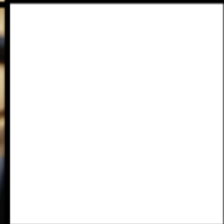
Phoenix Management Services
"Lending Climate in America" Survey



4th Quarter 2013
Summary, Trends and Implications

PHOENIX
"LENDING CLIMATE IN AMERICA"
QUARTERLY SURVEY

4th Quarter 2013

SUMMARY, TRENDS AND IMPLICATIONS

1. **Now that the government shutdown has come and gone, media attention has shifted to the implementation of the Affordable Care Act. The initial roll-out that started on October 1st has encountered many technological glitches attempting to enroll beneficiaries. How do you think the Affordable Care Act and the individual mandate will affect the U.S. economy going forward?**

   An overwhelming majority of lenders, seventy-three percent surveyed, believe the individual mandate will not be delayed and the number of healthy enrollees will not meet the CBO projections. Furthermore, they also feel the ACA will be a further drain on the fiscal budget. Recent reports now show that initial enrollment in the ACA was well below projections as many consumers had troubles with the website. Though a new rollout of the website has help spur growth in enrollment, the number of consumers that have enrolled thus far is still below expectations. Sixteen percent of lenders believe the individual mandate will be delayed into 2015, similar to the employer mandate, and the ACA will be a drag on employment. Nine percent believe the glitches will be resolved well before the individual mandate deadline, the number of enrollees will meet the CBO projection of 7 million people and the ACA will drive healthcare costs down. Lastly, we did have some lenders write in their own responses, which included:

   "Mixture of the above. Some positive and negative. Ultimately provide improvements"

2. **Early projections for this year's holiday shopping season vary with some estimates predicting the worst holiday season since 2009 to projections up 5% year-over-year. The discrepancy between the estimates relates to the impact from the government shutdown and the overall state of consumers. As they prepare for the shortest holiday season in a decade, many retailers have begun promotional efforts earlier in hopes of driving additional traffic this year. Which of the following do you feel will be the biggest driver or drag to this year's holiday sales?**

   Nearly half of surveyed lenders, forty-eight percent, believe consumers are leery of the economic outlook and will reduce their holiday shopping budget. The Thanksgiving and Black Friday holiday sales were up 2.3% which was in-line with projections for the weakest holiday results since 2009. Much of the drag was due to weak consumer spending on apparel. Black Friday online sales were a bright spot, up an astonishing 20% from the same period last year. The National Retail Federation reported holiday sales increased 3.8% to $601.8 billion versus expectations of 3.9% to $602.1 billion. Sales increased despite the fact of a shortened holiday season, severe winter weather, and weak consumer confidence. Thirty-two percent, believe retailer's heavy promotional and marketing campaigns will increase holiday sales. While sales were up year-over-year it appears that much of that increase was driven by heavy discounting and promotional spending. The third highest response, seven percent, believed new products coming out from technology companies will drive holiday sales this year. There were also lenders who shared their responses such as:

   "Holiday sales will remain unchanged from last year"

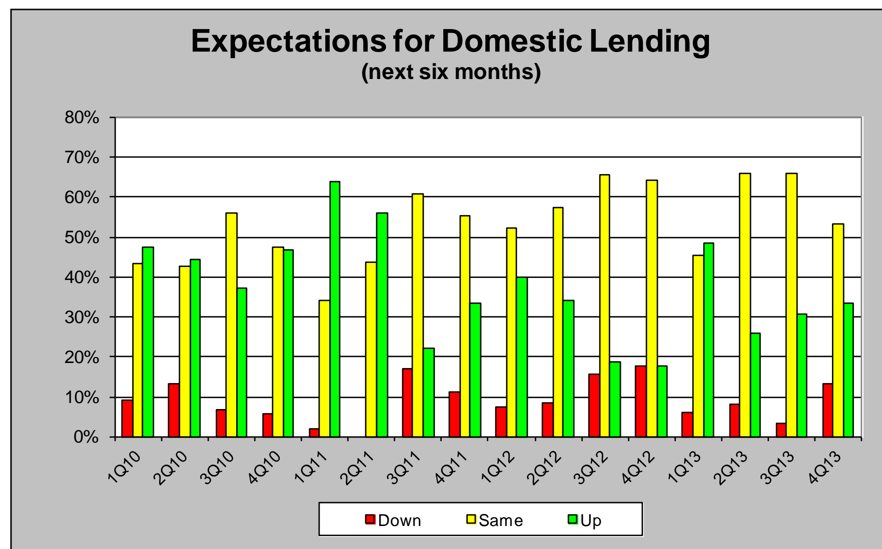
3. **According to initial analysis from Standard & Poor's, the 16 day government shutdown took $24 billion out of the U.S. economy and GDP is now expected to grow**

2.4% in the fourth quarter versus prior estimates of 3.0%. What will be the impact on the U.S. economy going forward from the government shutdown?

