Phoenix Management Services
"Lending Climate in America" Survey

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2nd Quarter 2015
Summary, Trends and Implications

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"LENDING CLIMATE IN AMERICA"

2nd Quarter 2015

SUMMARY, TRENDS AND IMPLICATIONS

1. **The U.S. Dollar has appreciated by approximately 15% since mid-2014. Which of the following do you believe will be the most significant effect over the next twelve months as a result of a strong U.S. Dollar?**

   The lenders surveyed this quarter were split on the most significant effect of a strong U.S. Dollar. The highest percentage of lenders, at forty-eight percent, believe that a strong U.S. dollar will slow down the domestic economy as exports are more expensive and imports are more competitive. The next highest contingent, garnering thirty-five percent of responses, were the lenders who believe domestic corporations will continue to implement cost cutting initiatives to make up for the decreased foreign demand that's driven by a strong U.S. dollar. Eighteen percent of respondents believe a strong U.S. dollar will hinder the Federal Reserve's inflationary goals.

2. **According to the WSJ, sales of previously owned homes rose to the highest level in 18 months in March and sales of newly built homes increased 19.4% since March 2014. What do you believe is the most important variable for a strong housing market to continue?**

   Sixty percent of lenders believe that continued low interest rates is the most important variable for a strong housing market to continue. The next highest answer, garnering twenty-eight percent of responses, was that a decreased unemployment rate is the most important variable for a strong housing market to continue. Ten percent of lenders believe that moderate home value growth is the most important factor. The remaining lenders wrote in their responses and included the following thought:

   "Higher interest rates are expected"

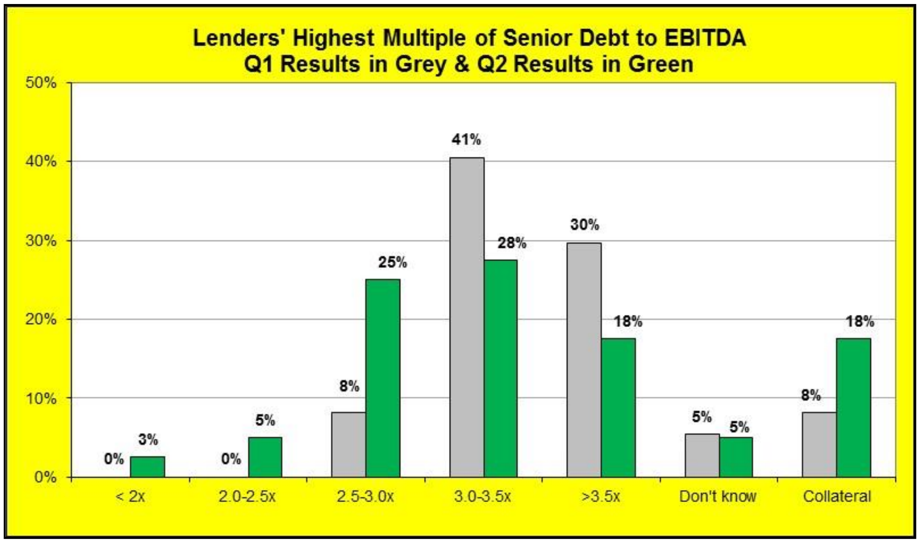
3. **The nation's seventh largest bank, GE Capital, which is considered a systemically important financial institution, has made headlines surrounding its decision to sell the majority of its assets, including a $74 billion U.S. commercial lending and leasing portfolio. What is your take away to this decision?**

   An overwhelming seventy-eight percent of respondents believe that this move was a strategic decision to refocus its business and escape the increasing regulatory costs and scrutiny associated with the finance industry. Ten percent of respondents believe that it was purely a strategic move by GM while ten percent of respondents believe the severe regulatory environment is beginning to hinder the operations and performance of large financial institutions. The remainder of lenders wrote in their responses and included the following thought:

   "There are too many lenders in the space and now is a good time to exit."

