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Lending Climate

IN AMERICA

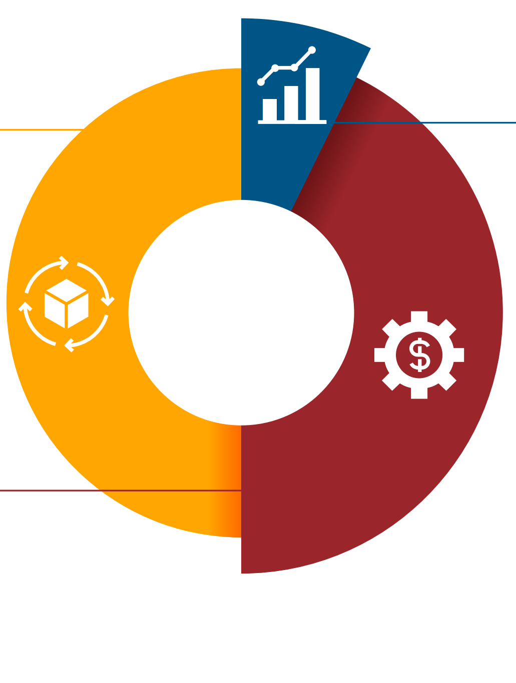
For 25 years, Phoenix Management Services has administered a quarterly survey to lenders from commercial banks, finance companies, credit funds, and other lending institutions **to identify the latest economic issues, business drivers, and credit trends impacting lending in America.**

Top 5 Takeaways from the Fourth Quarter 2021

*Survey results tabulated November 24, 2021

1 Biggest Challenge to Borrowers

Half of all lenders surveyed believe **supply chain constraints will be the biggest challenge** that borrowers will face heading into 2022. A further 43% of lenders cited labor costs as a concern, while none predicted COVID-19-related constraints to be a challenge.



50%
Supply chain constraints

7%
Increasing cost of capital

43%
Labor costs

0%
COVID-19 related constraints or restrictions

2 Interest Rates in 2022

79%

of lenders believe the Fed will increase interest rates after Q1 2022.

According to economists, the third quarter's low GDP (which dropped to an annual increase of 2%) was **not due to a lack of consumer spending, but rather a lack of supply.** 21% of lenders say they think the Fed will hold rates through 2021 and begin increasing in Q1 2022.

3 Supply Chain Shortages

COVID-19 has amplified the carrier shortage causing major supply chain issues. There is a concern the holiday season will worsen the economic situation **and the majority of lenders expect supply chain problems to delay economic recovery.**

71%

of lenders believe supply **chain disruptions will lead to lower consumer spending** and further hinder the efforts to bolster the economy.

29%

of lenders believe as consumers learn to navigate this post-pandemic environment, **holiday spending will keep the economic recovery constant** to combat supply chain impact.

4 Customers' 6-12 Month Plans

Lenders observed that customer plans had shifted moving into the fourth quarter. Lender expectations for new acquisitions increased by 33 percentage points in Q4. In addition, **customers looking to make capital improvements more than tripled from Q3 to Q4,** from 15% to 50%.

3Q 2021	Customers' Plans	4Q 2021
85%	Hiring New Employees	79%
54%	Raising Additional Capital	29%
38%	Making an Acquisition	71%
23%	Introducing New Products or Services	29%
23%	Entering New Markets	14%
15%	Capital Improvements	50%
8%	"Other" Initiatives	0%

5 U.S. Economic Performance Grade

Short Term

3Q 2021

A	B	C	D	F
0%	31%	62%	8%	0%

C **2.23** Weighted Average Grade

4Q 2021

A	B	C	D	F
0%	36%	50%	14%	0%

C **2.21** Weighted Average Grade

Long Term

3Q 2021

A	B	C	D	F
0%	46%	31%	23%	0%

C+ **2.23** Weighted Average Grade

4Q 2021

A	B	C	D	F
7%	36%	43%	14%	0%

C+ **2.36** Weighted Average Grade

Lenders' optimism in the U.S. economy in the next six months decreased slightly from Q3 to Q4, although 86% of lenders believe the economy will perform at either a "C" or "B" level. While there has been a decrease in near-term optimism, **long-term optimism increased by 13 percentage points from the previous quarter.** Of the lenders surveyed, 43% believe the U.S. economy will perform at a "B" level or above beyond the next six months.

The supply chain appears to be the biggest concern for lenders throughout the holiday season and into 2022. With potential disruptions due to shortages, the majority of lenders believe this will lower consumer spending and negatively impact economic recovery. Additionally, nearly 80% of lenders believe interest rates will increase after Q1 2022. Optimism in the long-term U.S. economic performance, however, increased by 13 percentage points among surveyed lenders.

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PARTICIPATE IN SURVEY

ABOUT PHOENIX

For over 35+ years, Phoenix has provided smarter, operationally focused solutions for middle market companies in transition. Phoenix Management Services® provides turnaround, crisis and interim management, specialized advisory and operational implementation services for both distressed and growth oriented companies. Phoenix Transaction Advisory Services® provides quality of earnings, management/organizational review, business integration, sell-side business preparation and other transaction related support. Phoenix Capital Resources® provides seamless investment banking solutions including M&A advisory, complex restructurings and capital placements. Phoenix Capital Resources is a U.S. registered broker-dealer and member of FINRA and SIPC. Proven. Results.®
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