A majority of lenders, forty-one percent, believe the government shutdown will have a lasting impact on consumer confidence and business confidence, as the debt fix is only temporary and there is still a lot of economic uncertainty. As the February 7 deadline for a new deal quickly approaching some view the Ryan supported budget deal as a sign that the GOP will be a little more kind this time when it comes to negotiate the debt ceiling. The second highest response of thirty-four percent believe the impact will be minimal as the U.S. was able to dodge a catastrophe by raising the debt ceiling and only a small portion of the population was impacted by the 16 day shut down. The smallest contingent of lenders, at eighteen percent, believe there will be a slight impact on consumer spending during the holiday season as government workers and contractors will spend less. This may be evident with the recent holiday shopping numbers failing to exceed expectations, though it is difficult to confirm if this shortfall was attributable to government workers.

4. Lenders temper domestic lending expectations over the next six months.

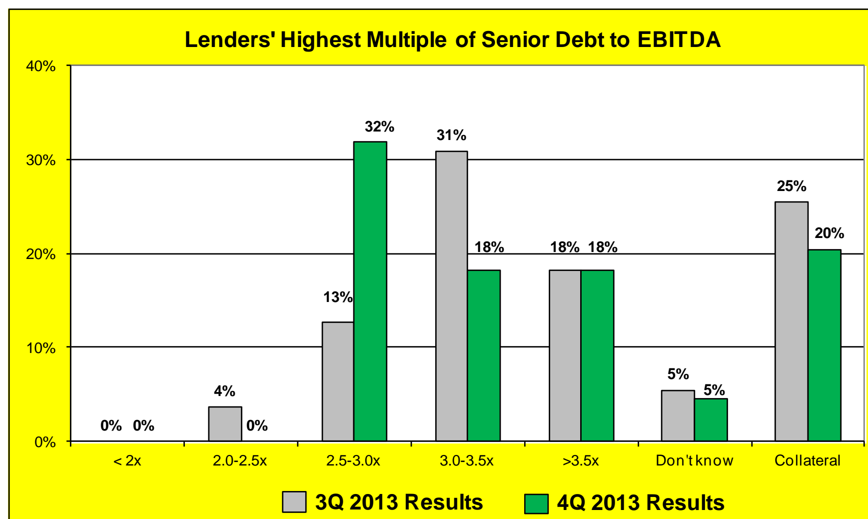
This quarter's diffusion index, which measures lenders sentiment towards U.S. commercial lending, showed a decrease compared to last quarter, but slightly higher than the second quarter of 2013 reading. The diffusion index decreased to twenty percent this quarter from twenty-seven percent in 3Q 2013. The drop in sentiment by the lenders is an indication that banks could view the upcoming debt ceiling or lackluster consumer spending numbers as foreboding numbers and may tighten their lending. There was a modest increase in the number of respondents that indicated domestic lending will increase at thirty-three percent versus thirty-one percent in 3Q 2013. Thirteen percent of lenders think domestic lending will decrease compared to three percent in the previous quarter. Fifty-three percent of lenders believe that domestic lending will remain the same over the next six months.



5. Leverage multiples are now decreasing.

Multiples have changed dramatically in 4Q 2013, with an overwhelming number of lenders (32% in 4Q 2013 versus 13% in Q3 2013) now indicating that the highest senior debt to EBITDA ratio their institution would consider is in the 2.5-3.0x range. This is noteworthy in that it represents the first time since 2Q 2012 that the largest response was not in the 3.0-3.5x range. Twenty percent of surveyed lenders indicated that collateral supersedes senior debt to EBITDA ratio when considering a loan request, a decrease of five percentage points from the last quarter. Eighteen percent of lenders responded that their institution would consider senior debt to EBITDA ratios of 3.0-3.5x, a decrease of thirteen percentage points from the previous quarter. The exact same

percentage of lenders this quarter versus the prior quarter, eighteen percent, indicated that they would consider a loan with a senior leverage ratio in excess of 3.5x.



6. **Senior debt to EBITDA leverage ratios are expected to remain stable over the next six months.**

The highest number, sixty-one percent of respondents believe their institution will experience no change in leverage ratios over the next six months compared to fifty-eight percent that shared the same sentiment last quarter. Sixteen percent of respondents indicated they were collateral lenders and did not specifically focus on senior debt to EBITDA multiples (down four percentage points from the previous survey). Seven percent of lenders believe there will be an increase of less than 0.5x versus six percent in the prior quarter.

