Phoenix Management Services
"Lending Climate in America" Survey

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3rd Quarter 2015
Summary, Trends and Implications

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"LENDING CLIMATE IN AMERICA"

3rd Quarter 2015

SUMMARY, TRENDS AND IMPLICATIONS

1. **In August, the Chinese central bank devalued its tightly controlled currency. What is the greatest impact of devaluing the yuan?**

   29% believe that the greatest impact of devaluing the yuan is to help boost the Chinese imports. 27% of lenders each believe a) it is to force the U.S. Federal Reserve to delay its anticipated decision to begin raising interest rates, and b) to increase market volatility in emerging market economies. 6% of respondents believe the greatest impact is to encourage Chinese rival economies to follow suit and devalue their own.

2. **What will be the greatest near-term economic impact of the equity market's recent volatility?**

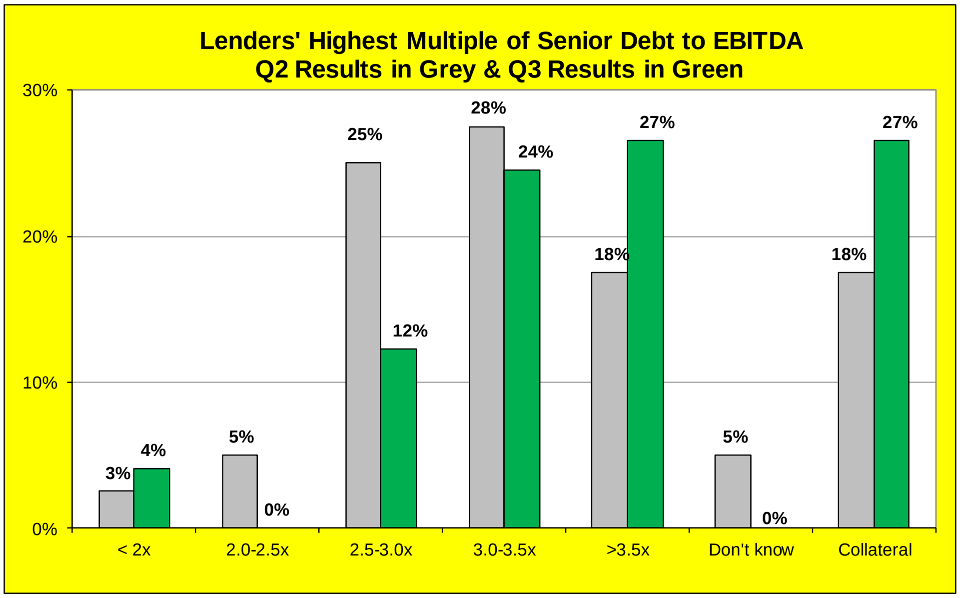
   37% of lenders believe that the Fed holding off on increasing interest rates will be the greatest near-term economic impact on the equity market's recent volatility. The next highest answer, garnering 31% of responses, was that consumer confidence will lag as investors become more concerned with their personal portfolios/retirement savings. 20% of lenders believe that domestic equity markets are overdue for a market correction. 6% each believe the greatest near-term economic impact was a) borrowers being more conservative with capital spending and/or hoarding, and b) liquidity constraints in bond markets as demand increases due to "flight to safety."

3. **Which of the following economic metrics will be the strongest indicator for U.S. retailers for the 2015 holiday season?**

   An overwhelming 67% of respondents believe that consumer confidence levels will be the strongest indicator for U.S. retailers this holiday season. 10% of respondents believe that stock performance will be the strongest indicator, with 8% predicting the strongest indicator to be falling gas prices. 4% of lenders believe that both a) the current level of outstanding credit card debt, and b) the unemployment rate will be the strongest indicator for the 2015 holiday season.

