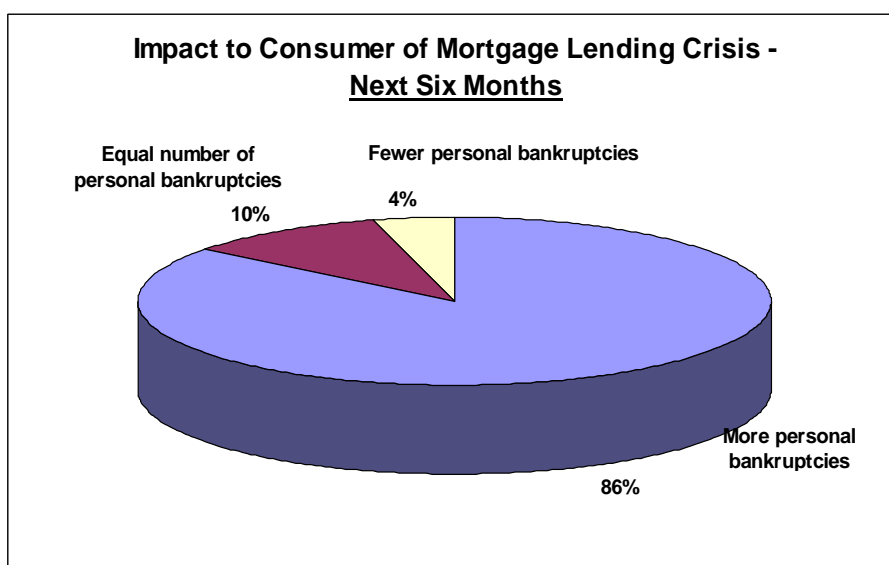


**PHOENIX  
“LENDING CLIMATE IN AMERICA”  
QUARTERLY SURVEY**

**4th Quarter 2007**

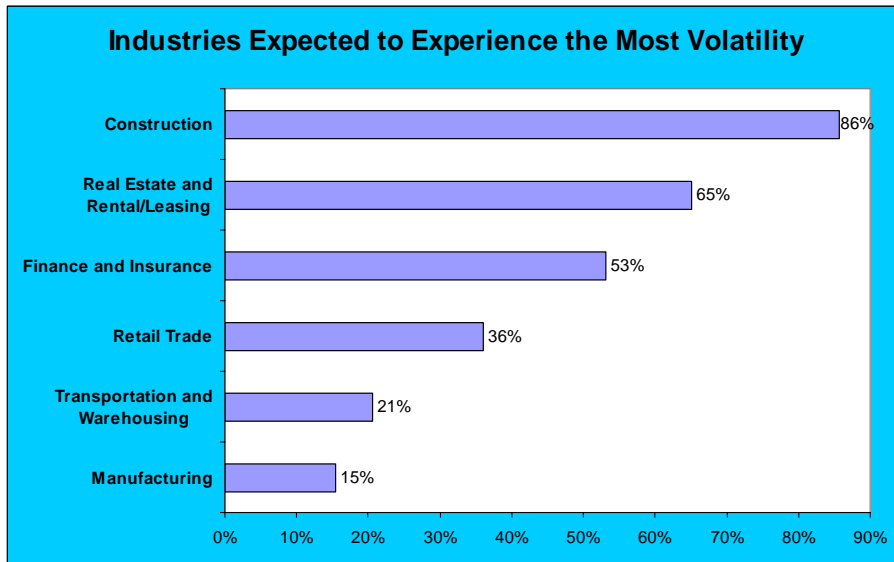
**SUMMARY, TRENDS AND IMPLICATIONS**

- 1. An overwhelming majority of lenders – eighty-six percent – expect that the mortgage lending crisis will result in consumers filing more personal bankruptcies in the next six months.** Approximately ten percent of lenders believe that the current mortgage lending crisis will result in an equal number of personal bankruptcy filings. The remaining four percent of respondents opined that fewer personal bankruptcies will be filed due to the current mortgage lending crisis.

