Phoenix Management Services
"Lending Climate in America" Survey

4th Quarter 2014
Summary, Trends and Implications

PHOENIX
"LENDING CLIMATE IN AMERICA"

4th Quarter 2014

SUMMARY, TRENDS AND IMPLICATIONS

1. **With the end of the Fed's Quantitative Easing program in October, which of the following do you think will have the most likely economic impact going forward?**

The lenders surveyed this quarter were split on the most likely economic impact the end of the Quantitative Easing program will have. The highest percentage of lenders, at thirty-three percent, believe that the end of the QE program will create a stronger U.S. dollar versus foreign currencies, negatively impacting exports. The next highest contingent, garnering twenty-nine percent of responses, were the lenders who believe the end of the Quantitative Easing program will take hold in the housing market, causing slower U.S. housing growth due to higher mortgage rates. The next highest response rate, at twenty percent, believe that companies that refinanced in the low interest rate environment will incur financial distress as interest rates rise. Seven percent of lenders believe that there will be negative pressure on U.S. equities. The remainder of lenders wrote in their responses and included the following thought:

"There will be minimal change for nine to twelve months"

2. **While the U.S. has shown many signs of an improving economy, the global recovery has not kept pace. What do you believe will be the largest domestic impact of the divergence in economic recoveries?**

Fifty-one percent of lender believe that the U.S. domestic growth will be curtailed by a decline in the global economy. The next highest answer, garnering a fifth of responses, was that the U.S. will be able to sustain domestic economic growth, independently. Contrarily, eighteen percent of respondents believe that the domestic growth is contingent upon the actions taken by the most developed and industrialized nations and nine percent believe that domestic growth is dependent upon proactive actions by foreign central banks. The remaining one percent of respondents wrote in their own responses.

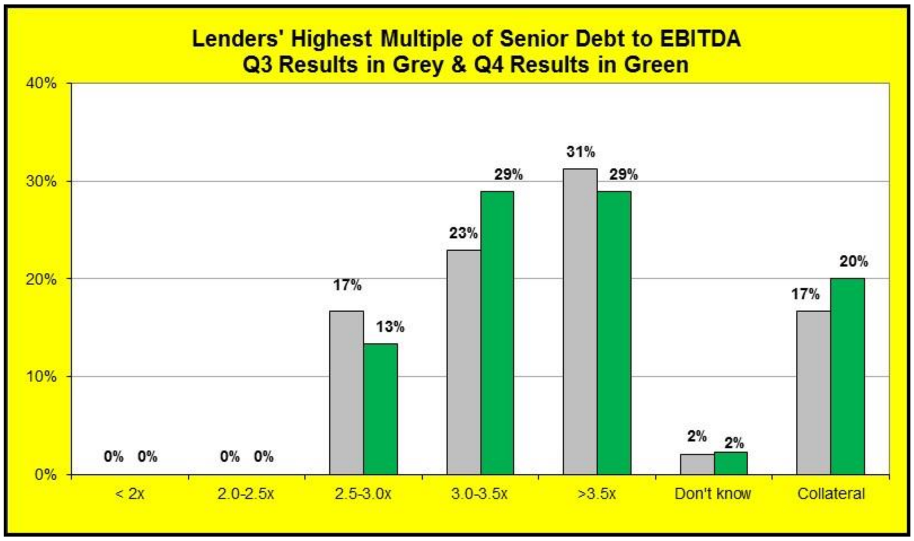
3. **As the global supply of oil rises and the demand for fuel trails expectations, the price of oil has fallen sharply. What do you believe will be the most significant effect, domestically, over the next several years?**

While there were four choices to choose from, there was a very clear divide between the lenders surveyed. Forty-nine percent of respondents believe that the drop in oil prices will cause large energy companies to pull back their drilling operations to cut costs until a rise in oil prices justifies an increased supply. Alternatively, forty-seven percent of lenders believe that the reduced oil costs will have a positive effect on businesses as transportation and manufacturing costs decline and the decreased cost of fuel creates more discretionary income for consumers. Two percent of respondents believe that the federal government will overturn the ban on U.S. crude oil exports, allowing domestic energy companies to continue their current levels of oil extraction. The remaining respondents wrote in their own responses. The remainder of lenders wrote in their responses and included the following thought:

