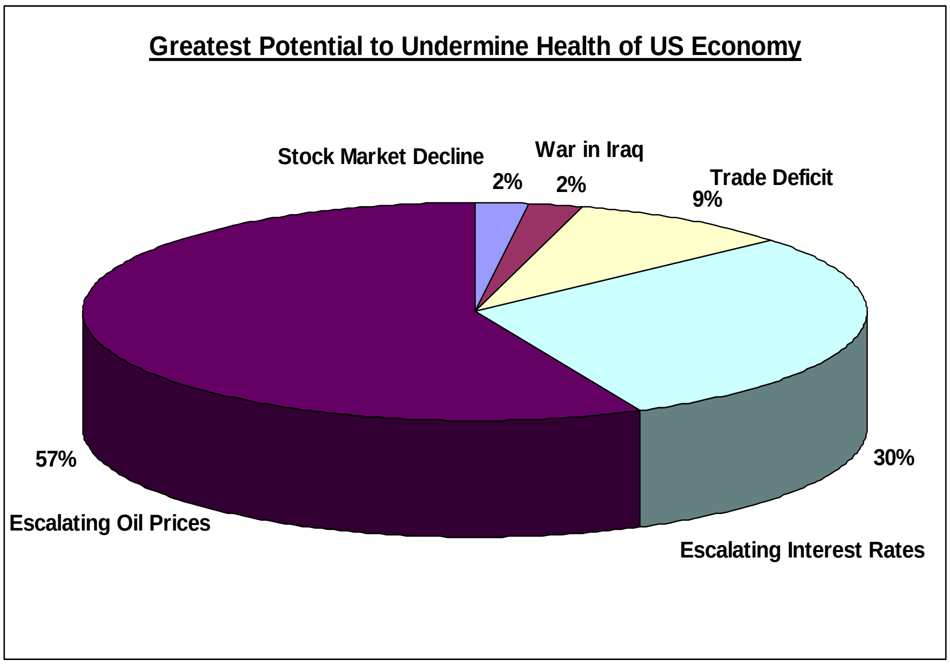
PHOENIX
"LENDING CLIMATE IN AMERICA"
QUARTERLY SURVEY

3rd Quarter 2006

SUMMARY, TRENDS AND IMPLICATIONS

1. **In the minds of lenders, escalating oil prices pose the greatest threat to the health of the U.S. economy.** When presented with a list of factors that had the potential to undermine the economy, 57 percent of lenders indicated escalating oil prices posed the greatest danger**.** Thirty percent responded the greatest domestic economic threat is escalating interest rates. Nine percent of respondents opined the burgeoning trade deficit poses the greatest threat. Finally, two percent of lenders gave the following two responses: the war in Iraq and a stock market correction.



2. **More than 40 percent of lenders predict their financial institution will allocate additional resources to portfolio management and loan workout in the coming 18 months.** While most lenders (56 percent) do not anticipate any changes in portfolio management and loan workout at their lending institution, 43 percent said that their financial institution will likely allocate additional resources to portfolio management and loan workout in the coming eighteen months. Lastly, one percent of respondents opined that their institution would likely allocate fewer resources in the next year-and-a-half to portfolio management and loan workout.