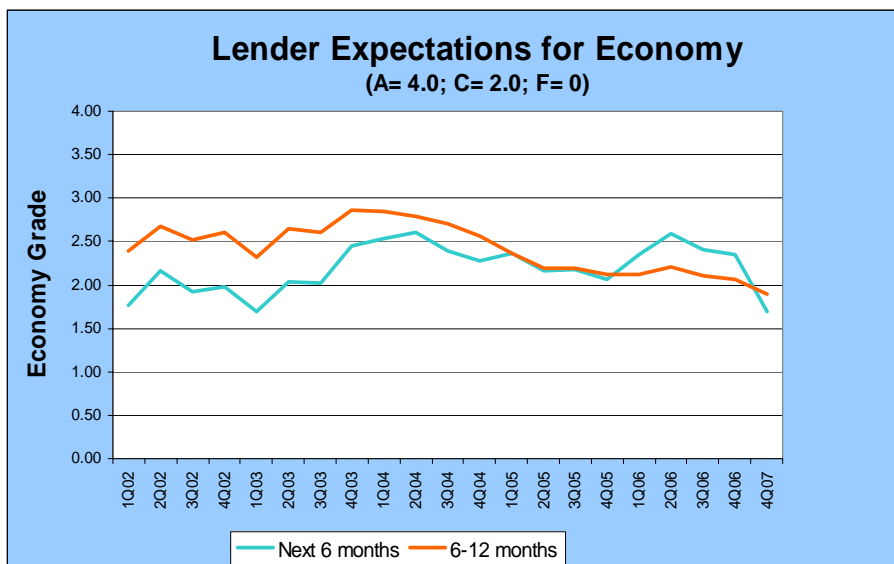


- 2. Lenders designated unstable energy prices and the sluggish housing market as the factors having the strongest potential to affect the economy in the next six months.** When respondents were asked to identify two factors that would most strongly affect the U.S. economy, eighty-seven percent of lenders identified unstable energy prices and eighty-four percent of respondents chose the sluggish housing market. Seventeen percent of lenders believe the declining Federal interest rates have the strongest potential to affect the economy. Two percent of respondents chose the following responses – the war in Iraq and the U.S. budget deficit - as factors having the greatest potential to affect the economy.

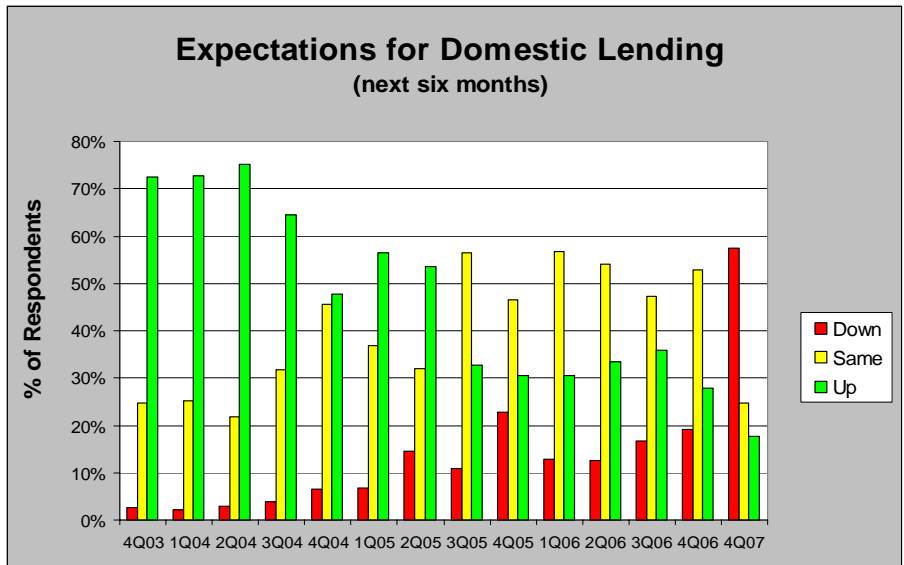
3. **Respondents anticipate the Construction industry will experience the most volatility in the next six months.** When asked to identify three industries that will experience the most volatility in the next six months, eighty-six percent of lenders designated the construction industry, with sixty-five percent choosing the Real Estate and Rental/Leasing industries as the most likely to experience volatility. Fifty-three percent of lenders believe the Finance and Insurance industries will experience the most volatility. Approximately a third – thirty-six percent – of respondents designated the Retail Trade industry. Twenty-one percent of lenders believe the Transportation and Warehousing industries will experience the most volatility. The last industry to register a meaningful percentage – Manufacturing – was selected by fifteen percent of respondents.