"The drop in oil prices will cause failures among the marginal players in the energy space"

4. **Leverage multiples are expected to increase versus the prior quarter.**

Multiples have shifted slightly in 4Q 2014. Twenty-nine percent of surveyed lenders indicated that the highest debt to EBITDA ratio that they would consider is in the 3.0-3.5x range, which is a six percentage point increase from the prior quarter. The percentage of respondents who would consider a debt to EBITDA ratio greater than 3.5x dropped two percentage points to twenty-nine percent. Twenty percent of lenders indicated that collateral supersedes senior debt to EBITDA ratio when considering a loan request, an increase of three percentage points from the last quarter. There was a slight decrease in the number of the 2.5-3.0x range respondents, which was four percent increase from 3Q 2014 to thirteen percent. Zero respondents stated their institutions highest multiple is in the 2.0-2.5x range. Similar sentiments were shared in the prior quarter.



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

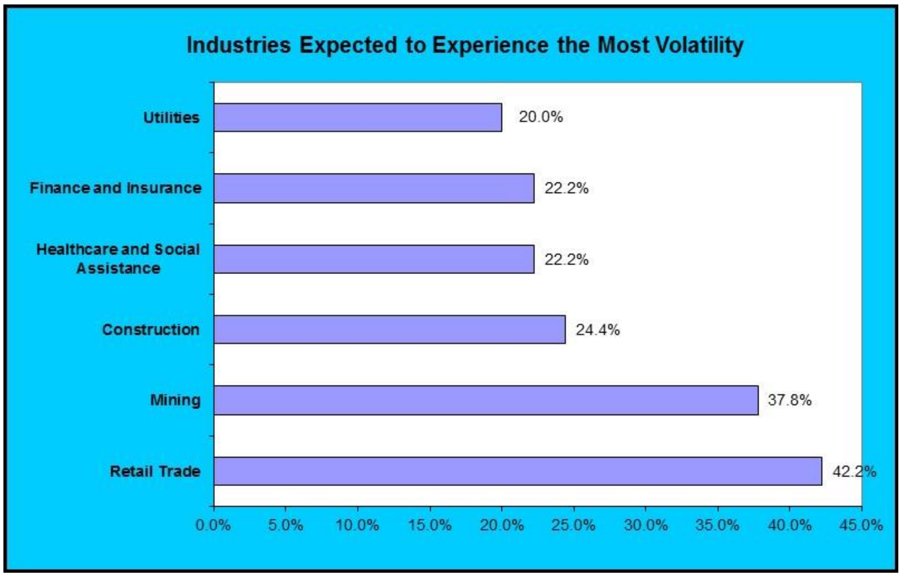
The highest number, fifty-three percent of respondents, believe their institution will experience no change in leverage ratios over the next six months compared to fifty-four percent that shared the same sentiment last quarter. Sixteen percent of respondents indicated they were collateral lenders and did not specifically focus on senior debt to EBITDA multiples (down one percentage point from the previous survey). Nine percent of respondents believe they will increase leverage ratios greater than 0.5x compared to zero percent in the previous quarter. Four percent of lenders believe there will be an increase of less than 0.5x, a nine percentage point decrease from the prior quarter. The diffusion index of increases versus decreases to leverage ratios is a positive seven percent, almost identical to the eight percent in the last survey.

6. **Lenders are concerned with unstable energy prices and the U.S. housing market.**

When asked to choose two factors that could have the strongest potential to negatively affect the economy in the next six months, forty percent chose unstable energy prices compared to twenty-three percent in the previous quarter. Thirty-eight percent of respondents believe a sluggish housing market could have the strongest potential to affect the economy. This is a ten percentage point decrease from the previous quarter when a sluggish housing market garnered forty-eight percent of respondents. Thirty-three percent of respondents believe that the stability of the stock market could have the strongest potential to affect the economy. This is a decline from the previous quarter when the stability of the stock market was chosen by forty percent of respondents. The U.S. budget deficit also garnered thirty-three percent of responses. This is a six percentage point increase over the previous quarter of twenty-seven percent. Constrained liquidity in capital markets rounded out the remaining risk factors with ten percent of total responses.

