Phoenix Management Services
"Lending Climate in America" Survey

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1st Quarter 2015
Summary, Trends and Implications

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"LENDING CLIMATE IN AMERICA"

1st Quarter 2015

SUMMARY, TRENDS AND IMPLICATIONS

1. **Low oil prices have significantly affected many parts of the global economy, ranging from increased consumer spending to unrest in oil reliant nations. What do you believe will be the most significant effect, domestically, over the next several years?**

   The lenders surveyed this quarter were split on the most significant effect of recent low oil prices. The highest percentage of lenders, at forty-nine percent, believe the most significant effect will be large oil companies will pull back their drilling operations and cut costs until a rise in oil prices justify increasing the supply. The next highest contingent, garnering thirty-five percent of responses, were the lenders who believe the low oil prices will have a positive effect on businesses as transportation and manufacturing costs decline and decreased cost of fuel creates more discretionary income for consumers. Two percent of respondents believe that low oil prices will result in the federal government overturning the ban on U.S. crude oil exports, allowing domestic energy companies to continue their current levels of oil extraction. The remainder of lenders wrote in their responses and included the following thought:

   "There will be minimal impact because oil prices will rise"

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-four 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 thirty-two percent of responses, was that the U.S. will be able to sustain domestic economic growth, independently. Three percent of lenders believe that continued U.S. growth is dependent upon the proactive actions of foreign central banks. The remaining lenders wrote in their responses and included the following thought:

   "Strength of the U.S. dollar will negatively impact exports and the domestic manufacturing sector"

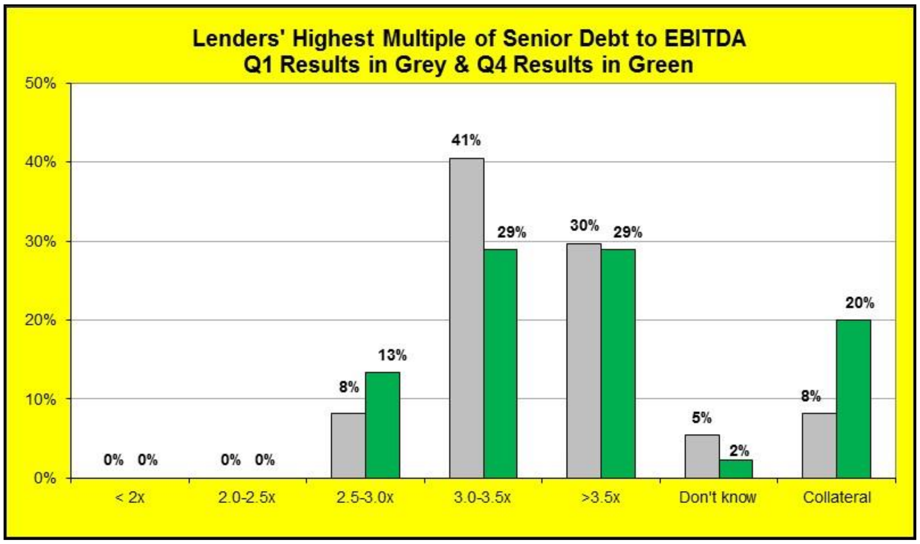
3. **In 2014, builders began work on 1.01 million homes, the most since 2007 (Bloomberg), home prices increase by 4.3% per the S&P/Case-Shiller 20 city composite index (for the 12 months ending 11/30/14), and the unemployment rate ended the year at 5.6%. Will housing starts, home prices or employment have the greatest impact on the domestic economy?**

   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 unemployment rate will have more of an impact on the domestic economy. Alternatively, thirty-five percent of lenders believe that housing starts will have more of an impact on the domestic economy than home prices or the unemployment rate. Only eight percent of respondents believe that home prices will have more of an impact. The remainder of lenders wrote in their responses and included the following thought:

   "Continued low inflation and historic low interest rates"

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

Multiples have shifted slightly in 2Q 2014. Forty-one 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 twelve percentage point increase from the prior quarter. The percentage of respondents who would consider a debt to EBITDA ratio greater than 3.5x increased one percentage point to thirty percent. Eight percent of lenders indicated that collateral supersedes senior debt to EBITDA ratio when considering a loan request, a decrease of twelve percentage points from the last quarter. There was a slight decrease in the number of the 2.5-3.0x range respondents, which decreased five percentage points from 4Q 2014 to eight 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.**