7. **Lenders say the U.S. budget deficit and sluggish housing market are the biggest risk factors facing the economy.**

When asked to choose two factors that could have the strongest potential to negatively affect the economy in the next six months, sixty-four percent choose the U.S. budget deficit compared to forty-seven percent in the previous quarter. This is a bump up from the previous quarter when the budget deficit was second amongst responses. The sluggish housing market moved down to second amongst responses with thirty-four percent of responses. This is a step drop from the previous quarter of fifty-three percent. Stability in the stock market attained twenty-three percent of responses, slightly down versus last quarter's twenty-seven percent. Seven percent of lenders cited unstable energy prices as a concern for possible headwinds. Constrained liquidity in capital markets rounded out the remaining risk factors with seven percent of total responses. Lenders wrote in responses such as:

"Government ineptitude"

"Federal Reserve's inability to control interest rates"

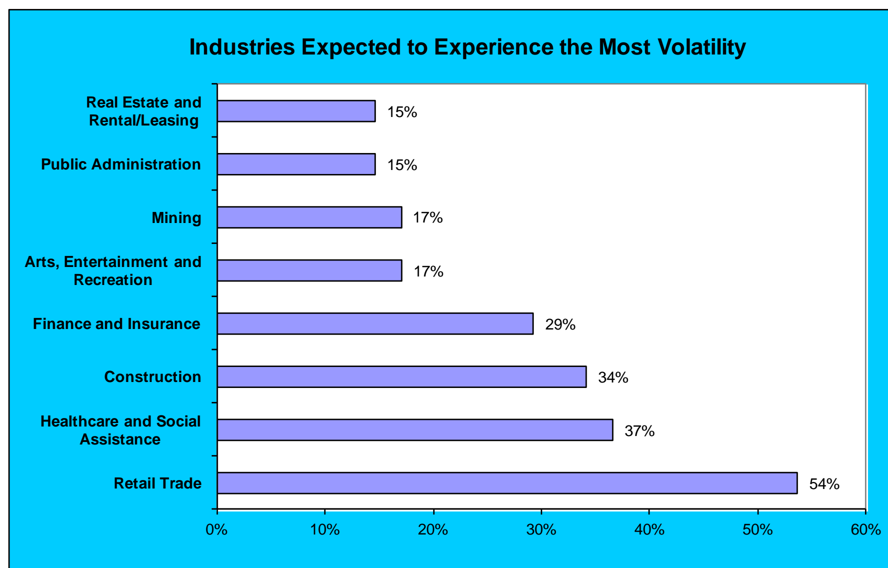
"Lack of direction in D.C."

"Blow up of Affordable Care Act will result in distractions for business owners"

8. **Lenders continue to believe volatility lies ahead for Retail and Healthcare Sectors**.

When asked to identify three industries that will experience the most volatility in the next six months, fifty-four percent of lenders agree that Retail Trade will experience the greatest volatility,

an increase of one percentage point from the prior quarter's survey. Healthcare followed next with thirty-seven percent of respondents, a decrease of ten percentage points from the prior quarter. The Construction industry garnered thirty-four percent of votes, a modest drop from the thirty-nine percent reading in the prior quarter. Finance and Insurance followed with twenty-nine percent, a decline from the prior period of twelve percentage points. Arts, Entertainment and Recreation as well as Mining each received seventeen percent. Arts, Entertainment and Recreation posted the biggest surprise with an increase of nine percentage points from the previous quarter. Public Administration and Real Estate and Rental / Leasing represented fifteen percent of responses each.



9. Borrowers maintain plans for new capital investment and acquisitions for future growth.

Making new capital investments ranked highest amongst responses, at forty-three percent of the lenders surveyed. Thirty-nine percent (up three percentage points from last quarter) of respondents expect borrowers to start making acquisitions. Additionally, twenty-seven percent of lenders believe their borrowers will begin to hire new employees as well as start raising additional capital, a nine and two percentage point increase over the prior quarter, respectively. Nine percent of lenders believe their borrowers will introduce new products or services to the market, a dramatic decrease from thirty-five percent of responses in the prior quarter. Five percent of lenders surveyed wrote in their own actions, of which a few are highlighted below:

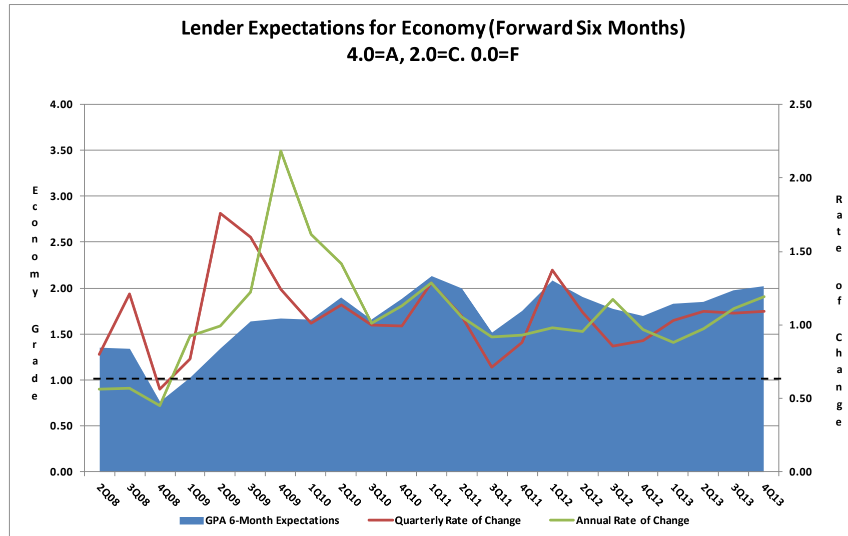
> "Companies are cautious and unlikely to make significant investments"