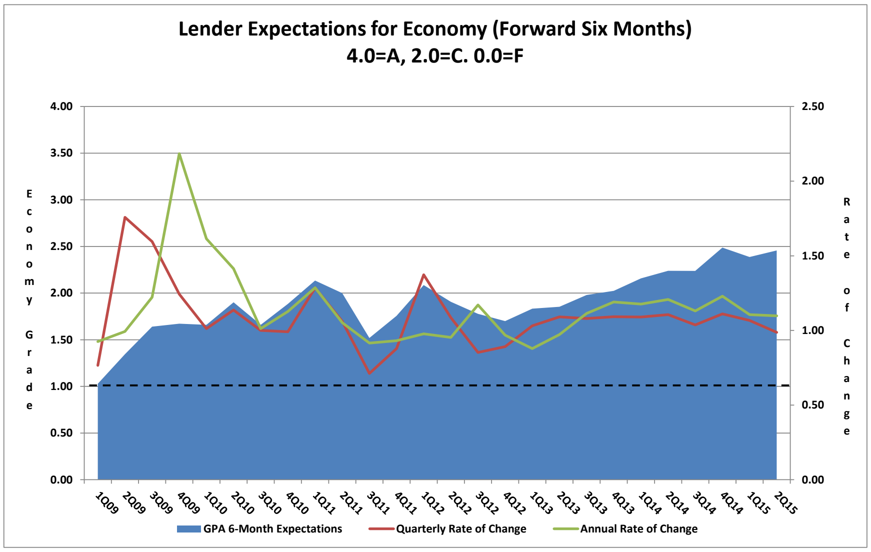
4. **Leverage multiples are expected to decrease versus the prior quarter.**

Multiples have shifted down in 2Q 2015. Twenty-eight 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 thirteen percentage point decrease from the prior quarter. The percentage of respondents who would consider a debt to EBITDA ratio greater than 3.5x decreased twelve percentage points to eighteen percent. Eighteen percent of lenders indicated that collateral supersedes senior debt to EBITDA ratio when considering a loan request, an increase of ten percentage points from the last quarter. The percentage of lenders who indicated the highest ratio they would consider is between 2.5-3.0x saw a significant gain, rising seventeen percentage points to twenty-five percent. Five percent of respondents stated their institutions highest multiple is in the 2.0-2.5x range and three percent indicated their institutions highest multiple is less than 2.0x, both of these categories increased from zero percent in the prior quarter.



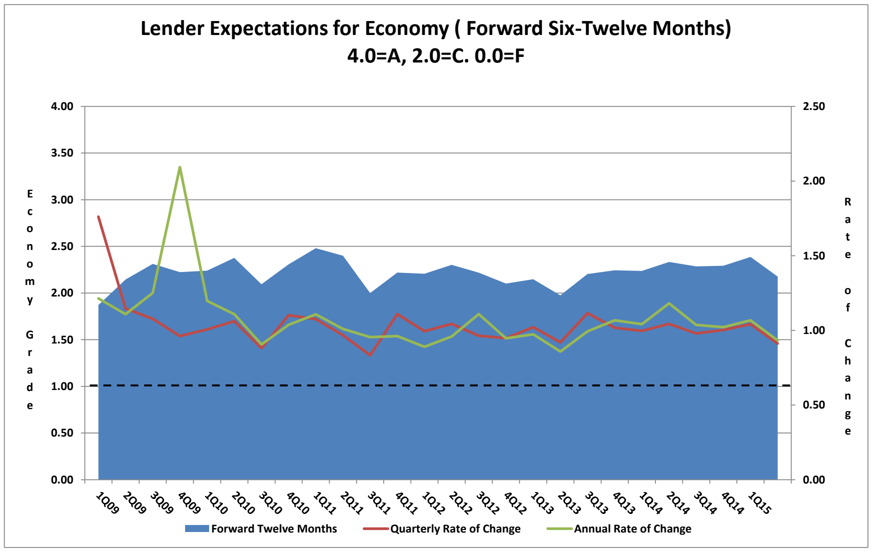
5. **Near term economic performance expectations strengthen while long term expectations fall in this quarter's survey.**