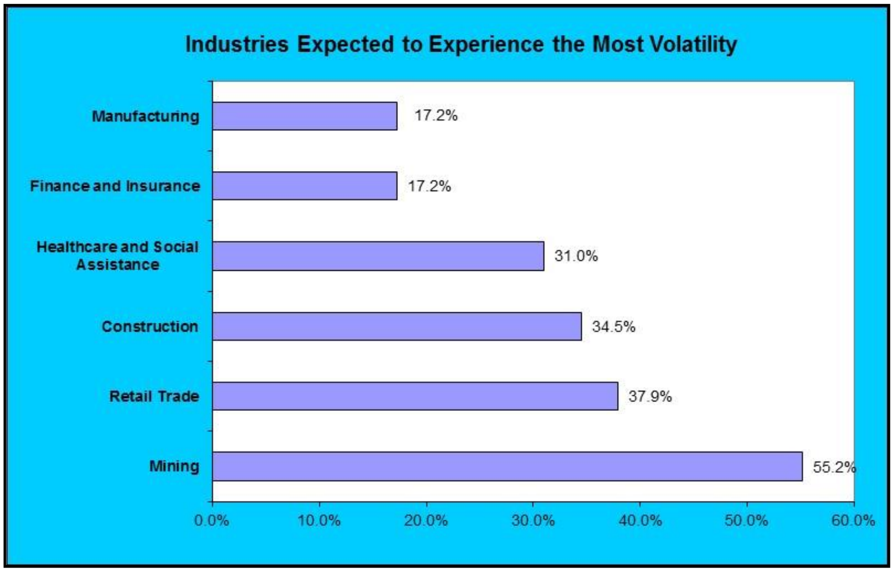
The highest number, forty-six percent of respondents, believe their institution will experience no change in leverage ratios over the next six months compared to fifty-three percent that shared the same sentiment last quarter. Five percent of respondents indicated they were collateral lenders and did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

6. **Lenders are concerned with unstable energy prices and the stock market.**

When asked to choose two factors that could have the strongest potential to negatively affect the economy in the next six months, sixty-five percent chose unstable energy prices compared to forty-three percent in the previous quarter. Thirty-eight percent of respondents believe that the stability of the stock market could have the strongest potential to affect the economy. This is an increase from the previous quarter when the stability of the stock market was chosen by thirty-six percent of respondents. Twenty-six percent of respondents believe a sluggish housing market could have the strongest potential to affect the economy. This is four percentage point decrease from the previous quarter when a sluggish housing market garnered forty percent of respondents. The U.S. budget deficit garnered twenty-one percent of responses. This is a fourteen percentage point decrease over the previous quarter of thirty-six percent. Constrained liquidity in capital markets garnered fifteen percent of the total responses while eighteen percent wrote in their own response.

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

When asked to identify three industries that will experience the most volatility in the next six months, fifty-five percent of lenders agree that Mining will experience the greatest volatility, an increase of fourteen percentage points from the prior quarter's survey. Retail followed next, garnering thirty-eight percent of those polled, a decrease of eight percentage points. Construction followed with thirty-five percent, an increase from the prior period of eleven percentage points. Healthcare received thirty-one percent of the lenders responses, which was a seven percentage point increase from the prior quarter. The Finance & Insurance and Manufacturing sectors received seventeen percent of the lenders responses, which is a seven percentage point decrease and a three percentage point increase from the prior period, respectively.

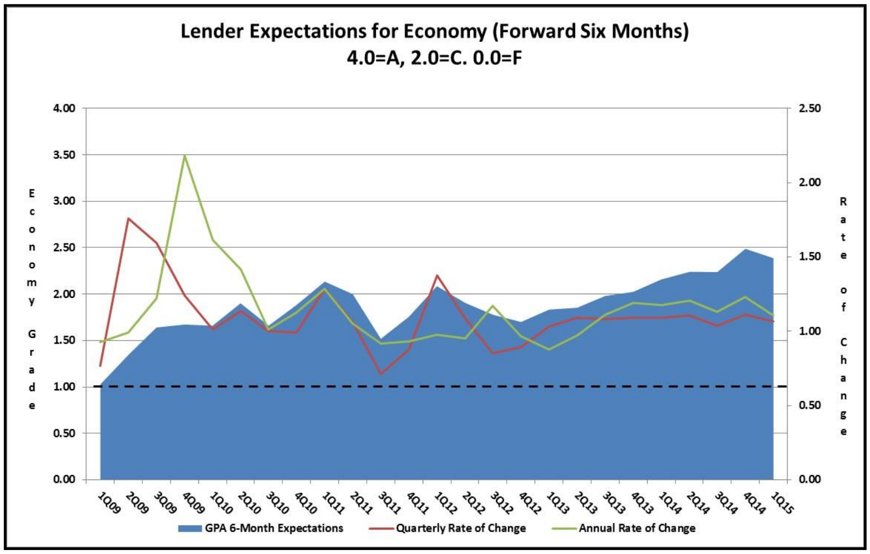


8. **Borrowers maintain plans for new capital investment and acquisitions for future growth.**