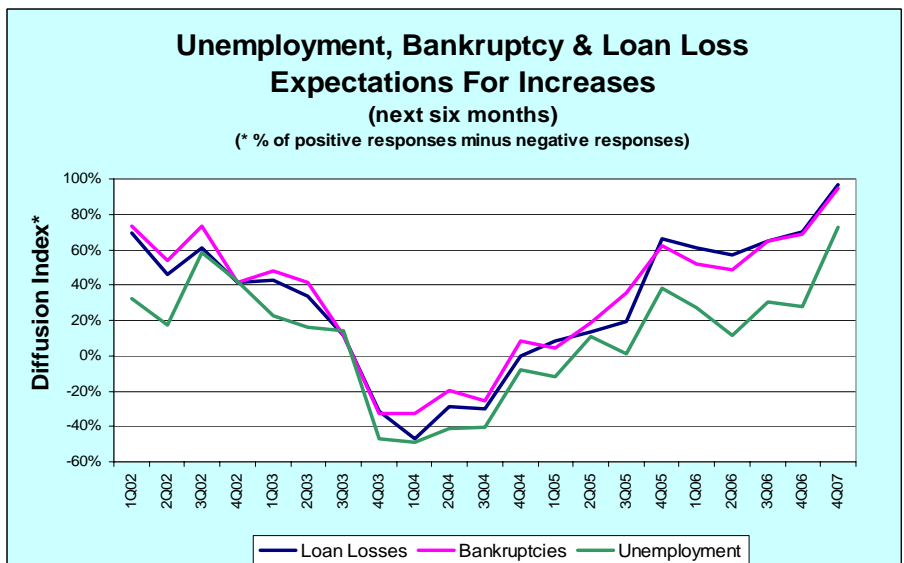
4. **Lenders expectations for the economy significantly declined from the year-ago period.** Lenders expect the economy to perform at a low “C” level during the next six months, which is the lowest such level in almost 5 years. The respondents’ longer term expectations of a mid-level “C” grade is the lowest such level since 2000.

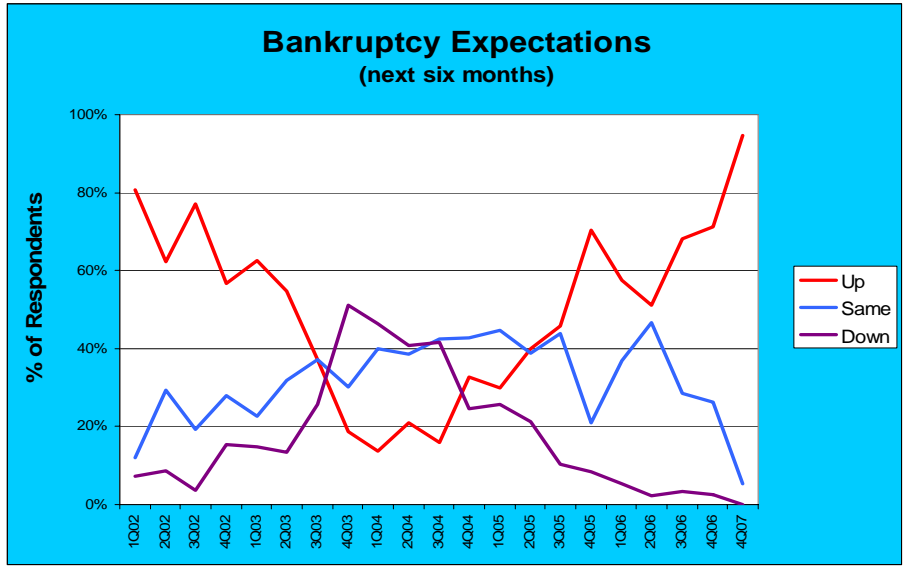


- The highest percentage of respondents (seventeen percent) in the last four years believe their customer have no growth expectations over the next 6 - 12 months.** Eighty-three percent of lenders opined their customers had moderate growth expectations, in line with the equivalent quarter of the prior year.
- The loan demand diffusion index (the percentage of respondents forecasting a higher percentage less those anticipating a lower percentage) was negative across all lending segments for the first time in the last five years of this survey.** Respondents indicated that, on average for all domestic lending categories, eighteen percent have expectations for increased loan demand (versus 28 percent in the previous year-ago period).