The near term economic growth sentiment remained at an overall "C" grade this quarter; the indexes GPA increased to 2.46 from the 1Q 2015 results of 2.39. The majority of lenders (fifty-four percent) believe the economy will perform at a "C" level over the next six months, compared to forty-five percent in the previous survey. Conversely, forty-six percent of lenders surveyed believe the economy will perform at a "B" grade, compared to forty-eight percent in the previous survey. While a decreased number of respondents believe the economy will perform at a B level this quarter, zero percent believe that the economy will perform at a "D" level, which received ten percent of 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 and is the second highest near term GPA since 3Q 2006.



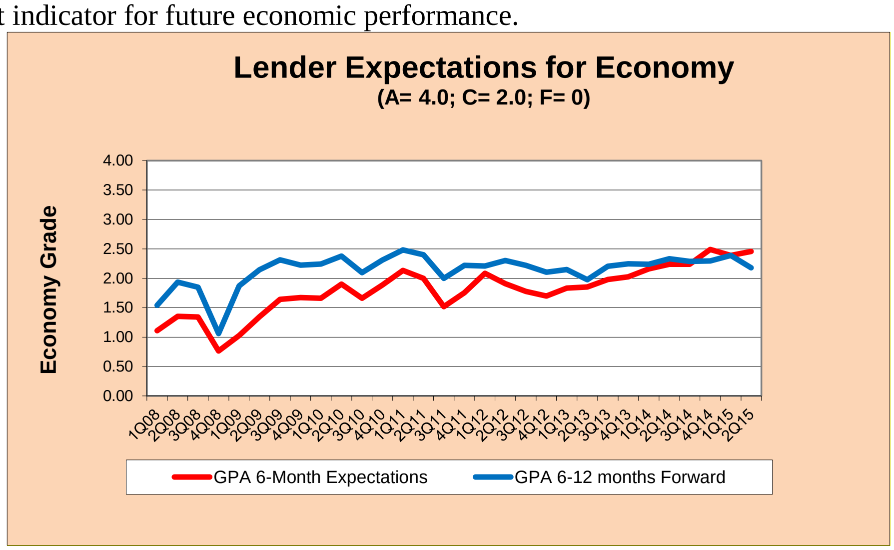
Rate of Change of 1.0 is at equilibrium and signifies "no change" from the corresponding prior period of comparison.

Lenders growth expectations for the U.S. economy beyond six months dropped twenty one points to a 2.18 GPA from 2.39 in the previous quarter, but maintains a "C" grade. Thirty-two percent of lenders believe the economy will perform at a "B" level in the next six to twelve months, which is sixteen percentage points lower than the previous quarter. Fifty-three percent of lenders believe the economy will perform at a "C" level in the next six to twelve month period, compared to forty-five percent in the previous quarter. The percentage of respondents who believe the economy will perform at a "D" level beyond the next six months jumped by nearly twelve percentage points to fifteen percent, when compared to the previous quarter. It appears that lenders long term optimism is beginning to weaken.



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

The 4Q 2014 survey was the first survey since 4Q 2006 that showed a higher near term GPA than long term GPA. While the near term and long term GPA were the same in 1Q 2015, this quarter's survey showed the largest difference between the two numbers at twenty eight points. Since 2001, this is only the second time that three consecutive quarters have had a higher near term GPA than long term GPA, with the other instance occurring in 2006. While both the near term and long term GPA's maintain their "C" grade, lender's skepticism about future performance may be an important indicator for future economic performance.



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Survey Results

1. Lenders believe that the recent appreciation to the U.S. Dollar will slow down the domestic economy.

Lenders were asked: The U.S. Dollar has appreciated by approximately 15% since mid-2014. Which of the following do you believe will be the most significant effect over the next twelve months as a result of a strong U.S. Dollar?