Making an acquisition and new capital investments tied for the highest rank amongst responses, at sixty-one percent of the lenders surveyed, which is unchanged and seven percent increase from the prior quarter, respectively. Forty-six percent (down two percentage points from last quarter) of respondents expect borrowers to hire new employees. Introducing new products of services and entering new markets each received forty-three percent of the responses. Additionally, thirty-nine percent of lenders believe their borrowers will raise additional capital in the next six months.

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

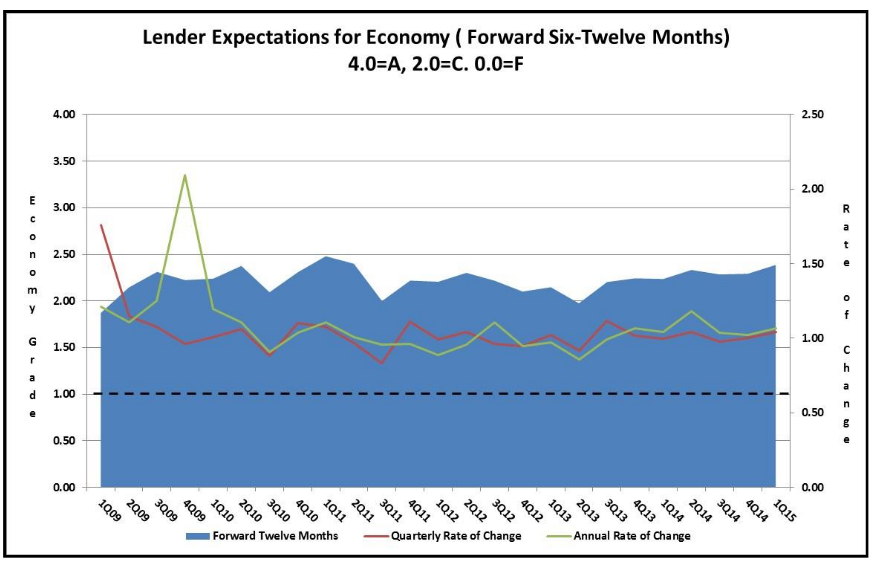
Economic growth sentiment remained at an overall "C" grade this quarter; the indexes GPA decreased to 2.39 from the 4Q 2014 results of 2.49. The majority of lenders (forty-eight percent) believe the economy will perform at a "B" level or lower over the next six months, compared to forty-four percent in the previous survey. Conversely, forty-two percent of lenders surveyed believe the economy will perform at a "C" grade or better, compared to fifty-four percent in the previous survey. While an increased number of respondents believe the economy will perform at a B level this quarter, ten percent believe that the economy will perform at a "D" level, which received zero responses 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.

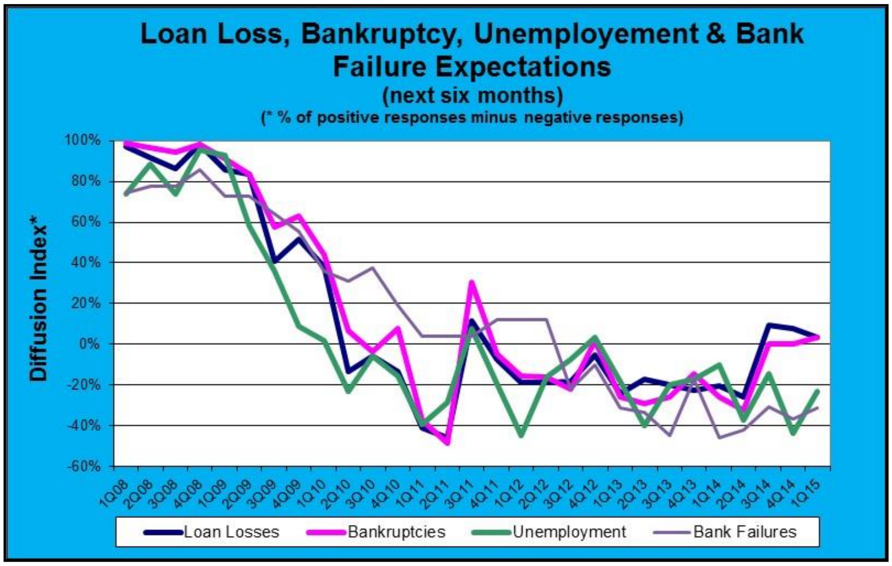
Lenders growth expectations for the U.S. economy beyond six months increased slightly from the previous survey, yielding a "C" grade at 2.39 from 2.29 last quarter. Forty-eight percent of lenders believe the economy will perform at a "B" level in the next six to twelve months, which is a twelve percentage points higher than the previous quarter. Forty-five percent of lenders believe the economy will perform at a "C" level in the next six to twelve month period, compared to forty-nine 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 increasing expectations for Bankruptcies, Interest Rates, Unemployment, and Bank Failures over the next six months.