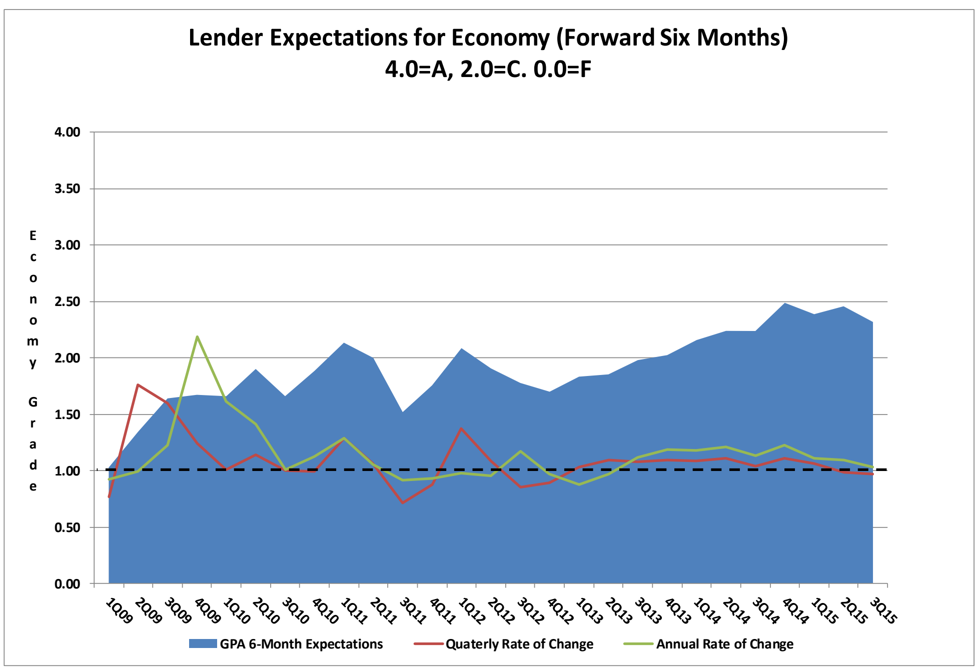
4. **Leverage multiples are expected to decrease versus the prior quarter.**

   Multiples have shifted in 3Q 2015. 27% of lenders indicated the >3.5x range, a 9 percentage point increase from the prior quarter, would be the highest EBITDA ratio they would consider. The percentage of respondents who would consider a debt to EBITDA ratio of 3.0-3.5x decreased 4 percentage points to 24%. The percentage of lenders who indicated the highest ratio they would consider is between 2.5-3.0x saw a significant decrease, 13 points to 12%. Zero percent of respondents stated their institutions highest multiple is in the 2.0-2.5x range and 4% indicated their institutions highest multiple is less than 2.0x. In addition, 27% of lenders responded that they were collateral lenders and therefore do not make decisions based on cash flow/leverage multiples.



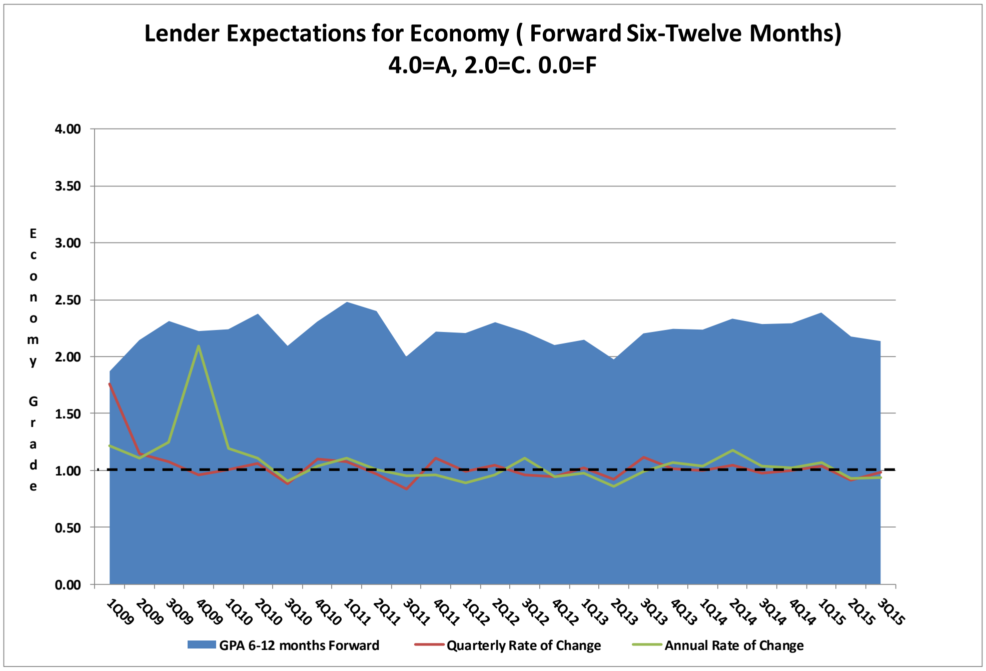
5. **Economic performance expectations have weakened in this quarter's survey.**