7. **Lenders expect increased volatility in the Retail, Mining and Construction Sectors.**

When asked to identify three industries that will experience the most volatility in the next six months, forty-two percent of lenders agree that Retail Trade will experience the greatest volatility, a decrease of eight percentage points from the prior quarter's survey. Mining followed next, garnering thirty-eight percent of those polled, an increase of fifteen percentage points. Construction followed with twenty-four percent, an increase from the prior period of three percentage points. Healthcare & Social Assistance and Finance & Insurance sectors received twenty-two percent of the lenders responses, which is a five percentage point decrease and a three percentage point increase from the prior period, respectively. Utilities received twenty percent of the lenders responses.

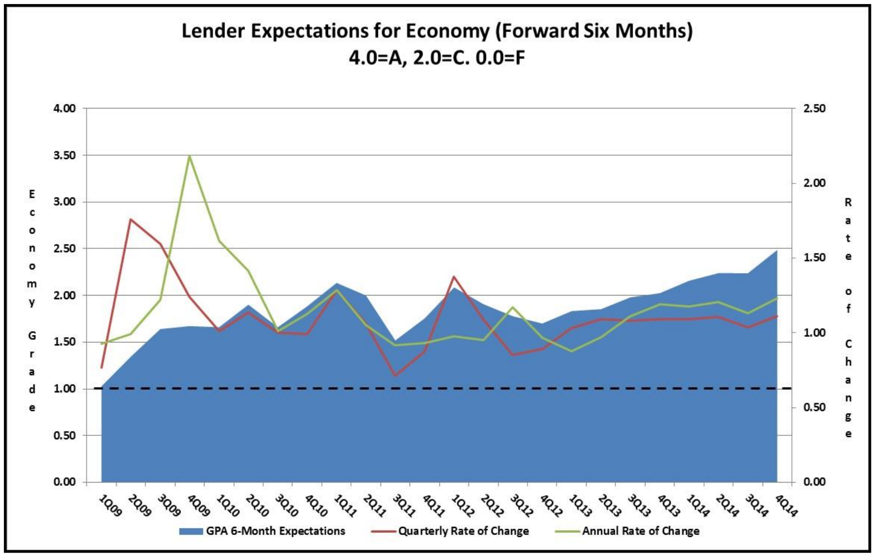


8. **Borrowers maintain plans for new capital investment and acquisitions for future growth.**

Making an acquisition ranked highest amongst responses, at fifty-six percent of the lenders surveyed. Forty-nine percent (down ten percentage points from last quarter) of respondents expect borrowers to start making new capital investments. Hiring new employees was the third highest response, garnering forty percent of the responses. Additionally, thirty-eight percent of lenders believe their borrowers will introduce new products and services or raise additional capital in the next six months. Thirty-six percent of lenders expect their borrowers to enter new markets.