> "Securing credit facilities"

10. Near term economic performance expectations improve in this quarter's survey.

Economic growth sentiment increased to an overall "C" grade this quarter, the index increased to 2.02 from 1.98, an increase of four basis points from the 3Q 2013 results. The vast majority of lenders (seventy-eight percent) believe the economy will perform at a "C" level or lower over the next six months, compared to eighty-six percent in the previous survey. Ten percent of respondents agreed that the economy will perform at a "D" grade in the next six months up from eight percent in the prior quarter. Twelve percent of lenders believe the economy will perform at a "B" level up from six percent. The trend toward a better grade for the economy continued as more respondents switched this quarter in favor of a "B" grade rather than a "D". For the first time

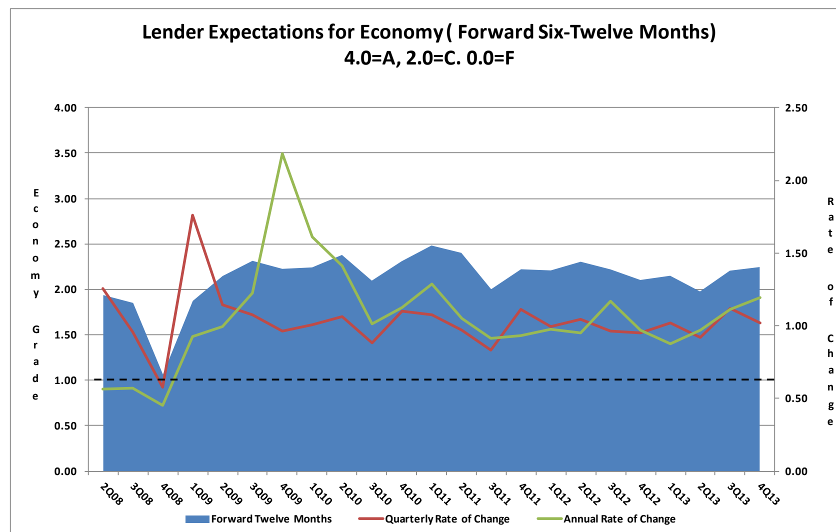
since 1Q 2012 there was a greater number of respondents who favored a "B" rating for the economy over a "D" rating.



** Rate of Change of 1.0 is at equilibrium and signifies "no change" from the corresponding prior period of comparison.*

11. Lenders are more optimistic about the long term prospects for the U.S. economy.

Lenders growth expectations for the U.S. economy beyond six months increased relative to the previous survey by four basis points. This quarter yielded a "C" grade at 2.24, which is a modest increase from the prior quarter. Thirty-four percent of lenders believe the economy will perform at a "B" level in the next six to twelve months, which is seven percentage points lower than the previous quarter. Fifty-six percent of lenders believe the economy will perform at a "C" level in the next six to twelve month period, compared to thirty-nine percent in the previous quarter. Following a reading below 2.0 in 2Q 2013 (which was the lowest reading since winter 2009) it is encouraging to see two consecutive quarters of increases for long term prospects for the U.S. economy.

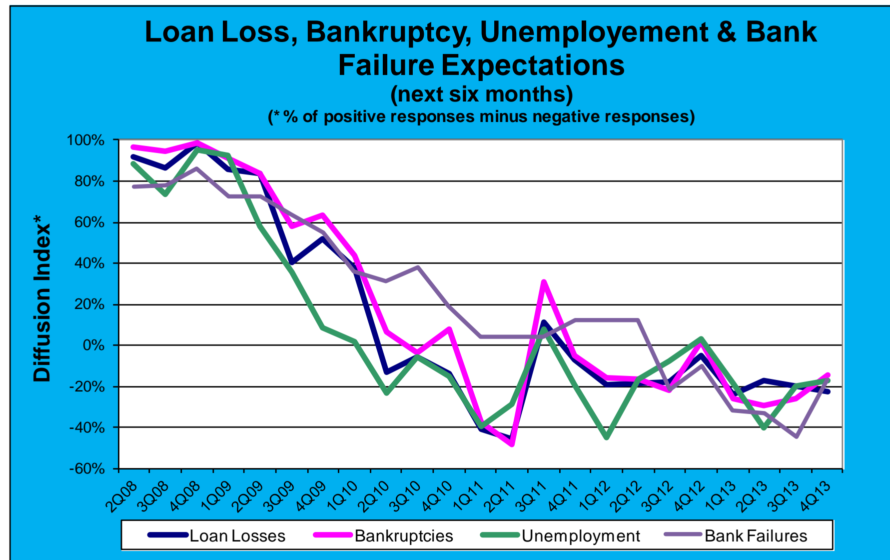


** Rate of Change of 1.0 is at equilibrium and signifies "no change" from the corresponding prior period of comparison.*

12. Lenders expectations regarding Loan Losses, Bankruptcies, Unemployment and Bank Failures still at near record survey lows.