The near term economic growth sentiment remained at an overall "C" grade this quarter; the indexes GPA decreased to 2.32 from the 2Q 2015 results of 2.46. The majority of lenders (55%) believe the economy will perform at a "C" level over the next six months, compared to 54% in the previous survey. Conversely, 39% of lenders surveyed believe the economy will perform at a "B" grade, compared to 46% in the previous survey. While fewer respondents believe the economy will perform at a B level this quarter, only 7% believe that the economy will perform at a "D" level. 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.



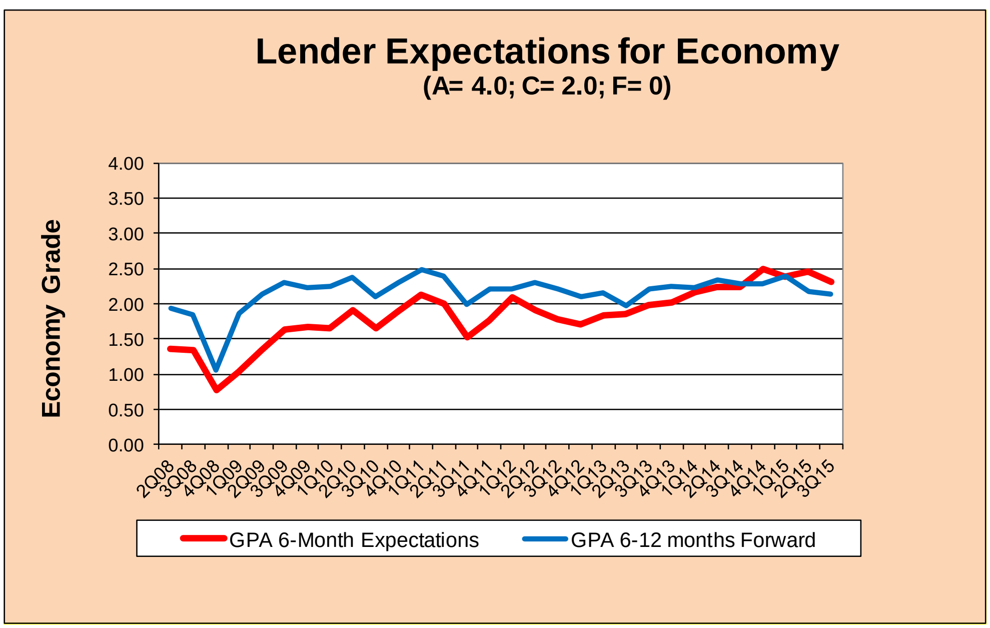
**** Rate of Change of 1.0 is at equilibrium and signifies "no change" from the corresponding prior period of comparison.***

Lenders growth expectations for the U.S. economy beyond six months dropped 4 points to a 2.14 GPA from 2.18 in the previous quarter, but maintains a "C" grade. 27% of lenders believe the economy will perform at a “B” level in the next six to twelve months, which is 5 percentage points lower than the previous quarter. 59% of lenders believe the economy will perform at a “C” level in the next six to twelve month period, compared to 53% in the previous quarter. The percentage of respondents who believe the economy will perform at a “D” level beyond the next six months dropped 1 percentage point to 14%, when compared to the previous quarter. It appears that lenders are becoming more pessimistic about the future, but particularly with regard to the short term economic prospects.