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

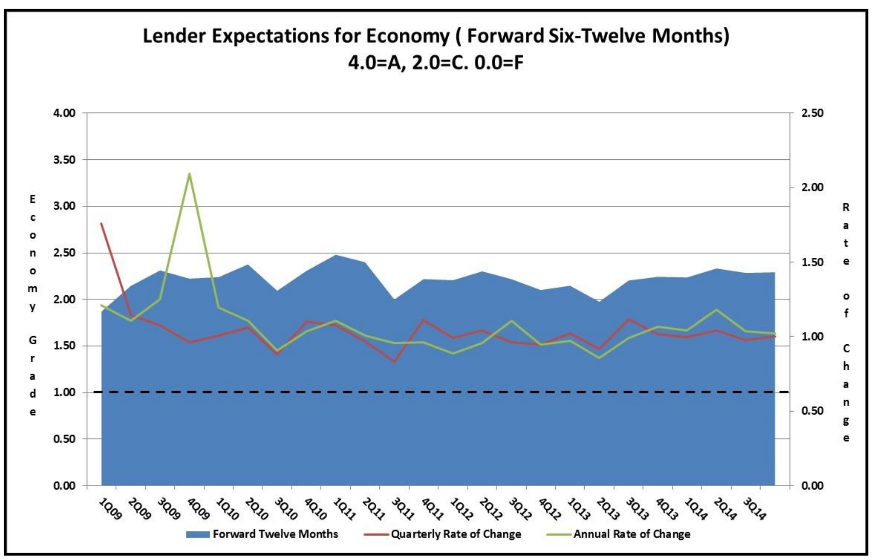
Economic growth sentiment remained at an overall "C" grade this quarter; the indexes GPA increased notably to 2.49 from the 3Q 2014 results of 2.24. The majority of lenders (fifty-four percent) believe the economy will perform at a "C" level or lower over the next six months, compared to fifty-two percent in the previous survey. Conversely, forty-four percent of lenders surveyed believe the economy will perform at a "B" grade or better, compared to thirty-six percent in the previous survey. The trend toward a better grade for the economy continued as none of the respondents believe that the economy will perform at a "D" grade, compared to twelve percent in the last quarter. This survey continues the recent trend in which a higher percentage of lenders believed the economy would perform in the "A" or "B" grade level versus a "D" level over the next six months.



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

10. Lenders long term prospects for the U.S. economy remain stable.

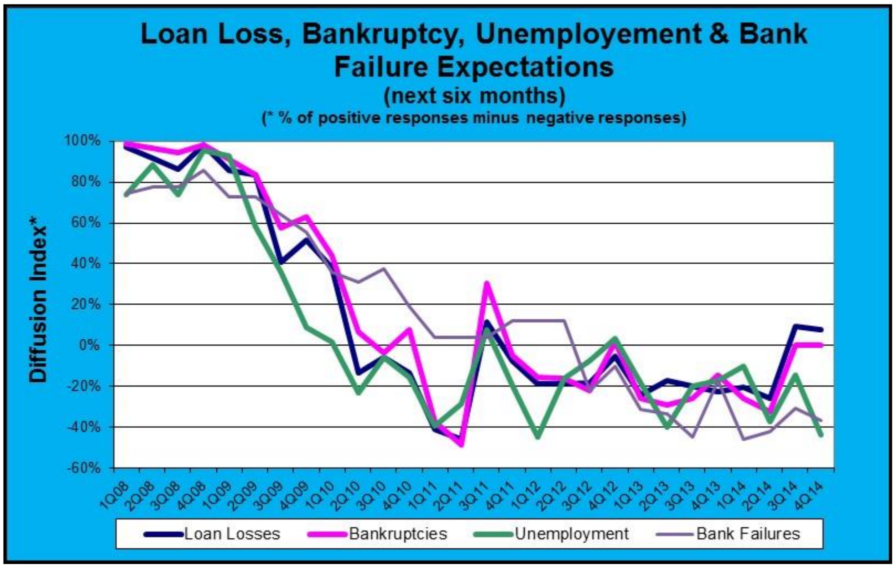
Lenders growth expectations for the U.S. economy beyond six months remained unchanged from the previous survey, yielding a "C" grade at 2.29. Thirty-seven percent of lenders believe the economy will perform at a "B" level in the next six to twelve months, which is six percentage points lower than the previous quarter. Forty-nine percent of lenders believe the economy will perform at a "C" level in the next six to twelve month period, compared to forty-three percent in the previous quarter. Lenders remain optimistic on the 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.***