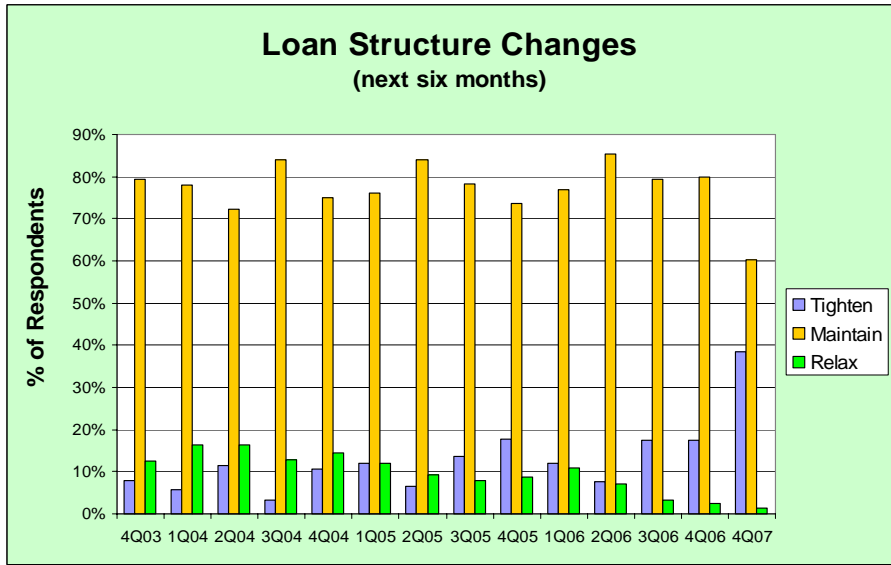


- A majority of lenders indicated that the current credit quality environment would lead to increased loan losses, bankruptcies, and unemployment.** The loan loss diffusion index increased to 97 percent from 70 percent in the year-ago quarter. Lenders anticipating higher bankruptcies increased to 95 percent (up from 71 percent one year earlier). Similarly, the percentage of respondents anticipating higher unemployment grew to 74 percent – up from 34 percent in the previous fourth quarter.

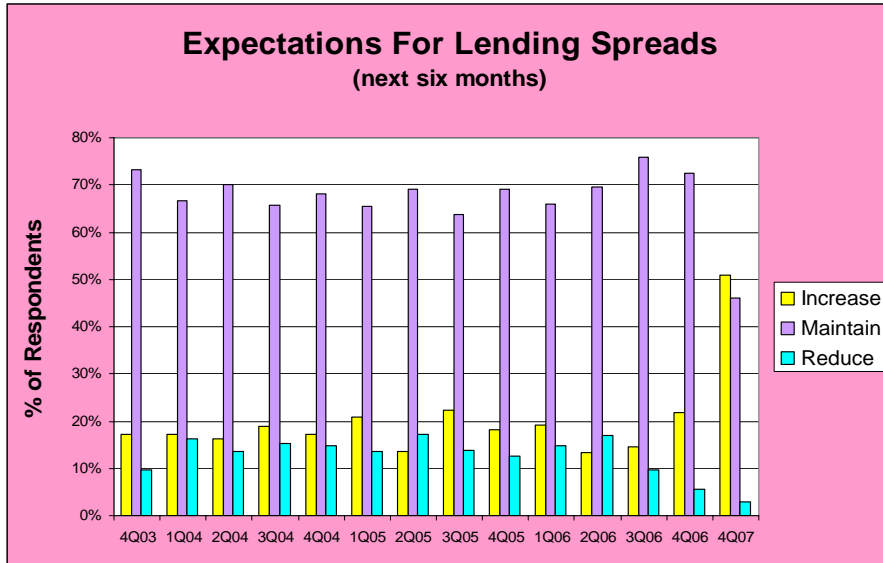




8. **Keeping in line with the Fed’s rate guidance, a majority of lenders – sixty percent - anticipate a 50 bps (or more) cut in interest rates over the next six months.** Twenty-six percent of lenders are expecting interest rates to decline 25 bps in the first half of 2008. The remaining fourteen of respondents believe that interest rates will either remain unchanged or marginally increase over the next six months.
  