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

The 3Q 2015 survey continues the recent trend of higher near term GPA than long term GPA. The 0.14 point drop in nearer term GPA implies a continuing dampening of lender’s expectations of the economy.



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Survey Results

1. Lenders believe that the Chinese Central Bank devalued its yuan to help boost Chinese imports.

Lenders were asked: In August, the Chinese central bank devalued its tightly controlled currency. What is the greatest impact of devaluing the yuan?

- 29% believe that Chinese central bank devalued its tightly controlled currency to help boost Chinese imports.

- 27% of lenders believe that reason for devaluing the yuan was to a) force the U.S. Federal Reserve to delay its anticipated decision to begin raising interest rates and, b) to increase the market volatility in emerging market economies.

- 6% believe the reasoning was to encourage Chinese rival economies to follow suit and devalue their own.

- 12% of respondents wrote in their own answer.

2. Lenders believe that the Fed holding off on increasing interest rates will be the greatest near-term economic impact of the equity market's recent volatility.

Lenders were asked: What will be the greatest near-term economic impact of the equity market's recent volatility?

- 37% of lenders believe that the Fed holding off on increasing interest rates is the greatest near-term economic impact on the equity market's recent volatility.

- 31% believe that the greatest near-term economic impact on the equity market's recent volatility is because consumer confidence will lag as investors become more concerned with their personal portfolios/retirement savings.

- 20% believe that the greatest impact will be because domestic equity markets are overdue to a market correction.

- 6% of lenders believe that a) borrowers being more conservative with capital spending and/or hoarding and, b) liquidity constraints in bond markets as demand increases due to "flight to safety" will be the greatest impact.

3. Lenders believe that Consumer confidence levels will be the strongest indicator for U.S. retailers for the 2015 holiday season.

Lenders were asked: Which of the following economic metrics will be the strongest indicator for U.S. retailers for the 2015 holiday season?

- 67% of lenders believe that consumer confidence levels will be the strongest indicator for U.S. retailers this holiday season.

- 10% believe the stock market performance will be the strongest indicator for U.S. retailers for the 2015 holiday season.

- 8% believe that the falling gas prices will be the strongest indicator this holiday season for U.S. retailers.

- 4% of lenders believe that the unemployment rate and the current level of outstanding credit card debt will be the strongest indicators this holiday season for U.S. retailers.

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.

EBITDA Level	2Q 2015	3Q 2015
Greater than 3.5x	18%	27%
Between 3.01x and 3.50x	28%	24%
Between 2.51x and 3.00x	25%	12%
Between 2.01x and 2.50x	5%	0%
Less than 2.0x	3%	4%
Collateral lenders	18%	27%
N/A	5%	0%

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.

Change in Senior Debt to EBITDA Level	2Q 2015	3Q 2015
Increase greater than 0.5x	3%	0%
Increase less than 0.5x	10%	6%
Decrease less than 0.5x	5%	10%
Decrease greater than 0.5x	5%	2%
No change	58%	45%
Collateral lenders	18%	27%
N/A	3%	4%

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.

Factors Affecting Near-Term Economy	2Q 2015	3Q 2015
Stability of Stock Market	44%	71%
Unstable Energy Prices	69%	33%
Constrained Liquidity in Capital Markets	28%	31%
Sluggish Housing Market	23%	11%
U.S. Budget Deficit	10%	11%
Other	30%	31%

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.