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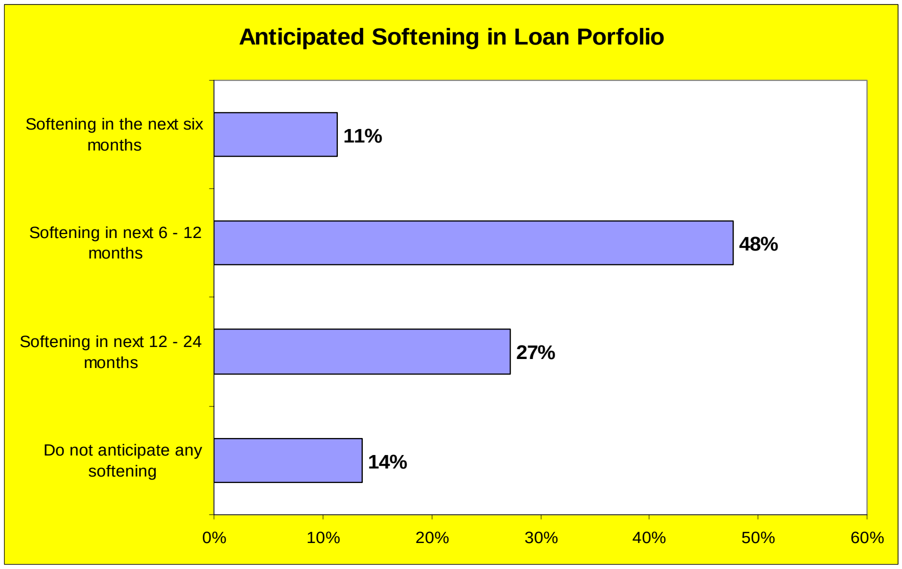
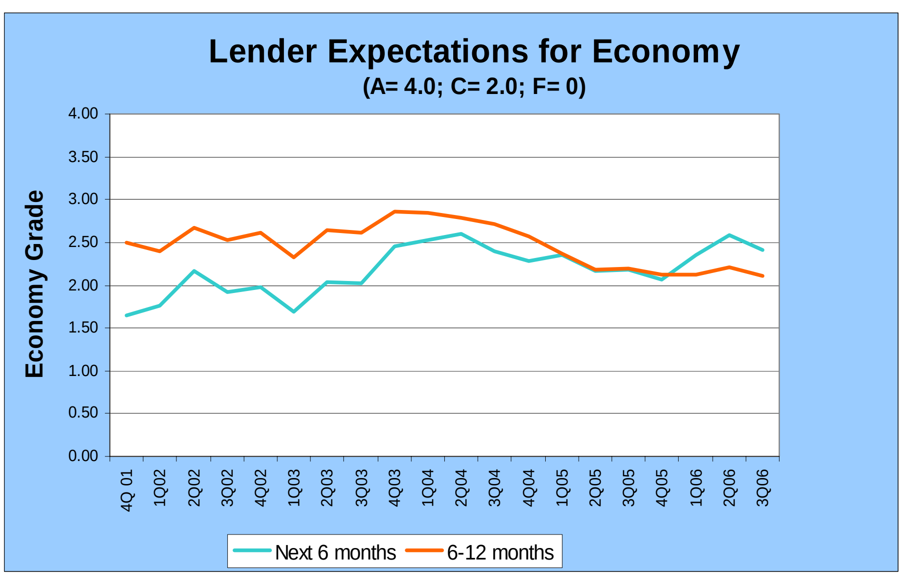
3. **Nearly 60 percent of lenders anticipate their financial institution's loan portfolio will experience softening in the next 12 months.** Eleven percent of respondents believed their institution's loan portfolio would experience softening in the next six months, while 48 percent anticipated softening in their loan portfolio in the next 6-12 months. Twenty-seven percent of respondents opined they would see their loan portfolio soften in the next 12-24 months. Conversely, fourteen percent of lenders do not anticipate experiencing any softening in their loan portfolio in the near-term future.