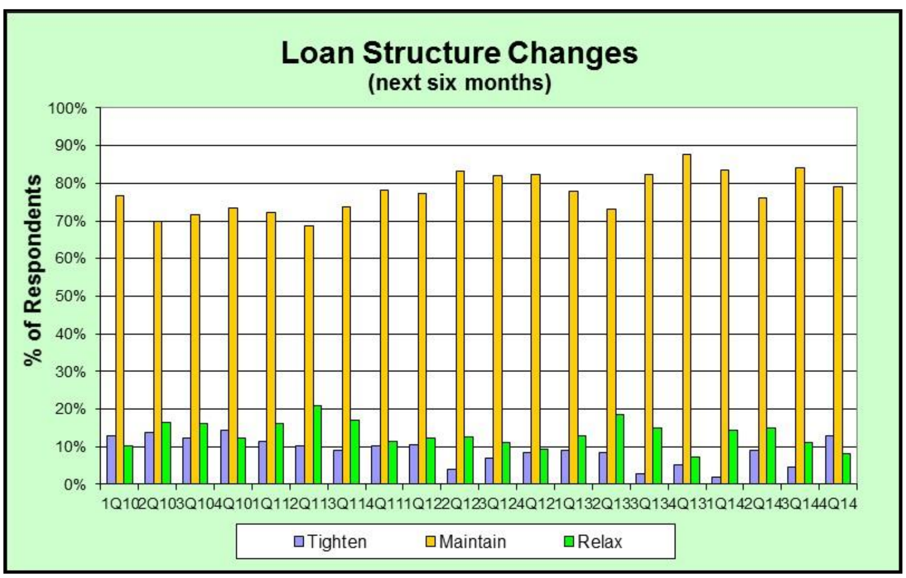
11. Lenders have decreasing expectations for Loan Losses, Unemployment, and Bank Failures over the next six months.

All four of these categories have seen a decrease to their diffusion indexes or remained the same when compared to the 3Q 2014. The unemployment category saw a thirty percentage point decrease to negative forty-four percent. Interest rates saw the second largest change, decreasing eighteen percentage points to forty-four. Bank Failures maintained a negative diffusion index of thirty-seven percentage points. Loan losses decreased by two percentage points to positive eight percent and Bankruptcies remained unchanged at zero. The shift in opinions regarding unemployment and interest rates are a likely result of the Federal Reserve's recent activity. The Unemployment and Bank Failure categories remain near their all-time lows.



12. Lenders continue to expect relaxed loan structures over the next six months.

The percentage of respondents planning to maintain their current loan structures decreased by five percentage points to seventy-nine percent compared to 3Q 2014 of eighty-four percent. Lenders who expect to tighten their loan structures increased by eight percentage points compared with the prior quarter of nine percent of those surveyed. Eight percent of lenders anticipate relaxing their client's loan structures a decrease of four percentage points versus the prior quarter. For the first time since 4Q 2010, more respondents plan to tighten their loan structures than relax them but a majority of lenders continue to maintain their current structure in order to garner new business.



13. Lenders look to reduce lending spreads.

Sixty-five percent of respondents (versus seventy-seven percent in the previous quarter) anticipate maintaining lending spreads at their current levels. Twenty-two percent of lenders anticipate increasing their credit spreads in the next six months, up nineteen percentage points from the previous quarter. The percentage of lenders expecting to reduce their current credit spreads decreased seven percentage points, representing fourteen percent of total responses this quarter.

Phoenix Management Services
"Lending Climate in America"
4th Quarter 2014

Survey Results

1. Lenders were divided on the economic impact of the end of the Quantitative Easing program.

Lenders were asked: With the end of the Fed's Quantitative Easing program in October, which of the following do you think will have the most likely economic impact going forward?

- Thirty-three percent believe that the U.S. dollar will strengthen versus currencies and that exports will struggle.
- Twenty-nine percent believe the end of the QE program will slow U.S. housing growth due to higher mortgage rates.
- Twenty percent of respondents believe that companies that refinanced in the low interest rate environment will incur increased financial distress as interest rates rise.
- Seven percent of respondents believe that the U.S. equities market will face negative pressures as the Fed stops pumping money into the markets.

2. Lenders believe that the global economic recovery will curtail the recent U.S. economic growth.

Lenders were asked: While the U.S. has shown many signs of an improving economy, the global recovery has not kept pace. What do you believe will be the largest domestic impact of the divergence in economic recoveries?