Bankruptcies, Interest Rates, Unemployment, and Bank Failures have seen an increases to their diffusion indexes when compared to the 4Q 2014. The Bankruptcy category saw a three percentage point increase to three percent. Interest rates saw a twenty-three percentage point increase to sixty-seven. Unemployment saw a twenty-one percentage point increase to negative twenty-three percent. Bank Failures diffusion index increased six percent to negative thirty-one percentage points. Loan losses decreased by five percentage points to positive three percent. The Federal Reserve's recent actions have certainly affected lenders opinions.



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 seven percentage points to seventy-two percent compared to 4Q 2014 of seventy-nine percent. Lenders who expect to tighten their loan structures decreased by four percentage points compared with the prior quarter of nine percent of those surveyed. Nineteen percent of lenders anticipate relaxing their client's loan structures an increase of eleven percentage points versus the prior quarter. A majority of lenders continue to maintain their current structure in order to garner new business.

13. Lenders look to reduce lending spreads.

Seventy-two percent of respondents (versus sixty-five 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, down eight percentage points from the previous quarter. The percentage of lenders expecting to reduce their current credit spreads increased by one percentage point, representing fifteen percent of total responses this quarter.

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Survey Results

1. 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-four percent believe that the U.S. growth will be curtailed by a decline in the global economy.
- Thirty-two percent ore respondents believe that the U.S. will be able to sustain domestic economic growth independent of other economies.
- Five percent believe the domestic growth is contingent upon the actions taken by the worlds most developed/industrialized countries.
- Three percent believe that the U.S. economic growth is dependent upon the proactive actions taken by foreign central banks.
- Five percent of respondents wrote in their own answer.

2. 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-nine 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.
- Thirty-five 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.
- Five 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.
- Eleven percent of respondents wrote in their own answer.

3. Lenders believe that the unemployment rate will have the greatest impact on the economy.

Lenders were asked: Will housing starts, home prices or employment have the greatest impact on the domestic economy?

- Forty-nine percent believe the unemployment rate will have more of an impact on the domestic economy than housing starts or home prices.
- Thirty-five percent believe housing starts will have more of an impact on the domestic economy than home prices or the unemployment rate.
- Eight percent believe that home prices will have more of an impact on the domestic economy than housing starts or home prices.
- Eight percent of respondents wrote in their own responses.

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 percent of lenders opined their financial institution would consider a loan request with leverage multiples of greater than 3.5x (previous survey: 29 percent).
- Forty-one 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: 29 percent).
- Eight 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).
- Eight 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).
- 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: 2 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.

- Forty-six percent indicated that the Senior Debt to EBITDA multiple will not change at their financial institution over the next six months (previous survey: 53 percent).
- Five percent of respondents replied they are collateral lenders and, therefore, do not make credit decisions based on cash flow/leverage multiples (previous survey: 16 percent).

- Five 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: 14 percent).

- Sixteen percent of lenders believe that the leverage multiple will increase less than 0.5x during the next six months (previous survey: 4 percent).

- Three percent conclude that the leverage multiple will increase greater than 0.5x during the next six months (previous survey: 9 percent).

- Sixteen percent conclude that the leverage multiple will decrease less 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: 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.

- Sixty-five percent concluded that unstable energy prices have the strongest potential to affect the economy during the next six months (previous survey: 43 percent).

- Twenty-six percent designated the sluggish housing market as the factor with the strongest potential to affect the near-term economy (previous survey: 40 percent).