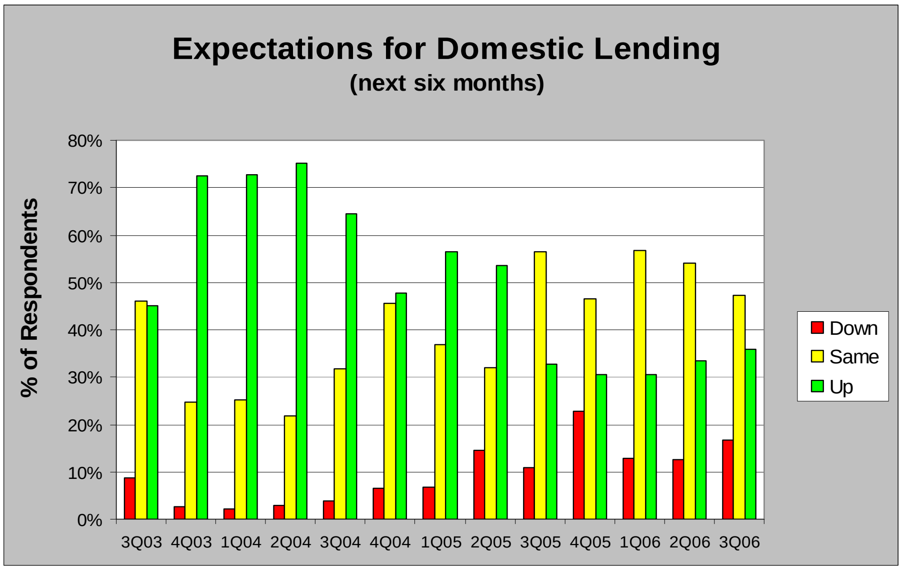


4. **Lenders' expectations for the economy declined this quarter, reversing the previous short-lived (the past two quarterly surveys), more positive expectations.** Lenders expect the economy to perform at a high "C" level during the next six months – a reversal of its recent upward trend. The respondents' expectations for longer-term improvement resumed its recent three-year downward trend toward a mid-level "C" grade. Lenders' expectations for the longer-term performance of the economy has been lower than near-term expectations for the past three surveys, reversing a five-year trend of the longer-term economic outlook being more positive.

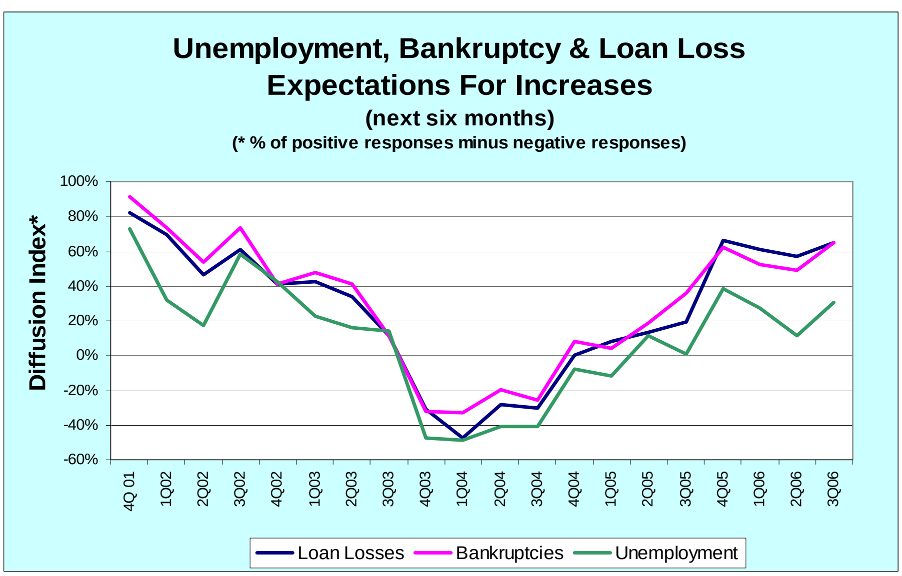


5. **Customer growth expectations over the next 6 - 12 months were lower this survey,** with 11 percent of lenders believing their customers have strong or very strong growth expectations (versus 21 percent the previous quarter). Eighty-eight percent of lenders opined their customers had moderate growth expectations, compared to 76 percent in the previous quarter.

6. **While still historically low, lenders' expectations for increased loan demand ticked up for the third consecutive quarter.** Respondents indicated that, on average for all domestic lending categories, 36 percent have expectations for increased loan demand (versus 33 percent and 30 percent in the previous two quarters).



7. **After a two-quarter respite, forecasts for credit quality metrics resumed their recent negative trending.** The loan loss diffusion index (the percentage of respondents forecasting a higher percentage less those anticipating a lower percentage) increased to 65 percent from 57 percent in the previous quarter. Lenders anticipating higher bankruptcies substantially increased to 65 percent (up from 51 percent one quarter earlier). Lastly, the percentage of respondents anticipating higher unemployment jumped to 39 percent – increasing from 26 percent the previous quarter.