- Fifty-one percent believe that the U.S. growth will be curtailed by a decline in the global economy.
- Twenty percent ore respondents believe that the U.S. will be able to sustain domestic economic growth independent of other economies.
- Eighteen percent believe the domestic growth is contingent upon the actions taken by the worlds most developed/industrialized countries.
- Nine percent believe that the U.S. economic growth is dependent upon the proactive actions taken by foreign central banks.

3. Lenders are split on the most significant domestic effect of the significant drop in oil prices.

Lenders were asked: As the global supply of oil rises and the demand for fuel trails expectations, the price of oil has fallen sharply. What do you believe will be the most significant effect, domestically, over the next several years?

- Forty-seven percent of lenders believe that large energy companies will pull back their drilling operations and cut cost until a rise in oil prices justifies more supply.

- Forty-four percent believe that reduced oil costs will have a positive effect on businesses as transportation and manufacturing costs decline and decreased cost of fuel create more discretionary income for consumers.

- Two percent believe the federal government will overturn the ban on U.S. crude oil exports, allowing domestic energy companies to continue their current levels of oil extraction.

- Two percent of respondents wrote in their own answer.

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.

- Twenty-nine percent of lenders opined their financial institution would consider a loan request with leverage multiples of greater than 3.5x (previous survey: 31 percent).

- Twenty-nine 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: 23 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: 17 percent).

- Thirteen percent indicated their institution would consider a loan request with leverage multiples as high as the 2.51x – 3.00x range (previous survey: 17 percent).

- Two 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: 13 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: 0 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.

- Fifty-three percent indicated that the Senior Debt to EBITDA multiple will not change at their financial institution over the next six months (previous survey: 54 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: 17 percent).

- Four 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: 15 percent).

- Four percent of lenders believe that the leverage multiple will increase less than 0.5x during the next six months (previous survey: 13 percent).

- Nine percent conclude that the leverage multiple will increase greater than 0.5x during the next six months (previous survey: 0 percent).

- Four percent conclude that the leverage multiple will decrease less than 0.5x during the next six months (previous survey: 2 percent).

- Two percent believe that the leverage multiple will decrease greater than 0.5x during the next six months (previous survey: 2 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.

- Forty-three percent concluded that unstable energy prices have the strongest potential to affect the economy during the next six months (previous survey: 23 percent).

- Forty percent designated the sluggish housing market as the factor with the strongest potential to affect the near-term economy (previous survey: 48 percent).

- Thirty-six percent opined that the stability of the stock market has the strongest potential to affect the economy during the next six months (previous survey: 40 percent).

- Thirty-six 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: 27 percent).

- Nineteen percent chose “other” factors as having the strongest potential to affect the economy during the next six months (previous survey: 23 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: 8 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.

- Forty-six percent believe the Retail Trade industry will experience the most volatility over the next six months (previous survey: 50 percent).

- Twenty-four percent of respondents chose the Healthcare and Social Assistance industry to experience the greatest volatility (previous survey: 27 percent).

- Twenty-seven percent designated the Construction industry as the industry expected to have the greatest volatility in the near term (previous survey: 21 percent).

- Twenty-four percent of respondents believe the Finance and Insurance industry will experience the greatest volatility over the next six months (previous survey: 19 percent).

- Twenty-two percent of survey takers are of the opinion Utilities will experience significant volatility in the short term (previous survey: 6 percent).

- Forty-one percent of respondents believe the Mining industry will experience significant volatility in the next six months (previous survey: 23 percent).

- Seventeen percent responded that the Real Estate and Rental/Leasing industry would experience the most volatility during the next six months (previous survey: 27 percent).

- Fifteen percent of lenders feel that the Manufacturing industry will face increasing volatility in the near term (previous survey: 15 percent).

- Twelve percent of lenders believe the Transportation and Warehousing industry to experience the greatest volatility (previous survey: 6 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-six percent of lenders indicated their customers are planning on making an acquisition in the next six months (previous survey: 44 percent).