- Thirty-eight percent opined that the stability of the stock market has the strongest potential to affect the economy during the next six months (previous survey: 36 percent).

- Twenty-one 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: 36 percent).

- Eighteen percent chose “other” factors as having the strongest potential to affect the economy during the next six months (previous survey: 19 percent).

- Fifteen percent indicated constrained liquidity in the capital markets as the factor with the strongest potential to affect the near-term economy (previous survey: 7 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.

- Thirty-eight percent believe the Retail Trade industry will experience the most volatility over the next six months (previous survey: 46 percent).

- Thirty-one percent of respondents chose the Healthcare and Social Assistance industry to experience the greatest volatility (previous survey: 24 percent).

- Thirty-four percent designated the Construction industry as the industry expected to have the greatest volatility in the near term (previous survey: 27 percent).

- Seventeen percent of respondents believe the Finance and Insurance industry will experience the greatest volatility over the next six months (previous survey: 24 percent).

- Seventeen percent of survey takers are of the opinion Utilities will experience significant volatility in the short term (previous survey: 22 percent).

- Fifty-five percent of respondents believe the Mining industry will experience significant volatility in the next six months (previous survey: 41 percent).

- Fourteen percent responded that the Agriculture, Forestry, Fishing and Hunting industry would experience the most volatility during the next six months (previous survey: 7 percent).

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

- Fourteen percent of lenders believe the Public Administration industry to experience the greatest volatility (previous survey: 9 percent).

- The balance of the industry choices registered twelve 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.

- Sixty-one percent of lenders indicated their customers are planning on making an acquisition in the next six months (previous survey: 56 percent).

- Sixty-one percent of lenders believe their customers will be making new capital investments (previous survey: 49 percent).

- Thirty-nine percent indicated their customers are planning on raising additional capital in the near term (previous survey: 38 percent).

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

- Forty-three percent responded their customers are planning on entering new markets in the near term (previous survey: 36 percent).

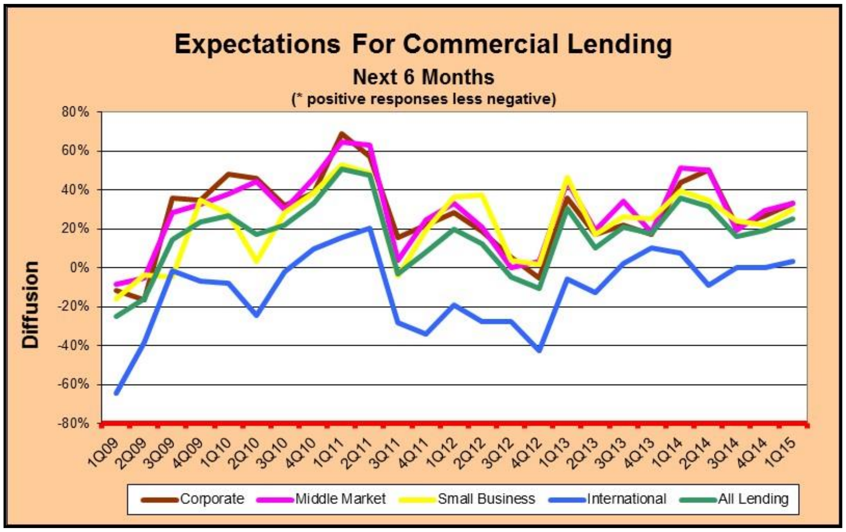
- Forty-three percent of lenders believe their customers are planning on introducing new products or services (previous survey: 38 percent).

- Seven percent of lenders believe their customers are planning "other" initiatives in the next six months (previous survey: 4 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 1Q 2015, as lenders expect a mild increase in corporate and middle market and a mild decrease in small business and international. Thirty-five percent of respondents view the entire lending universe as improving compared to thirty percent of respondents in the previous quarter. The overall lending diffusion index increased to twenty-five percent from twenty percent in the prior quarter's survey. The domestic lending diffusion index rose as well this quarter, increasing six percentage points to thirty-two percent. The diffusion index for international lending increased its diffusion index to four percent from zero percent in the previous quarter.