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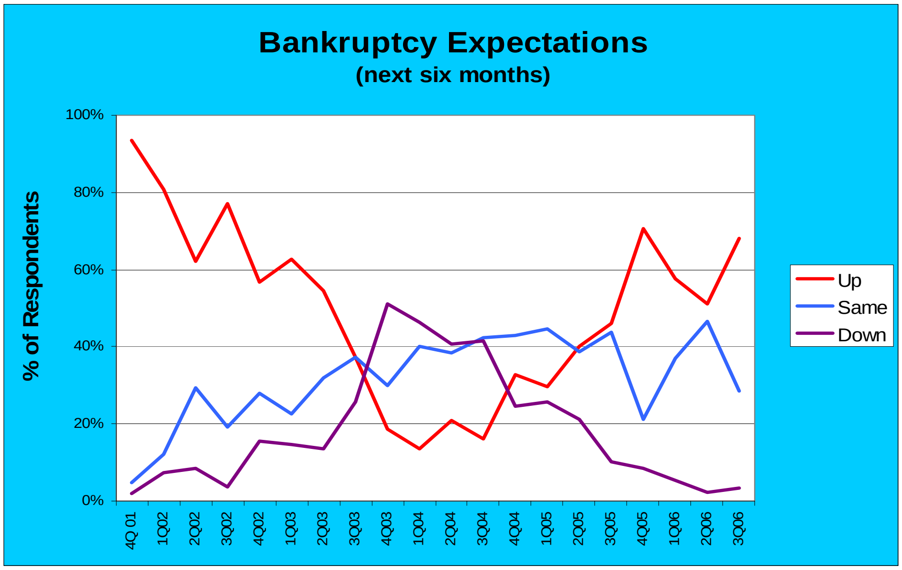
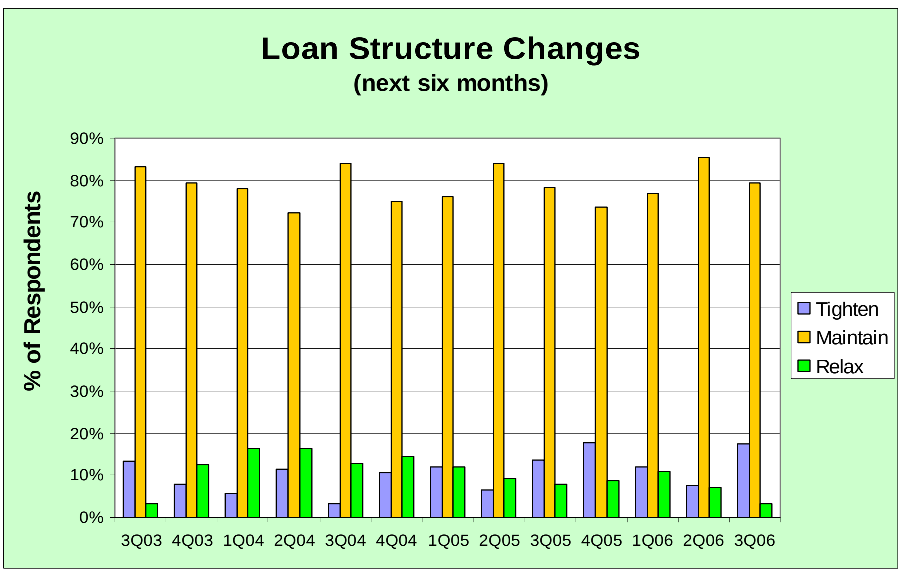
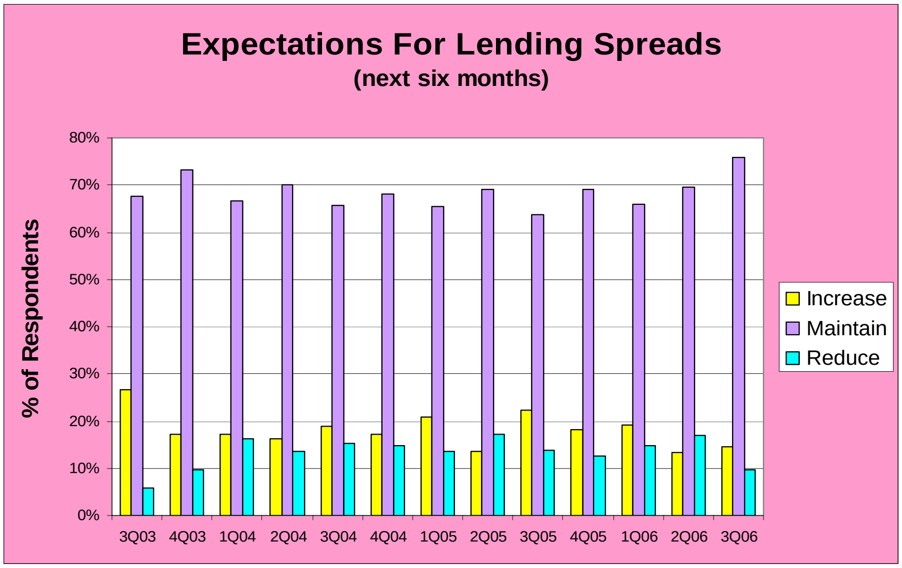