Industries Experiencing Most Volatility	2Q 2015	3Q 2015
Mining	53%	72%
Retail Trade	36%	35%
Manufacturing	31%	33%
Construction	17%	28%
Healthcare and Social Assistance	25%	19%
Finance and Insurance	33%	19%
Utilities	14%	16%

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

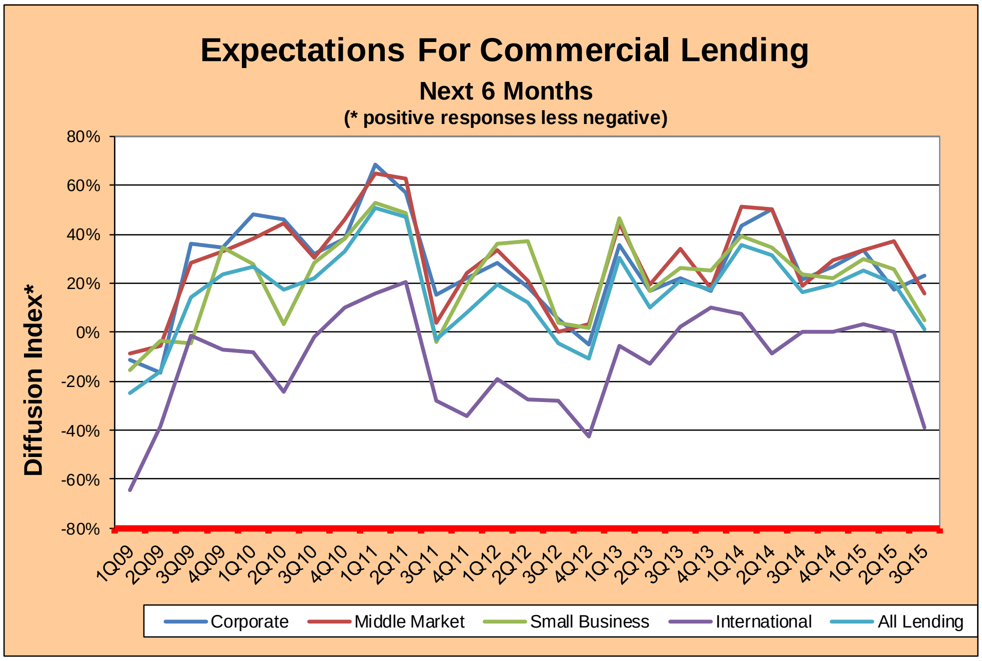
Respondents were asked which of the following actions their customers planned in the next six months. Lenders were asked to designate all potential customer actions that applied.

Customers' Plans	2Q 2015	3Q 2015
Making an Acquisition	40%	57%
Hiring New Employees	44%	43%
Capital Improvements	66%	40%
Raising Additional Capital	29%	40%
Introducing New Products or Services	34%	40%
Entering New Markets	31%	36%
"Other" Initiatives	3%	10%

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 significantly in 3Q 2015, as lenders optimism decreased in corporate, middle market and small business, and internationally. 20% of respondents view the entire lending universe as improving compared to 30% of respondents in the previous quarter. The overall lending diffusion index decreased significantly to 1% from 20% in the prior quarter's survey. The domestic lending diffusion index decreased as well this quarter, decreasing 12 points to 15%. The diffusion index for international lending decreased to negative 39% from 0% in the previous quarter.



	2Q/2015			3Q/2015		
	Up	Down	Same	Up	Down	Same
Corporate Lending	31%	14%	54%	28%	5%	67%
Middle Market Lending	37%	0%	63%	25%	9%	66%
Small Business Lending	31%	6%	63%	19%	14%	67%
International Lending	20%	20%	60%	9%	48%	43%

- Lenders attitudes continue to reflect the continued inaction by the Federal Reserve, as the interest rate diffusion continues to be high at 63%. Loan losses diffusion index increased dramatically to 16%. The bankruptcies diffusion index increased to 19% from 0% in the previous quarter, which is the highest it has been since Q3 2011.