- Forty-eight percent believe that a strong U.S. dollar will slow down the domestic economy as U.S. exports are more expensive and imports are more competitive.
- Thirty-five percent of respondents believe that domestic corporations will continue to implement cost cutting initiatives to make up for the decreased foreign demand that's driven by a strong U.S. dollar.
- Eighteen percent believe that a strong U.S. dollar will hinder the Federal Reserve's inflationary goals.
- Zero percent of respondents wrote in their own answer.

2. Lenders believe that low interest rates and low unemployment are the most important variables for a strong housing market to continue.

Lenders were asked: According to the WSJ, sales of previously owned homes rose to the highest level in 18 months in March and sales of newly built homes increased 19.4% since March 2014. What do you believe is the most important variable for a strong housing market to continue?

- Sixty percent of lenders believe that continued low interest rates is the most important variable for a strong housing market to continue.
- Twenty-eight percent believe that a decreased unemployment rate is the most important variable for a strong housing market to continue.
- Ten percent believe that moderate home value growth is the most important variable for a strong housing market to continue.
- Three percent of respondents wrote in their own answer.

3. Lenders believe that GE's decision to sell a majority of GE Capital's assets reflects the severe regulatory environment of financial institutions and a change of company strategy.

Lenders were asked: The nation's seventh largest bank, GE Capital, which is considered a systemically important financial institution, has made headlines surrounding its decision to sell the majority of its assets, including a $74 billion U.S. commercial lending and leasing portfolio. What is your take away to this decision?

- Seventy-eight percent believe that this decision is both a strategic decision to refocus its business and escape the increasing regulatory costs and scrutiny associated with the finance industry.
- Ten percent believe the severe regulatory environment is beginning to hinder the operations and performance of large financial institutions.
- Ten percent believe that this was a strategic decision and is not a reflection of the financial industry.
- Three 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.

- Eighteen percent of lenders opined their financial institution would consider a loan request with leverage multiples of greater than 3.5x (previous survey: 30 percent).
- Twenty-eight 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: 41 percent).
- Eighteen percent of respondents replied they are collateral lenders and, therefore, do not make credit decisions based on cash flow/leverage multiples (previous survey: 8 percent).
- Twenty-five percent indicated their institution would consider a loan request with leverage multiples as high as the 2.51x – 3.00x range (previous survey: 8 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: 5 percent).
- Five 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).
- Three 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-eight percent indicated that the Senior Debt to EBITDA multiple will not change at their financial institution over the next six months (previous survey: 46 percent).
- Eighteen percent of respondents replied they are collateral lenders and, therefore, do not make credit decisions based on cash flow/leverage multiples (previous survey: 5 percent).
- Three 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: 5 percent).
- Ten percent of lenders believe that the leverage multiple will increase less than 0.5x during the next six months (previous survey: 16 percent).
- Three percent conclude that the leverage multiple will increase greater than 0.5x during the next six months (previous survey: 3 percent).
- Five percent conclude that the leverage multiple will decrease less than 0.5x during the next six months (previous survey: 16 percent).
- Five 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-nine percent concluded that unstable energy prices have the strongest potential to affect the economy during the next six months (previous survey: 65 percent).
- Twenty-three percent designated the sluggish housing market as the factor with the strongest potential to affect the near-term economy (previous survey: 26 percent).
- Forty-four percent opined that the stability of the stock market has the strongest potential to affect the economy during the next six months (previous survey: 38 percent).
- Ten 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: 21 percent).
- Thirteen percent chose "other" factors as having the strongest potential to affect the economy during the next six months (previous survey: 18 percent).
- Twenty-eight percent indicated constrained liquidity in the capital markets as the factor with the strongest potential to affect the near-term economy (previous survey: 15 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-six percent believe the Retail Trade industry will experience the most volatility over the next six months (previous survey: 38 percent).

- Twenty-five percent of respondents chose the Healthcare and Social Assistance industry to experience the greatest volatility (previous survey: 31 percent).

- Seventeen percent designated the Construction industry as the industry expected to have the greatest volatility in the near term (previous survey: 34 percent).