9. **The percentage of lenders expecting to tighten their existing loan structures increased to thirty-eight percent (versus eighteen percent in the year-ago quarter).** As a result, the percentage of respondents planning to maintain their loan structure decreased to 60 percent (versus 80 percent in the previous fourth quarter).



**10. More lenders anticipate increasing their current lending spreads in this interest rate environment.** Fifty-one percent of respondents (versus 22 percent in the previous year-ago quarter) expect to increase lending spreads from their current levels.



**Phoenix Management**  
**“Lending Climate in America”**  
**4th Quarter 2007**

**Survey Results**

**1. Impact on Consumers of Mortgage Lending Crisis**

Respondents were asked how the mortgage lending crisis would affect consumers in the next six months.

- An overwhelming majority – eight-six percent - anticipates that the mortgage lending crisis would result in more personal bankruptcies.
- Ten percent believe that the mortgage lending crisis will have little impact on the number of personal bankruptcies – in effect forecasting an equal number of bankruptcies to be filed.
- The remaining four percent believe that the mortgage lending crisis would result in fewer personal bankruptcies.

**2. Relative Potential to Affect the U.S. Economy in the Next Six Months**

Respondents were asked which TWO of the following factors have the most potential to affect the economy in the next six months.

- Eighty-seven percent indicated that unstable energy prices have the strongest potential to affect the U.S. economy.
- Eighty-four percent indicated that the sluggish housing market has the most potential to affect the U.S. economy.
- Seventeen percent of lenders opined that declining Federal interest rates have the greatest potential.
- Two percent each indicated the following issues having the most potential: U.S. budget deficit and the war in Iraq.

**3. Industries Experiencing the Most Volatility in the Next Six Months**

Respondents were asked which THREE of the following industries will experience the most volatility (Chapter 11 filings, mergers and acquisitions, declining profits, etc.) in the next six months.

- Eighty-six percent indicated that the construction industry will experience the most volatility in the next six months.
- Sixty-five percent believed the real estate and rental/leasing industries will experience the most volatility.

- Fifty-three percent of lenders opined that the finance and insurance industries have the greatest potential.
- Thirty-six percent of lenders opined that the retail trade industry has the greatest potential for volatility.
- Twenty-one percent of lenders opined that the transportation and warehousing industries have the greatest potential.
- Sixteen percent of lenders opined that the manufacturing industry has the greatest potential for volatility.

#### **4. 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.

- Fifty-one percent responded their customers intend to introduce new products or services in the next 6-12 months.
- Thirty-nine percent indicated their customers are planning on making an acquisition.
- Thirty-eight percent each indicated their customers plan on raising additional capital and making new capital investments.
- Thirty-six percent responded their customers plan to enter new markets.
- Twenty-seven 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 a "Up" trend less the percentage indicating a "Down" trend) was materially down versus the prior year period for all domestic lending segments. As a result, the diffusion index for all lending segments fell sharply, a net total of 43 index points.
- Lenders significantly changed their interest rate outlook as sixty-four percent of respondents now believe that interest rates will decline, up from eleven percent in the previous fourth quarter. The percentage of respondents forecasting an increase in Unemployment (up 40 percentage points) and Bank Failures (up 23 percentage points) significantly increased this period.

	4Q/2006			This Quarter		
	<u>Up</u>	<u>Down</u>	<u>Same</u>	<u>Up</u>	<u>Down</u>	<u>Same</u>
Corporate Lending	20%	13%	67%	10%	62%	28%
Middle Market Lending	30%	23%	47%	22%	57%	21%
Small Business Lending	34%	22%	44%	21%	53%	26%
International Lending	39%	11%	50%	24%	26%	50%
	<u>Up</u>	<u>Down</u>	<u>Same</u>	<u>Up</u>	<u>Down</u>	<u>Same</u>
Loan Losses	71%	1%	28%	97%	0%	3%
Bankruptcies	71%	3%	26%	95%	0%	5%
Interest Rates	29%	11%	60%	5%	64%	31%
Unemployment	34%	6%	60%	74%	2%	24%
Bank Failures	15%	8%	77%	38%	0%	62%

## 6. U.S. Economy Grade – First Half of 2008

Respondents were asked how they expected the U.S. economy to perform during the first half of 2008 (next six months) on a grading scale of A through F.

