%	12%	38%	36%	9%	55%
Bank Failures	16%	5%	79%	11%	7%	82%

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.

- Respondents' outlook for the economy's performance improved to a high "C" grade for the first half of 2006. The percentage of lenders who believe that the economy will perform at an “A” or “B” level increased to 37 percent from 21 percent the previous quarter.

	Last Quarter	This Quarter
A	1%	3%
B	20%	34%
C	64%	58%
D	14%	5%
F	1%	0%
Weighted Average Grade	2.06	2.35

9. U.S. Economy Grade – Second Half of 2006

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

- Maintaining its lowest forecasted level in the past four and a half years, respondents see the economy’s performance at approximately a C grade for the second half of 2006.

	Last Quarter	This Quarter
A	1%	2%
B	29%	21%
C	52%	63%
D	17%	13%
F	1%	0%
Weighted Average	2.12	2.12

10. 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 16 percent, up from 12 percent, combined, the previous quarter. The percentage of respondents expecting “moderate” growth was relatively consistent, compared to previous quarters, at 80 percent.

	Last Quarter	This Quarter
Very Strong	1%	1%
Strong	11%	15%
Moderate	78%	80%
No Growth	10%	3%

11. 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, Service Companies, and Industrial Distribution continue to be viewed most positively by lenders.

- Exclusive of the top three designated industries, Retail was the industry that exhibited the most positive momentum in its designation of "Most Attractive" industry in which to lend.

	Last Quarter	**This Quarter**
Mfg.-Light	67%	75%
Service Companies	63%	73%
Distribution-Industrial	61%	72%
Mfg.-Heavy	28%	27%
Retail	17%	27%
Health Care	36%	24%
Transportation	20%	24%
Real Estate	27%	22%
Technology	14%	16%
Finance/Insurance	21%	14%
Construction	13%	12%
Utilities	13%	9%
Communications	12%	9%
Mining	7%	8%
Start-Ups/ New Ventures	5%	7%
Agriculture/Forestry/Fishing	3%	4%
Other	2%	2%

12. 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.

- Mining and Health Care experienced the largest increases of respondents designating it as "least attractive" industry to lend to in the recent quarter.

	Last Quarter	**This Quarter**
Start-Ups/ New Ventures	55%	65%
Retail	42%	39%
Construction	37%	38%
Agriculture/Forestry/Fishing	31%	36%
Mining	25%	34%
Health Care	24%	34%
Technology	23%	29%
Mfg.-Heavy	34%	25%
Utilities	21%	25%
Real Estate	25%	22%
Communications	20%	15%
Finance/Insurance	7%	13%

Service Companies	4%	10%
Transportation	20%	9%
Mfg.-Light	8%	5%
Distribution-Industrial	3%	3%

13. 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, a decreasing percentage of lenders anticipated tightening their current loan structures. In a shift from the last five quarterly surveys, the overall average of financial institutions planning to tighten their loan structures decreased to 12% from 18% of respondents in the previous survey.

	Last Quarter			**This Quarter**		
	Tighten	Maintain	Relax	Tighten	Maintain	Relax
Loans> $10 million	15%	76%	9%	11%	78%	12%
$6 – 10 million	17%	74%	9%	8%	81%	11%
$1-5 million	15%	77%	8%	13%	75%	12%
Under $1 million	24%	67%	9%	16%	74%	10%
Overall Average	18%	74%	8%	12%	77%	11%

14. 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.

- Two-thirds of lenders plan to maintain their current interest rate spreads and fee structures on all sizes of loans following the historical trend of the last ten quarters.

	Last Quarter			**This Quarter**		
	Reduce	Maintain	Increase	Reduce	Maintain	Increase
Loans> $10 million	20%	70%	10%	22%	70%	8%
$6 – 10 million	13%	71%	16%	16%	70%	14%
$1-5 million	10%	73%	17%	13%	64%	23%
Under $1 million	7%	62%	31%	8%	60%	32%
Overall Average	13%	69%	18%	15%	66%	19%

15. 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.

- In contrast to recent surveys, while the interest rate outlook continues to forecast higher rates, the degree of the forecasted increased rates is sharply lower than previous quarters.

Fifty-two percent of respondents (versus eighty-six percent in the previous survey) anticipate an increase in interest rates of 50 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%	2%
-.50	1%	1%
-.25	0%	0%
0	1%	7%
+.25	12%	37%
+.50	65%	48%
+.75	8%	2%
+1.0	13%	2%
More than 1.0	0%	0%
Weighted Average	+54 basis points	+35 basis points

16. 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 material increases in the designated percentages of Local Commercial/Community Banks and Money Center Banks.

	Last Quarter	This Quarter
Money Center Banks	10%	14%
Local Commercial/ Community Banks	14%	28%
Factors	5%	3%
Regional Banks	44%	33%
Commercial Finance Organizations	18%	15%
Other	9%	7%

17. Type of Institution

Respondents were asked for what type of institution they worked.

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

- Sixty-two percent of respondents report working for a Commercial Bank.

- Twenty-eight percent work for a Commercial Finance Organization.

- Five 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.

18. Average Loan Size

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

	Last Quarter	This Quarter
Under $1 million	18%	16%
$1-5 million	23%	28%
$ 6-10 million	25%	22%
Over $ 10 million	34%	34%
Average Loan	$7.2 Million	$7.2 Million