- Thirty-three percent of respondents believe the Finance and Insurance industry will experience the greatest volatility over the next six months (previous survey: 17 percent).

- Fourteen percent of survey takers are of the opinion Utilities will experience significant volatility in the short term (previous survey: 17 percent).

- Fifty-three percent of respondents believe the Mining industry will experience significant volatility in the next six months (previous survey: 55 percent).

- Thirty-one percent of lenders feel that the Manufacturing industry will face increasing volatility in the near term (previous survey: 17 percent).

- The balance of the industry choices registered eleven 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.

- Forty percent of lenders indicated their customers are planning on making an acquisition in the next six months (previous survey: 61 percent).

- Sixty-six percent of lenders believe their customers will be making new capital investments (previous survey: 61 percent).

- Twenty-nine percent indicated their customers are planning on raising additional capital in the near term (previous survey: 39 percent).

- Fifty-four percent of respondents indicated their customers plan on hiring new employees in the next six months (previous survey: 46 percent).

- Thirty-one percent responded their customers are planning on entering new markets in the near term (previous survey: 43 percent).

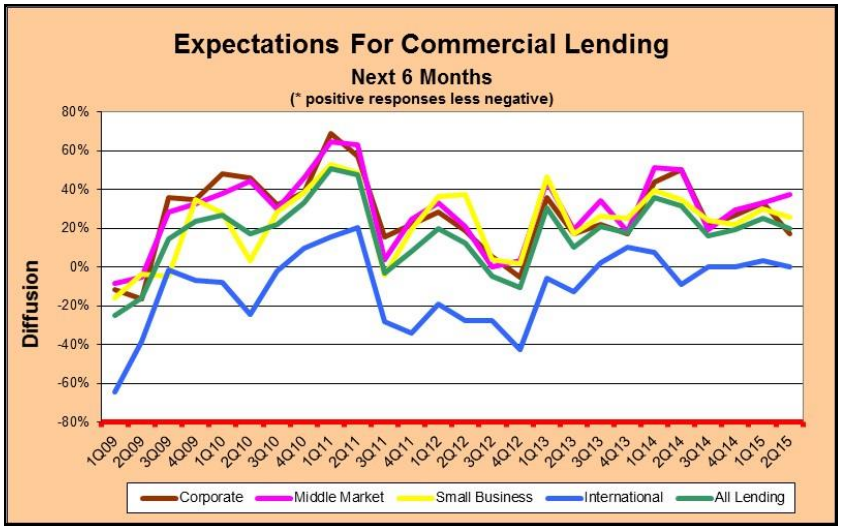
- Thirty-four percent of lenders believe their customers are planning on introducing new products or services (previous survey: 43 percent).

- Three percent of lenders believe their customers are planning "other" initiatives in the next six months (previous survey: 7 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 decreased moderately in 2Q 2015, as lenders optimism decreased in corporate, middle market and small business, while international slightly. Thirty percent of respondents view the entire lending universe as improving compared to thirty-five percent of respondents in the previous quarter. The overall lending diffusion index decreased to twenty percent from twenty-five percent in the prior quarter's survey. The domestic lending diffusion index decreased as well this quarter, decreasing five percentage points to twenty-seven percent. The diffusion index for international lending decreased its diffusion index to zero percent from three percent in the previous quarter.



	1Q/2015			2Q/2015		
	Up	Down	Same	Up	Down	Same
Corporate Lending	40%	7%	53%	31%	14%	54%
Middle Market Lending	40%	7%	53%	37%	0%	63%
Small Business Lending	43%	13%	43%	31%	6%	63%
International Lending	17%	13%	70%	20%	20%	60%

- Lenders attitudes continue to reflect the recent Federal Reserve actions as the interest rate diffusion continues to be high at fifty-one percent. Loan losses continue to be in positive territory and maintained a diffusion index of three percent. The bankruptcies diffusion index decreased to zero percent from three in the previous quarter, which is the first time it has been positive since 4Q 2012.