8. **The percentage of lenders expecting to tighten their existing loan structures doubled this quarter to 17 percent (versus 8 percent in the previous quarter).** The percentage of respondents planning to maintain their loan structure decreased to 79 percent (versus 85 percent in the previous quarter). The percentage of respondents expecting to relax their loan structure decreased to 3 percent this quarter – from 7 percent in the previous quarter.



9. **An increasing percentage of lenders anticipate maintaining the current lending spreads in this interest rate environment.** Seventy-six percent of respondents (versus 70 percent and 66 percent in the previous two quarters) expect to maintain lending spreads at their current levels.



10. **While respondents maintain their overall belief in a rising interest rate environment, the anticipated magnitude of the rate increase continues to decrease.** This quarter, 39 percent of the lenders surveyed (versus 86 percent just three quarters prior) believe interest rates will rise by at least 50 basis points over the next six months.

Phoenix Management
"Lending Climate in America"
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Survey Results

1. Relative Potential to Undermine Health of U.S. Economy

Respondents were asked which of five factors has the most potential to undermine the health of the U.S. economy.

- Fifty-seven percent indicated that escalating oil prices have the greatest potential to undermine the health of the U.S. economy.
- Thirty percent believe that escalating interest rates possess the most potential to impair the nation's economy.
- Nine percent of lenders opined that the current trade deficit has the highest potential.
- Two percent, each, indicated the following issues posed the greatest risk: the war in Iraq and a drop in the stock market.

2. Anticipated Need for Additional Portfolio Management in the Next 18 Months

Respondents were asked to assess their financial institution's anticipation of the need for additional portfolio management and loan workout in the coming eighteen months.

- Fifty-six percent of respondents estimated their institution would not change its allocation of resources to distressed portfolio management/workout in the next eighteen months.
- Forty-three percent of lenders believed their financial institution would probably allocate additional resources to distressed portfolio management.
- One percent of respondents opined their financial institution would probably allocate fewer resources to distressed portfolio management.

3. Timing of Anticipated Softening in Loan Portfolios

Respondents were asked which statement best describes their financial institution's expectation of a softening in its loan portfolio at some point in the future.

- Eleven percent indicated they expect their institution to experience softening in their loan portfolio in the next six months.
- Forty-eight percent of respondents opined their institution collectively anticipates a softening in its loan portfolio in the next 6-12 months.
- Twenty-seven percent of respondents indicated their institution anticipates a softening in its loan portfolio in the next 12-24 months.

- Fourteen percent of lenders anticipated their institution's loan portfolio would not experience any softening.

4. Customers' Plans in the Next 6 - 12 Months

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

- Nineteen percent indicated their customers plan to make new capital investments.

- Eighteen percent indicated their customers plan to introduce new products or services.

- Seventeen percent responded their customers plan to make an acquisition in the next 6-12 months.

- Sixteen percent, each, selected the following two options: enter new markets and raise additional capital.

- Fifteen percent responded their customers intend to hire new employees.

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.

- The diffusion index (the percentage of respondents indicating an "Up" trend less the percentage indicating a "Down" trend) was flat quarter-over-quarter for the Corporate and Middle Market lending segments. The diffusion index for all lending segments fell marginally – 3 index points – due to anticipated weakness in the Small Business (down 4 index points) and International (down 6 index points) lending segments.

- Credit quality metrics reversed a recent, short-lived trend of anticipated improvement in overall industry credit quality. The percentage of respondents forecasting an increase in Loan Losses (up 8 percentage points), Bankruptcies (up 17 percentage points), and Unemployment (up 13 percentage points) materially increased this period.