- Respondents' outlook for the economy's near-term performance fell to the low "C" grade level for the first half of 2008. The percentage of lenders who believe that the economy will perform at an "A" or "B" level decreased to 5 percent from 37 percent in the year-ago period.

	4Q/2006	This Quarter
A	1%	0%
B	36%	5%
C	59%	60%
D	4%	33%
F	0%	2%
Weighted Average Grade	2.35	1.69

## 7. U.S. Economy Grade – Second Half of 2008

Respondents were asked how they expected the U.S. economy to perform during the second half of 2008 ("out" six months) on a grading scale of A through F.

- Lenders anticipate the economy's performance, similar to the above expectations for near-term domestic economic growth and credit quality, to worsen in the second half of 2008.

	4Q/2006	This Quarter
A	1%	0%
B	29%	12%
C	45%	67%
D	25%	19%
F	0%	2%
Weighted Average	2.06	1.90



## 8. Customers' Future Growth Expectations

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

- While the gross majority of lenders maintain their customers have moderate growth expectations, it is notable that the percentage of respondents believing their customers will have no growth expectations over the next 6-12 months increased to 17 percent (from just 8 percent last year).

	4Q/2006	This Quarter
Very Strong	0%	0%
Strong	9%	0%
Moderate	83%	83%
No Growth	8%	17%

## 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.

- Respondents exhibited a clear anticipation of increasing percentages of financial institutions tightening their loan structures. The overall average of financial institutions planning to tighten their loan structures rose to 38% from 19% of respondents in the year ago survey.

	4Q/2006			This Quarter		
	<u>Tighten</u>	<u>Maintain</u>	<u>Relax</u>	<u>Tighten</u>	<u>Maintain</u>	<u>Relax</u>
Loans > \$10 million	11%	84%	5%	48%	52%	0%
\$6 – 10 million	18%	80%	3%	45%	55%	0%
\$1-5 million	20%	79%	1%	33%	67%	0%
Under \$1 million	21%	78%	1%	28%	67%	5%
Overall Average	19%	79%	2%	38%	60%	2%

## 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.

- Fifty-one percent of respondents plan to increase their current interest rate spreads and fee structures on all sizes of loans – the highest percentage of respondents in the last seven years.

	<b>4Q/2006</b>			<b>This Quarter</b>		
	<u>Reduce</u>	<u>Maintain</u>	<u>Increase</u>	<u>Reduce</u>	<u>Maintain</u>	<u>Increase</u>
Loans > \$10 million	11%	75%	14%	0%	43%	57%
\$6 – 10 million	5%	76%	19%	3%	45%	52%
\$1-5 million	5%	71%	24%	5%	45%	50%
Under \$1 million	1%	68%	31%	3%	52%	45%
Overall Average	6%	73%	21%	3%	46%	51%

## 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.

- In accordance with recent statements and guidance from the Federal Reserve, respondents forecasted a declining interest rate environment. The percentage of lenders anticipating a 50 bps or more decrease in interest rates rose to sixty-one percent (versus just three percent in the year ago survey).

	<b>4Q/2006</b>	<b>This Quarter</b>
-More than 1.0	1%	9%
-1.0	1%	2%
-.75	0%	14%
-.50	1%	36%
-.25	15%	26%
0	46%	10%
+.25	24%	3%
+.50	11%	0%
+.75	0%	0%
+1.0	0%	0%
More than 1.0	0%	0%
Weighted Average	+ 4 basis points	- 47 basis points

## 12. Current Competition

Respondents were asked to identify the segment of the industry from which they were experiencing the most competition.

- The percentage of lenders identifying Regional banks as the source of the most competition increased to forty-seven percent this survey – as compared to thirty-nine percent in the year-ago period.

	<b>4Q/2006</b>	<b>This Quarter</b>
Money Center Banks	13%	10%
Local Commercial/ Community Banks	16%	17%
Factors	0%	0%
Regional Banks	39%	47%
Commercial Finance Organizations	18%	19%
Other	15%	7%

### 13. Average Loan Size

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

	<b>4Q/2006</b>	<b>This Quarter</b>
Under \$1 million	10%	9%
\$1-5 million	18%	21%
\$ 6-10 million	34%	33%
Over \$ 10 million	39%	38%
Average Loan	\$8.3 Million	\$8.2 Million