	1Q/2015			2Q/2015		
	Up	Down	Same	Up	Down	Same
Loan Losses	13%	10%	77%	20%	17%	63%
Bankruptcies	17%	13%	70%	20%	20%	60%
Interest Rates	67%	0%	33%	54%	3%	43%
Unemployment	3%	27%	70%	9%	29%	63%
Bank Failures	0%	31%	69%	3%	27%	71%

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 2.39 in 1Q 2015 to 2.46 in 2Q 2015. In the current quarter, fifty-four percent of respondents believe the economy will perform at a "C" level, which represents an increase of twelve percentage points from the previous quarter. The grade-point average remains at the "C" level as there has been concentration of opinions. Forty-six percent of lenders believe the economy will perform at a "B" level, a three percent decrease and zero percent believe the economy will perform at a "D" level, which is a ten percent decrease from the previous quarter.

Grade	1Q/2015	2Q/2015
A	0%	0%
B	49%	46%
C	42%	54%
D	10%	0%
F	0%	0%
Weighted Average Grade	2.39	2.46

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 notable decrease from the prior quarter. The weighted average GPA decreased to 2.18 from 2.39, which is a "C' grade. Thirty-two percent of lenders feel as though the economy will perform at a "B" level beyond the next six months (compared to forty-eight percent last quarter). Lenders who believe the economy will perform at a "C" over the next twelve months increased to fifty-three percent from forty-five percent. Fifteen percent of lenders believe over the next six to twelve months the economy will perform at a "D" grade while zero percent believe the economy will perform at an "F" grade.

Grade	1Q/2015	2Q/2015
A	0%	0%
B	48%	32%
C	45%	53%
D	3%	15%
F	3%	0%
Weighted Average	2.39	2.18

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 three percentage points compared to 2Q 2015. 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 fourteen percent ascribe to "strong growth" for their borrower's growth. There was a three percentage point increase in lenders favoring "no growth" to six percent. The continued belief of "moderate growth" is a positive signal from lenders on the U.S. economy.

Indication	1Q/2015	2Q/2015
Very Strong	0%	0%
Strong	19%	14%
Moderate	77%	80%
No Growth	3%	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. However, there was a notable return in the percentage of lenders indicating they are looking to maintain loan structures for all loan sizes rather than relax them in the near future. This indicates lenders are expect the market to be steady.

	1Q/2015			1Q/2015		
	Tighten	Maintain	Relax	Tighten	Maintain	Relax
Loans> $25 million	8%	73%	19%	3%	82%	15%
$15 – 25 million	8%	69%	23%	3%	88%	9%
$5-15 million	11%	78%	11%	3%	88%	9%
Under $5 million	10%	67%	23%	9%	85%	6%
Overall Average	9%	72%	19%	5%	86%	10%

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 loans above $15 million. Loans under $5 million saw a ten percent increase in the amount lenders who believe their financial institution will increase their interest rate spreads and fee structures. We anticipate borrowers will continue to see competitive pricing in the near future based on the responses from the survey.

	1Q/2015			2Q/2015		
	Reduce	Maintain	Increase	Reduce	Maintain	Increase
Loans> $25 million	19%	65%	15%	15%	79%	6%
$15 – 25 million	19%	69%	12%	18%	73%	9%
$5-15 million	14%	71%	14%	9%	77%	15%
Under $5 million	7%	80%	13%	14%	63%	23%
Overall Average	15%	72%	14%	14%	73%	13%

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 continue to expect 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	1Q/2015	2Q/2015
+ 1/2 point or more	13%	23%
+ 1/4 point	67%	49%
Unchanged	20%	23%
- 1/4 point	0%	0%
- 1/2 point or more	0%	0%
Weighted Average	0.26 bps	0.23 bps

16. Current Competition

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

- Local commercial/community banks and factors 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 seventy-five percent of responses.

	1Q/2015	2Q/2015
Money Center Banks	16%	6%
Local Community/Commercial Bank	52%	66%
Factors	13%	17%
Regional Bank	13%	9%
Commercial Finance Co.	0%	0%
Other:	6%	3%