	4Q/2014			1Q/2015		
	Up	Down	Same	Up	Down	Same
Corporate Lending	32%	5%	63%	40%	7%	53%
Middle Market Lending	34%	5%	61%	40%	7%	53%
Small Business Lending	37%	15%	49%	43%	13%	43%
International Lending	20%	20%	58%	17%	13%	70%

- Lenders attitudes are adjusting to reflect the reflect the recent Federal Reserve actions as the interest rate diffusion increased to sixty-seven percent from forty-four percent in the previous quarter. Loan losses continue to be in positive territory but decreased to a three percent diffusion index. The bankruptcies diffusion index increased to four percent from zero in the previous quarter, which is the first time it has been positive since 4Q 2012.

	4Q/2014			1Q/2015		
	Up	Down	Same	Up	Down	Same
Loan Losses	23%	15%	63%	13%	10%	77%
Bankruptcies	20%	20%	61%	17%	13%	70%
Interest Rates	44%	0%	56%	67%	0%	33%
Unemployment	0%	44%	56%	3%	27%	70%
Bank Failures	0%	37%	63%	0%	31%	69%

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 a slight decline this quarter, but its GPA remains at the "C" level, with a 2.49 in 4Q 2015 to 2.39 in 1Q 2015. In the current quarter, fifty-two percent of respondents believe the economy will perform at a "C" level, which represents a decrease of twelve percentage points from the previous quarter. The grade-point average remains at the "C" level but there has been a divergence in opinions. Ten percent of lenders believe the economy will perform at a "D" level and forty-nine percent believe the economy will perform at an "A" level, which is a ten percent and five percent increase from the previous quarter, respectively.

Grade	4Q/2014	1Q/2015
A	2%	0%
B	44%	49%
C	54%	42%
D	0%	10%
F	0%	0%
Weighted Average Grade	2.49	2.39

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 saw a moderate increase relative to the prior quarter. The weighted average GPA increased to 2.39 from 2.29, which is a "C' grade. Forty-eight percent of lenders feel as though the economy will perform at a "B" level beyond the next six months (compared to thirty-seven percent last quarter). Lenders who believe the economy will perform at a "C" over the next twelve months decreased to forty-five percent from forty-nine percent. Three percent of lenders believe over the next six to twelve months the economy will perform at a "D" grade while three percent believe the economy will perform at an "F" grade.

Grade	4Q/2014	4Q/2014
A	2%	0%
B	37%	48%
C	49%	45%
D	12%	3%
F	0%	3%
Weighted Average	2.29	2.39

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 increased by twenty-eight percentage points compared to 4Q 2014. With a shift back towards moderation, zero percent of lenders ascribe "very strong growth" for their borrower's growth in the next six months while nineteen percent ascribe to "strong growth" for their borrower's growth. There was a nine percentage point decrease in lenders favoring “no growth” to three percent. The continued belief of “moderate growth” is a positive signal from lenders on the U.S. economy.

Indication	4Q/2014	1Q/2015
Very Strong	2%	0%
Strong	37%	19%
Moderate	49%	77%
No Growth	12%	3%

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 relax loan structures for all loan sizes in the near future. This indicates lenders are beginning expect a change in the market.

	3Q/2014			1Q/2015		
	Tighten	Maintain	Relax	Tighten	Maintain	Relax
Loans> $25 million	11%	81%	8%	8%	73%	19%
$15 – 25 million	9%	86%	6%	8%	69%	23%
$5-15 million	13%	79%	8%	11%	78%	11%
Under $5 million	19%	70%	11%	10%	67%	23%
Overall Average	13%	79%	8%	9%	72%	19%

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 mild decrease in the percentage of lenders who believe that they will increase their loan spreads in each category except for loans above $25 million, which saw a one percent increase. Loans under $5 million saw a nineteen percent decrease 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.

	4Q/2014			1Q/2015		
	Reduce	Maintain	Increase	Reduce	Maintain	Increase
Loans> $25 million	24%	62%	14%	19%	65%	15%
$15 – 25 million	14%	69%	17%	19%	69%	12%
$5-15 million	11%	66%	24%	14%	71%	14%
Under $5 million	5%	62%	32%	7%	80%	13%
Overall Average	14%	65%	22%	15%	72%	14%

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	4Q/2014	1Q/2015
+ 1/2 point or more	18%	13%
+ 1/4 point	43%	67%
Unchanged	40%	20%
- 1/4 point	0%	0%
- 1/2 point or more	0%	0%
Weighted Average	0.22 bps	0.26 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 slight increase 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.

	4Q/2014	1Q/2015
Money Center Banks	15%	16%
Local Community/Commercial Bank	51%	52%
Factors	20%	13%
Regional Bank	8%	13%
Commercial Finance Co.	0%	0%
Other:	10%	6%