	2Q/2015			3Q/2015		
	Up	Down	Same	Up	Down	Same
Loan Losses	20%	17%	63%	25%	9%	66%
Bankruptcies	20%	20%	60%	30%	11%	59%
Interest Rates	54%	3%	43%	68%	5%	27%
Unemployment	9%	29%	63%	14%	32%	55%
Bank Failures	3%	27%	71%	5%	18%	77%

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 2.46 in 2Q 2015 to 2.32 in 3Q 2015. In the current quarter, fifty-five percent of respondents believe the economy will perform at a "C" level, which represents an increase of 1 point from the previous quarter. The grade-point average remains at the "C" level as there has been concentration of opinions. 39% of lenders believe the economy will perform at a "B" level, a 7 point decrease, and 7% believe the economy will perform at a "D" level, up from 0% the previous quarter.

Grade	2Q/2015	3Q/2015
A	0%	0%
B	46%	39%
C	54%	55%
D	0%	7%
F	0%	0%
Weighted Average Grade	2.46	2.32

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 decrease from the prior quarter. The weighted average GPA decreased to 2.14 from 2.18, which is a "C' grade. 27% of lenders feel as though the economy will perform at a "B" level beyond the next six months (compared to 32% last quarter). Lenders who believe the economy will perform at a "C" over the next twelve months increased to 59% from 53%. 14% of lenders believe over the next six to twelve months the economy will perform at a "D" grade while 0% believe the economy will perform at an "F" grade.

Grade	2Q/2015	3Q/2015
A	0%	0%
B	32%	27%
C	53%	59%
D	15%	14%
F	0%	0%
Weighted Average	2.18	2.14

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 2 points compared to 2Q 2015. With a shift back towards moderation, 0% of lenders ascribe "very strong growth" for their borrower's growth in the next six months while 9% ascribe to "strong growth" for their borrower's. There was a 2 point decrease in lenders favoring "no growth" to 4%. The continued belief of "moderate growth" is a positive signal from lenders on the U.S. economy.

Indication	2Q/2015	3Q/2015
Very Strong	0%	0%
Strong	14%	9%
Moderate	80%	78%
No Growth	6%	4%

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 lenders indicating they are looking to tighten loan structures.

	2Q/2015			3Q/2015		
	Tighten	Maintain	Relax	Tighten	Maintain	Relax
Loans> $25 million	3%	82%	15%	18%	75%	8%
$15 – 25 million	3%	88%	9%	15%	80%	5%
$5-15 million	3%	88%	9%	12%	84%	5%
Under $5 million	9%	85%	6%	19%	79%	2%
Overall Average	5%	86%	10%	16%	79%	5%

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, lenders indicated a slight across-the-board uptick in their plan to increase interest rates. This may signal the beginning of a reversal to the recent trend in rate compression.

	2Q/2015			3Q/2015		
	Reduce	Maintain	Increase	Reduce	Maintain	Increase
Loans> $25 million	15%	79%	6%	10%	80%	10%
$15 – 25 million	18%	73%	9%	15%	75%	10%
$5-15 million	9%	77%	15%	12%	67%	21%
Under $5 million	14%	63%	23%	7%	67%	26%
Overall Average	14%	73%	13%	11%	72%	17%

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.

This survey was conducted after the September meeting of the Fed. The dramatic increase in Lenders that expect a rate increase in the next 6 months is a clear indication that it's not a question of "if" rates will rise, but "when".

Bps Change	**2Q/2015**	**3Q/2015**
+ 1/2 point or more	23%	9%
+ 1/4 point	49%	80%
Unchanged	23%	9%
- 1/4 point	0%	0%
- 1/2 point or more	0%	0%
Weighted Average	0.23 bps	0.24 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 significant decrease in the number of responses. Regional Banks, Money Center Banks and Commercial Finance Co. were the top respondents for the survey.

	2Q/2015	**3Q/2015**
Money Center Banks	6%	16%
Local Community/Commercial Bank	52%	14%
Factors	17%	0%
Regional Bank	9%	35%
Commercial Finance Co.	0%	16%
Other:	3%	8%