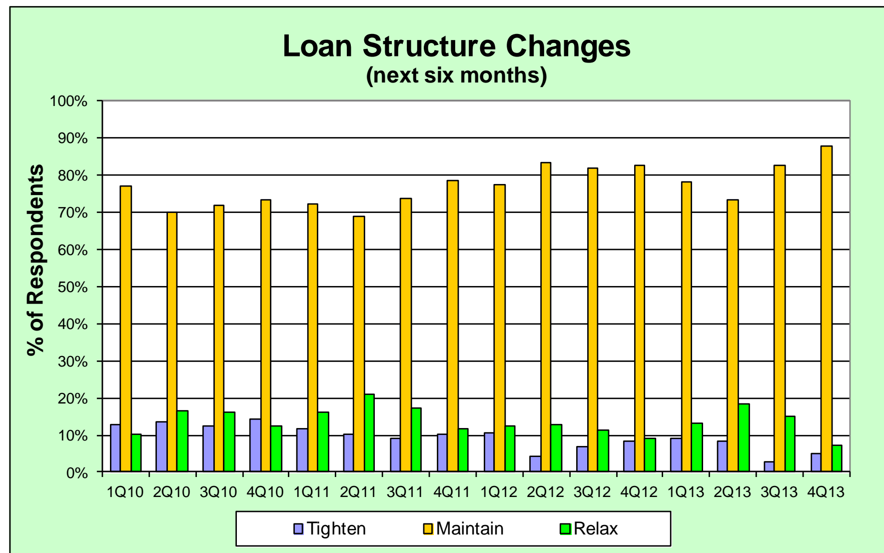
All four of these categories have negative diffusion indexes of twenty-three, fifteen, seventeen, and seventeen percentage points, respectively. The negative diffusion indexes indicate the lenders

are still optimistic about the economy. The modest quarterly increase to the diffusion indexes in these categories is likely a result of lenders maintaining expectations that rougher waters may be ahead.



13. Lenders are expecting to maintain Loan Structures, and the lowest level since 4Q 2009 expect to relax structure.

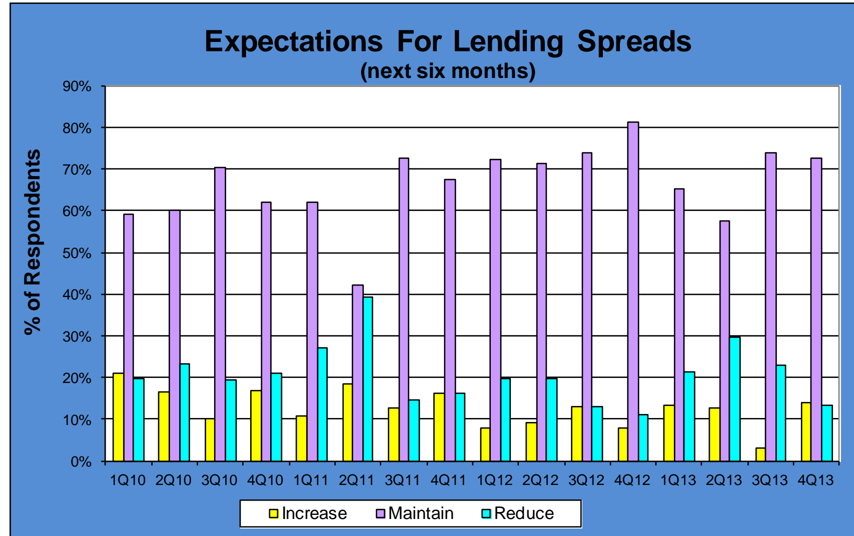
The percentage of respondents planning to maintain their current loan structures increased by six percentage points to eighty-eight percent compared to 3Q 2013 of eighty-two percent. Lenders who expect to tighten their loan structures increased by two percentage points compared with the prior quarter of five percent of those surveyed. It would appear as though credit quality pressures are increasingly impacting loan structures. Seven percent of lenders anticipate relaxing their client's loan structures a decrease of eight percentage points versus the prior quarter.



14. Lenders expect a sharp increase in lending spreads.

Seventy-three percent of respondents (versus seventy-four percent in the previous quarter) anticipate maintaining lending spreads at their current levels. Fourteen percent of lenders anticipate increasing their credit spreads in the next six months. This is a sharp reversal from the lowest level we have seen in 3Q 2013. The percentage of lenders expecting to reduce their current credit spreads decreased ten percentage points, representing thirteen percent of total responses this

quarter. These results are consistent with a recalibration of risk-based pricing that is occurring in the market.



Phoenix Management Services
"Lending Climate in America"
4th Quarter 2013

Survey Results

1. Lenders believe the roll-out of the Affordable Care Act and the individual mandate will not meet the CBO projections.

The rocky start to the ACA rolled out and the disruptions associated with the website has left many critics of the new legislation.

Lenders were asked: Which of the choices are the best representation of the impact of the ACA and the individual mandate on the U.S. economy going forward?

- Seventy-three percent believe the individual mandate will not be delayed but the number of healthy enrollees will not meet the CBO projection of 7 million people and the ACA will be a further financial drain on the fiscal budget.