- Forty-nine percent of lenders believe their customers will be making new capital investments (previous survey: 58 percent).

- Thirty-eight percent indicated their customers are planning on raising additional capital in the near term (previous survey: 29 percent).

- Forty percent of respondents indicated their customers plan on hiring new employees in the next six months (previous survey: 40 percent).

- Thirty-six percent responded their customers are planning on entering new markets in the near term (previous survey: 31 percent).

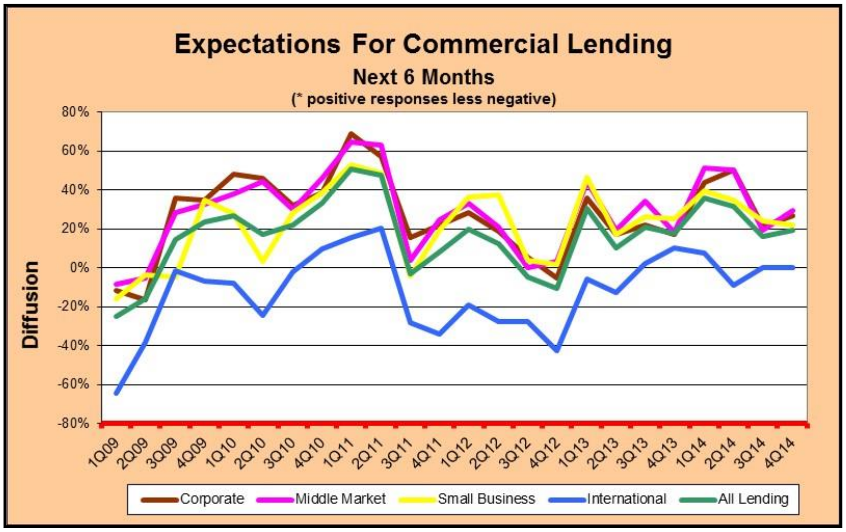
- Thirty-eight percent of lenders believe their customers are planning on introducing new products or services (previous survey: 31 percent).

- Four percent of lenders believe their customers are planning "other" initiatives in the next six months (previous survey: 2 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 largely remained unchanged in 4Q 2014, as lenders expect a mild increase in corporate and middle market and a mild decrease in small business and international. Thirty percent of respondents view the entire lending universe as improving compared to Twenty-nine percent of respondents in the previous quarter. The overall lending diffusion index increased to twenty percent from sixteen percent in the prior quarter's survey. The domestic lending diffusion index rose as well this quarter, increasing fiver percentage points to twenty-six percent. The diffusion index for international lending maintained its diffusion index at zero percent.



	3Q/2014			4Q/2014		
	Up	Down	Same	Up	Down	Same
Corporate Lending	31%	10%	60%	32%	5%	63%
Middle Market Lending	26%	7%	67%	34%	5%	61%
Small Business Lending	38%	14%	48%	37%	15%	49%
International Lending	19%	19%	62%	20%	20%	58%

- Lenders attitudes are adjusting to reflect the reflect the recent Federal Reserve actions as the interest rate diffusion decreased to forty-four percent from sixty-two percent in the previous quarter. Loan losses continue to be in positive territory but decreased to an eight percent diffusion index. Until last quarter, the loan losses diffusion index had not been in positive territory since 3Q 2011. The bankruptcies diffusion index stays unchanged at zero percent, which is the highest it has been since 4Q 2012.

	3Q/2014			4Q/2014		
	Up	Down	Same	Up	Down	Same
Loan Losses	29%	19%	52%	23%	15%	63%
Bankruptcies	19%	19%	62%	20%	20%	61%
Interest Rates	62%	0%	38%	44%	0%	56%
Unemployment	12%	26%	62%	0%	44%	56%
Bank Failures	2%	33%	64%	0%	37%	63%

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 optimism on the U.S. economy showed an improvement this quarter, as its GPA remains increased from 2.24 in 3Q 2014 to 2.49 this quarter. In the current quarter, fifty-four percent of respondents believe the economy will perform at a "C" level, which represents an increase of two percentage points from the previous quarter. The grade-point average remains at the "C" level but is progressing as lenders shifted away from a "D" and were split between the "C" and "B" level relative to last quarter.