	Last Quarter			This Quarter		
	Up	Down	Same	Up	Down	Same
Corporate Lending	20%	16%	64%	24%	19%	57%
Middle Market Lending	34%	10%	56%	38%	14%	48%
Small Business Lending	46%	11%	43%	47%	17%	36%
International Lending	38%	7%	55%	38%	14%	48%
	Up	Down	Same	Up	Down	Same
Loan Losses	58%	1%	41%	66%	1%	33%
Bankruptcies	51%	2%	47%	68%	3%	29%
Interest Rates	88%	2%	10%	70%	1%	29%
Unemployment	26%	15%	59%	39%	8%	53%
Bank Failures	9%	8%	83%	12%	2%	86%

6. 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.

- Respondents' outlook for the economy's performance deteriorated from a low "B" grade to a high "C" grade for the second half of 2006. The percentage of lenders who believe that the economy will perform at an "A" or "B" level decreased to 45 percent from 55 percent in the quarter prior.

	Last Quarter	**This Quarter**
A	6%	0%
B	49%	45%
C	44%	50%
D	1%	5%
F	0%	0%
Weighted Average Grade	2.59	2.41

7. U.S. Economy Grade – First Half of 2007

Respondents were asked how they expected the U.S. economy to perform during the first half of 2007 on a grading scale of A through F.

- In line with lenders' expectations for the U.S. economy for the second half of 2006, respondents see the economy's performance marginally worsening for the first half of 2007.

	Last Quarter	**This Quarter**
A	1%	0%
B	29%	27%
C	60%	56%
D	10%	17%
F	0%	0%
Weighted Average	2.21	2.10

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 fell to 11 percent, down from 21 percent, combined, in the previous quarter. The percentage of respondents expecting "moderate" growth rose to 88 percent as compared to 76 percent in the previous quarter.

	Last Quarter	**This Quarter**
Very Strong	2%	1%
Strong	19%	10%
Moderate	76%	88%
No Growth	3%	1%

9. 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.

- In a reversal from the previous quarter, across every loan size segment, an increasing percentage of lenders anticipated tightening their current loan structures. The overall average of financial institutions planning to tighten their loan structures rose to 17% from 8% and 12% of respondents, respectively, in the previous two surveys.

	Last Quarter			**This Quarter**		
	Tighten	Maintain	Relax	Tighten	Maintain	Relax
Loans> $10 million	4%	88%	8%	15%	77%	8%
$6 – 10 million	7%	86%	7%	17%	82%	1%
$1-5 million	8%	87%	5%	16%	84%	0%
Under $1 million	12%	79%	9%	22%	74%	5%
Overall Average	8%	85%	7%	17%	79%	4%

10. 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 reduced constituency of respondents and the lowest level in the past ten quarters – ten percent versus seventeen percent in the previous survey – plan to reduce their current interest rate spreads and fee structures on all sizes of loans.

	Last Quarter			**This Quarter**		
	Reduce	Maintain	Increase	Reduce	Maintain	Increase
Loans> $10 million	29%	66%	5%	16%	74%	10%
$6 – 10 million	26%	65%	9%	10%	77%	13%
$1-5 million	10%	78%	12%	6%	78%	16%
Under $1 million	4%	69%	27%	7%	74%	19%
Overall Average	17%	70%	13%	10%	76%	14%

11. 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.

- Thirty-eight percent of respondents (versus 49 percent in the previous survey, but as high as 86 percent three quarters ago) 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%	0%
-.50	0%	2%
-.25	2%	0%
0	5%	11%
+.25	44%	48%
+.50	40%	34%
+.75	8%	2%
+1.0	1%	1%
More than 1.0	0%	1%
Weighted Average	+38 basis points	+32 basis points

12. 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 registered a significant decrease in the designated percentage of Regional Banks.

	Last Quarter	This Quarter
Money Center Banks	10%	10%
Local Commercial/ Community Banks	15%	18%
Factors	1%	1%
Regional Banks	52%	44%
Commercial Finance Organizations	16%	17%
Other	5%	9%

13. Average Loan Size

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

	Last Quarter	This Quarter
Under $1 million	11%	15%
$1-5 million	26%	19%
$ 6-10 million	31%	27%
Over $ 10 million	32%	39%
Average Loan	$7.5 Million	$7.9 Million