- Sixteen percent think the individual mandate will be delayed into 2015, and the ACA will be a drag on employment as companies look to hire part-time over full-time employees.

- Nine percent of the respondents believe the glitches will be resolved before the individual mandate deadline, and the number of enrollees will meet the CBO projection of 7 million people plus the ACA will help drive down healthcare costs.

- Two percent of the lenders wrote in their own response to the question.

2. Almost half of lenders believe Companies will spend heavily on promotion and marketing campaigns to boost holiday sales.

With many projections for a weak holiday season, many retailers have started aggressive promotional and marketing campaigns this year to help spur consumer spending this season.

Lenders were asked: Which of the following will be the most likely driver or drag on this year's holiday sales?

- Forty-seven percent believe consumers are leery of the economic outlook and will decrease their shopping budgets.
- Thirty-two percent think companies will spend heavily on promotional and marketing campaigns to increase holiday sales.
- Seven percent of lenders think new technology products will be the driving force behind increased holiday sales.
- Five percent of lenders believe the government shut-down will cause a 'hang-over' that will be a drag on holiday sales.
- Two percent of the lenders wrote in their own response to the question.

3. Lenders are mixed on the impact the government shutdown will have on the expected growth for the U.S. economy.

Standard & Poor's analysis calculated the 16 day government shutdown took $24 billion out of the U.S. economy and growth forecasts for the fourth quarter have been reduced to 2.4% versus the prior estimate of 3.0%.

Lenders were asked: Which of the following do you feel will have the largest impact on the U.S. economy going forward?

- Forty-one percent believe the shutdown will have a lasting impact on consumer confidence, as the debt fix is only temporary.
- Thirty-four percent believe the impact will be minimal as the United States was able to raise the debt ceiling and only a small portion of the population was impacted by the shutdown.
- Eighteen percent think there will be a slight impact on consumer spending as government workers and contractors will spend less.

4. Highest Senior Debt to EBITDA Leverage Institutions Would Consider

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

- Thirty-two percent indicated their institution would consider a loan request with leverage multiples as high as the 2.51x – 3.00x range (previous survey: 13 percent).

- Twenty percent of respondents replied they are collateral lenders and, therefore, do not make credit decisions based on cash flow/leverage multiples (previous survey: 25 percent).

- Eighteen percent of lenders opined their financial institution would consider a loan request with leverage multiples of greater than 3.5x (previous survey: 18 percent).

- Eighteen percent believed their institution would consider a loan request with a Senior Debt to EBITDA multiple as high as the 3.01x – 3.50x range (previous survey: 31 percent).

- Five percent of lenders either "did not know" or did not respond with regard to how their institution's senior leverage ratio would change (previous survey: 6 percent).

- Zero percent of lenders believed their institution would consider a loan request with a Senior Debt to EBITDA multiple as high as 2.01x – 2.50x range (previous survey: 4 percent).

- Zero percent of lenders indicated that their financial institution would only consider a loan request with a Senior Debt to EBITDA ratio of less than 2.0x (previous survey: 0 percent).

5. Anticipated Change in Senior Debt to EBITDA Multiple

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

- Sixty-one percent indicated that the Senior Debt to EBITDA multiple will not change at their financial institution over the next six months (previous survey: 58 percent).

- Sixteen percent of respondents replied they are collateral lenders and, therefore, do not make credit decisions based on cash flow/leverage multiples (previous survey: 20 percent).

- Seven percent of lenders responded "Do Not Know" regarding how senior leverage ratios would change at their financial institution in the next six months (previous survey: 9 percent).

- Seven percent of lenders believe that the leverage multiple will increase less than 0.5x during the next six months (previous survey: 5 percent).

- Two percent conclude that the leverage multiple will decrease less than 0.5x during the next six months (previous survey: 0 percent).

- Zero percent conclude that the leverage multiple will increase greater than 0.5x during the next six months (previous survey: 4 percent).

- Zero percent believe that the leverage multiple will decrease greater than 0.5x during the next six months (previous survey: 0 percent).

6. Factors with Strongest Potential to Affect Near-Term Economy

Respondents were asked, over the next six months, which TWO factors had the strongest potential to affect the economy.

- Sixty-eight percent of respondents selected the U.S. budget deficit as having the strongest potential to affect the economy over the next six months (previous survey: 47 percent).

- Thirty-seven percent designated the sluggish housing market as the factor with the strongest potential to affect the near-term economy (previous survey: 53 percent).

- Thirty-seven percent chose “other” factors as having the strongest potential to affect the economy during the next six months (previous survey: 8 percent).
- Twenty-seven percent opined that the stability of the stock market has the strongest potential to affect the economy during the next six months (previous survey: 27 percent).
- Seven percent concluded that unstable energy prices have the strongest potential to affect the economy during the next six months (previous survey: 24 percent).
- Seven percent indicated constrained liquidity in the capital markets as the factor with the strongest potential to affect the near-term economy (previous survey: 16 percent).