Grade	3Q/2014	4Q/2014
A	0%	2%
B	36%	44%
C	52%	54%
D	12%	0%
F	0%	0%
Weighted Average Grade	2.24	2.49

11. US Economy Grade – Beyond the Next Six Months

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

- Lenders expectations for the US economy's performance in the longer term was mostly unchanged relative to the prior quarter. The weighted average GPA stayed at 2.29, which is a "C' grade. Thirty-seven percent of lenders feel as though the economy will perform at a "B" level beyond the next six months (compared to forty-three percent last quarter). Lenders who believe the economy will perform at a "C" over the next twelve months increased to forty-nine percent from forty-three percent. Twelve percent of lenders believe over the next six to twelve months the economy will perform at a "D" grade while two percent believe the economy will perform at an "A" grade.

Grade	3Q/2014	4Q/2014
A	0%	2%
B	43%	37%
C	43%	49%
D	14%	12%
F	0%	0%
Weighted Average	2.29	2.29

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 thirty-six percentage points compared to 3Q 2014. With a shift towards optimism, two percent of lenders ascribe "very strong growth" for their borrower's growth in the next six months while thirty-seven percent ascribe to "strong growth" for their borrower's growth. There was a ten percentage point increase in lenders favoring "no growth" to twelve percent. The significant shift towards "strong growth" is a positive signal from lenders on the U.S. economy.

Indication	3Q/2014	4Q/2014
Very Strong	2%	2%
Strong	10%	37%
Moderate	85%	49%
No Growth	2%	12%

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. However, there was a notable increase in the percentage of lenders indicating they are looking to tighten loan structures for all loan sizes in the near future. This indicates lenders are beginning expect a change in the market.

	3Q/2014			**4Q/2014**		
	Tighten	Maintain	Relax	Tighten	Maintain	Relax
Loans> $25 million	5%	78%	16%	11%	81%	8%
$15 – 25 million	5%	81%	14%	9%	86%	6%
$5-15 million	5%	88%	8%	13%	79%	8%
Under $5 million	3%	90%	8%	19%	70%	11%
Overall Average	5%	84%	11%	13%	79%	8%

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.

- While a majority of lenders continue to maintain their interest rate spreads and fee structures, there was a double digit increase in the percentage of lenders who believe that they will increase their loan spreads in each category. Loans under $5 million saw a 28% increase in the amount lenders who believe their financial institution will increase their interest rate spreads and fee structures. We anticipate borrowers will see less competitive pricing in the near future based on the responses from the survey.

	3Q/2014			**4Q/2014**		
	Reduce	Maintain	Increase	Reduce	Maintain	Increase
Loans> $25 million	32%	68%	0%	24%	62%	14%
$15 – 25 million	24%	76%	0%	14%	69%	17%
$5-15 million	15%	80%	5%	11%	66%	24%
Under $5 million	10%	85%	5%	5%	62%	32%
Overall Average	21%	77%	3%	14%	65%	22%

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.

After the QE program ended in October, many lenders are now expecting rates to increase over the next six months. It will be interesting to see how the Federal Reserve handles the developments within the energy industry and their influence on lenders expectations in future surveys.

Bps Change	3Q/2014	4Q/2014
+ 1/2 point or more	12%	18%
+ 1/4 point	37%	43%
Unchanged	51%	40%
- 1/4 point	0%	0%
- 1/2 point or more	0%	0%
Weighted Average	0.15 bps	0.22 bps

16. Current Competition

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

- Regional banks and local commercial/community banks saw a decline in the number of responses. However it is still noteworthy that the top two (Regional banks and local commercial / community banks) still register roughly sixty-five percent of responses.

	3Q/2014	4Q/2014
Money Center Banks	10%	15%
Local Community/Commercial Bank	51%	45%
Factors	15%	20%
Regional Bank	20%	8%
Commercial Finance Co.	0%	3%
Other:	5%	10%