7. Industries Expected to Experience Greatest Volatility

Respondents were asked, over the next six months, which industries will experience the most volatility (i.e. Chapter 11 filings, mergers and acquisitions, declining profits, etc.). Respondents were asked to select the top three industries.

- Fifty-five percent believe the Retail Trade industry will experience the most volatility over the next six months (previous survey: 53 percent).
- Thirty-eight percent of respondents chose the Healthcare and Social Assistance industry to experience the greatest volatility (previous survey: 47 percent).
- Thirty-five percent designated the Construction industry as the industry expected to have the greatest volatility in the near term (previous survey: 39 percent).
- Thirty percent of respondents believe the Finance and Insurance industry will experience the greatest volatility over the next six months (previous survey: 12 percent).
- Eighteen percent of respondents believe the Mining industry will experience significant volatility in the next six months (previous survey: 24 percent).
- Fifteen percent responded that the Real Estate and Rental/Leasing industry would experience the most volatility during the next six months (previous survey: 35 percent).
- Fifteen percent of lenders feel that the Public Administration industry will face increasing volatility in the near term (previous survey: 20 percent).
- Thirteen percent of survey takers are of the opinion Educational Services will experience significant volatility in the short term (previous survey: 10 percent).
- Ten percent of lenders believe the Manufacturing industry to experience the greatest volatility (previous survey: 16 percent).
- The balance of the industry choices registered ten percent or less from the respondents.

8. Customers’ Plans in the Next Six to Twelve Months

Respondents were asked which of the following actions their customers planned in the next six months. Lenders were asked to designate all potential customer actions that applied.

- Fifty-four percent of lenders believe their customers will be making new capital investments (previous survey: 44 percent).

- Forty-eight percent of lenders indicated their customers are planning on making an acquisition in the next six months (previous survey: 35 percent).

- Thirty-four percent indicated their customers are planning on raising additional capital in the near term (previous survey: 25 percent).

- Thirty-four percent of respondents indicated their customers plan on hiring new employees in the next six months (previous survey: 18 percent).

- Twenty-six percent responded their customers are planning on entering new markets in the near term (previous survey: 35 percent).

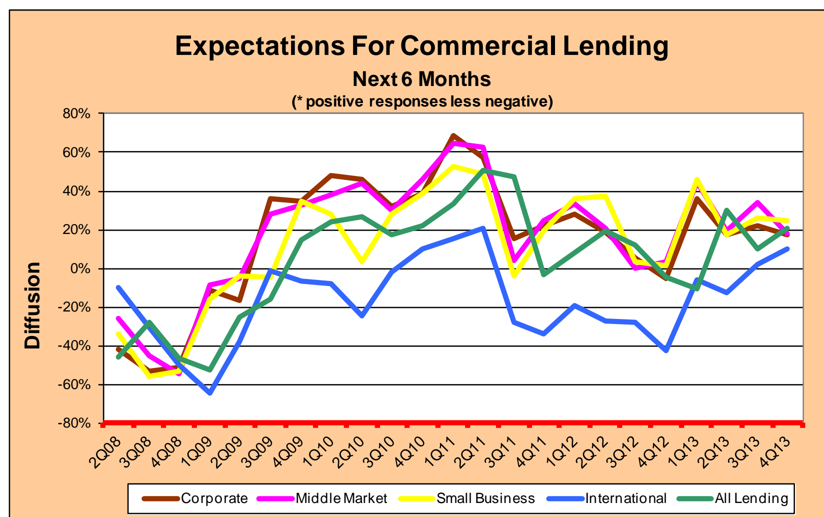
- Eleven percent of lenders believe their customers are planning on introducing new products or services (previous survey: 35 percent).

- Six percent of lenders believe their customers are planning "other" initiatives in the next six months (previous survey: 5 percent).

9. 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.

- Expectations were mixed in 4Q 2013, as lenders expect increases in international and all lending overall, but expect decreases in corporate, middle market, and small business lending. Thirty-one percent of respondents view the entire lending universe as improving compared to twenty-eight percent of respondents in the previous quarter. The overall lending diffusion index decreased to eighteen percent from twenty-one percent in the prior quarter's survey. The domestic lending diffusion index was lower as well this quarter, decreasing seven percentage points. The diffusion index for international lending continued its positive trajectory increasing to ten percent from two percent in the prior quarter.



	4Q/2013			3Q/2013		
	Up	Down	Same	Up	Down	Same
Corporate Lending	29%	12%	59%	28%	6%	66%

Middle Market Lending	31%	13%	56%	34%	0%	66%
Small Business Lending	40%	15%	45%	30%	4%	66%
International Lending	26%	15%	59%	20%	18%	61%

- There was an increase in the expectation for the number of bankruptcies to remain constant up to seventy-one percent of respondents from fifty-eight percent in the previous quarter. As well as lenders expect interest rates to remain flat with seventy-six percent of votes versus twenty percent in the prior quarter.

	4Q/2013			3Q/2013		
	Up	Down	Same	Up	Down	Same
Loan Losses	5%	28%	68%	12%	32%	56%
Bankruptcies	7%	22%	71%	8%	34%	58%
Interest Rates	22%	2%	76%	76%	4%	20%
Unemployment	12%	29%	59%	6%	26%	68%
Bank Failures	5%	22%	73%	2%	47%	51%

10. U.S. Economy Grade – Next Six Months

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

- Lenders were more optimistic on the U.S. economy this quarter, bumping its GPA up four basis points to 2.02. In the current quarter, seventy-eight percent of respondents believe the economy will perform at a "C" level, which represents a decrease of eight percentage points from the previous quarter. The grade-point average increased one level to the "C" level as reversal of lenders attitude towards the economy showed a switch to a "B" level rather than a "D" level.

Grade	4Q/2013	3Q/2013
A	0%	0%
B	12%	8%
C	78%	86%
D	4%	6%
F	0%	0%
Weighted Average Grade	2.02	1.98

11. U.S. Economy Grade – Beyond the Next Six Months

Respondents were asked how they expected the U.S. economy to perform beyond the next six months on a grading scale of A through F.

- Lenders expectations for the U.S. economy's performance in the longer term continued its positive trajectory hitting its highest reading in the last eighteen months. The weighted average GPA increased four basis points to 2.24. Fifty-six percent of lenders feel as though the economy will perform at a "C" or better level beyond the next six months (compared to thirty-nine percent last quarter). Lenders who believe the economy will perform at a "B" over the next twelve months decreased to thirty-four percent. Lenders are starting to show comfort with the economy with ten percent grading the economy at a "D" which is half the number of responses from the prior quarter.

Grade	4Q/2013	3Q/2013
A	0%	0%

B	34%	41%
C	56%	39%
D	10%	20%
F	0%	0%
Weighted Average	2.24	2.20

12. Customers' Future Growth Expectations

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

- The percentage of respondents indicating their customers have "moderate" growth expectations for the next six months to one year decreased by three percentage points compared to 3Q 2013. With a shift towards a more cautious outlook, zero lenders now ascribe "strong growth" for their borrower's growth in the next six months. A dramatic increase was seen in lenders favoring "no growth" which increased twelve percentage points to eighteen percent. This is a mixed signal from lenders on the U.S. economy, given their more optimistic outlook for the overall U.S. economy.

Indication	4Q/2013	3Q/2013
Very Strong	0%	0%
Strong	0%	8%
Moderate	83%	86%
No Growth	18%	6%

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.

- Many lenders are content right now and plan to maintain their current loan structure. There was a sharp decline in lenders who will relax their loan structures this quarter versus the prior quarter, this is the lowest level we have seen for relaxing since 4Q 2009.

	4Q/2013			3Q/2013		
	Tighten	Maintain	Relax	Tighten	Maintain	Relax
Loans> $25 million	11%	86%	3%	2%	78%	20%
$15 – 25 million	6%	88%	6%	2%	78%	20%
$5-15 million	0%	94%	6%	2%	87%	11%
Under $5 million	3%	83%	14%	4%	87%	9%
Overall Average	5%	88%	7%	3%	82%	15%

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.

- Reversing from hitting an all time low in 3Q 2013, lenders in Q4 now plan to increase interest rate spreads. Lenders attitude towards maintaining spreads are in-line with the previous quarters and they lowered their expectations for reducing spreads in the fourth quarter.

4Q/2013	3Q/2013

	Reduce	Maintain	Increase	Reduce	Maintain	Increase
Loans> $25 million	14%	80%	6%	27%	73%	0%
$15 – 25 million	18%	70%	12%	29%	71%	0%
$5-15 million	9%	76%	15%	22%	73%	4%
Under $5 million	12%	65%	24%	15%	77%	8%
Overall Average	13%	73%	14%	23%	74%	3%

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.
There is more certainty of the Feds monetary policy with the recent announcement of tapering of QE by $10b a month, many lenders are now expecting rates to remain unchanged in the next six months. The recent comments by the Federal Reserve help solidify many lenders feeling comfortable with the current levels of interest rates. However, with the transitioning of the Federal Chairman in the coming quarter it will be interesting to see if lenders expectations for interest rates change as well.

Bps Change	4Q/2013	3Q/2013
-More than 1.0	0%	0%
-1.0	0%	0%
-.75	0%	0%
-.50	0%	0%
-.25	0%	2%
0	66%	34%
+.25	14%	40%
+.50	5%	14%
+.75	0%	0%
+1.0	2%	6%
More than 1.0	0%	2%
Weighted Average	0.09 basis points	0.26 basis points

16. Current Competition

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

- Money center banks and regional banks saw a decline in the number of responses as more lenders feel local commercial / community banks are gaining traction. However it is still noteworthy that the top two (Regional banks and local commercial / community banks) still register roughly seventy percent of responses.

	4Q/2013	3Q/2013
Money Center Banks	11%	18%
Local Commercial/ Community Banks	23%	18%
Factors	0%	0%
Regional Banks	48%	51%
Commercial Finance Organizations	5%	8%
Other	2%	4%