# Phoenix Management Services
# "Lending Climate in America" Survey

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## 4th Quarter 2015
## Summary, Trends and Implications

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## "LENDING CLIMATE IN AMERICA"

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### SUMMARY, TRENDS AND IMPLICATIONS

1. **Which of the following factors will be the most likely to materially impact this year's holiday sales?**

   40% of lenders believe consumer confidence will be the greatest factor to materially impact this year's holiday sales. The next highest contingent, garnering 30% of responses, were the lenders who believe that the ever-increasing impact of online shopping will have the greatest impact on holiday sales. 15% of respondents believe marketing and promotional campaigns, while 10% believe lower gas prices providing incremental liquidity for consumers will materially impact holiday sales. A few lenders, at 3%, believe new technology products will have the greatest impact on holiday sales.

2. **The United States and eleven other countries recently reached a provisional agreement on the Trans-Pacific Partnership, designed to reduce or eliminate tariffs and potentially open expanded trade between roughly 40% of the global economy. What do you believe will be the most meaningful, long-term impact of the proposed TPP?**

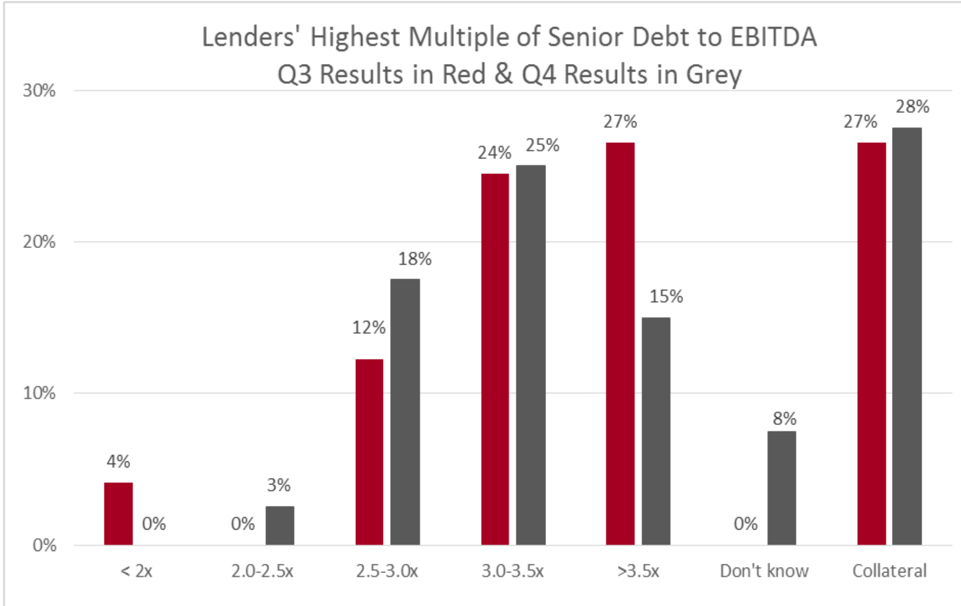
   The answer that received the highest percentage response, at 43% of respondents, were lenders that believe increased U.S. trade with Pacific trading partners will be the most meaningful, long-term impact of the proposed TPP. Garnering the second highest amount of responses, at 25%, were lenders that believe the most meaningful, long-term impact of the proposed TPP will be reduced tariffs. 18% believe that the U.S. Congress will not ratify the proposed TPP provisions and 13% believe that the long-term impact will be to raise labor and environmental standards of U.S. trading partners.

3. **In your opinion, which economic factor will have the greatest impact on U.S. equities performance in 2016?**

   The majority of lenders, garnering 38% of responses, believe that international economic pressures will have the greatest impact on U.S. equities performance in 2016. Not far behind with 30% of responses were lenders that believe that the greatest impact on U.S. equities performance in 2016 will be the Federal Reserve's action regarding interest rates. 15% of lenders believe that stock valuations relative to corporate earnings will have the greatest impact, while 8% believe it will be the relative condition of the domestic labor environment. 5% believe that the greatest impact on U.S. equities performance in 2016 will be from petroleum prices.

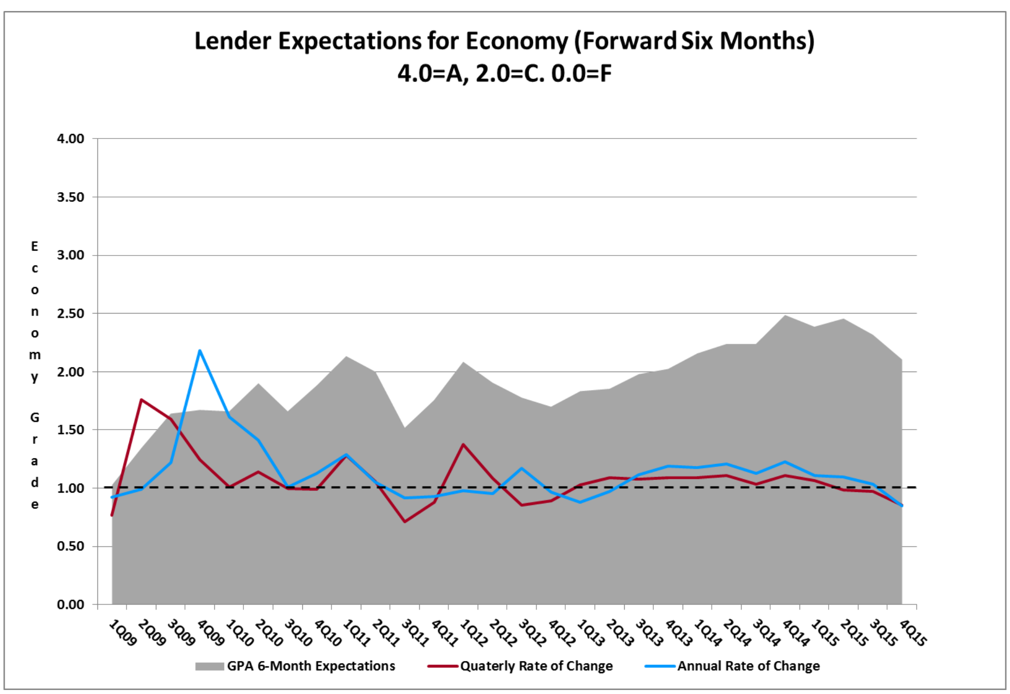
4. **Leverage multiples are expected to decrease versus the prior quarter.**

   Multiples have shifted in 4Q 2015. 15% of lenders indicated the >3.5x range would be the highest EBITDA ratio they would consider, a 12 percentage point decrease from the prior quarter. The percentage of respondents who would consider a debt to EBITDA ratio of 3.0-3.5x increased 1 percentage point to 25%. The percentage of lenders who indicated the highest ratio they would consider is between 2.5-3.0x saw a slight increase, 6 points to 18%. 3% of respondents stated their institutions highest multiple is in the 2.0-2.5x range and zero percent indicated their institutions highest multiple is less than 2.0x, a 4 point decrease from the previous quarter.  In addition, 28% of lenders responded that they were collateral lenders and therefore do not make decisions based on cash flow/leverage multiples.



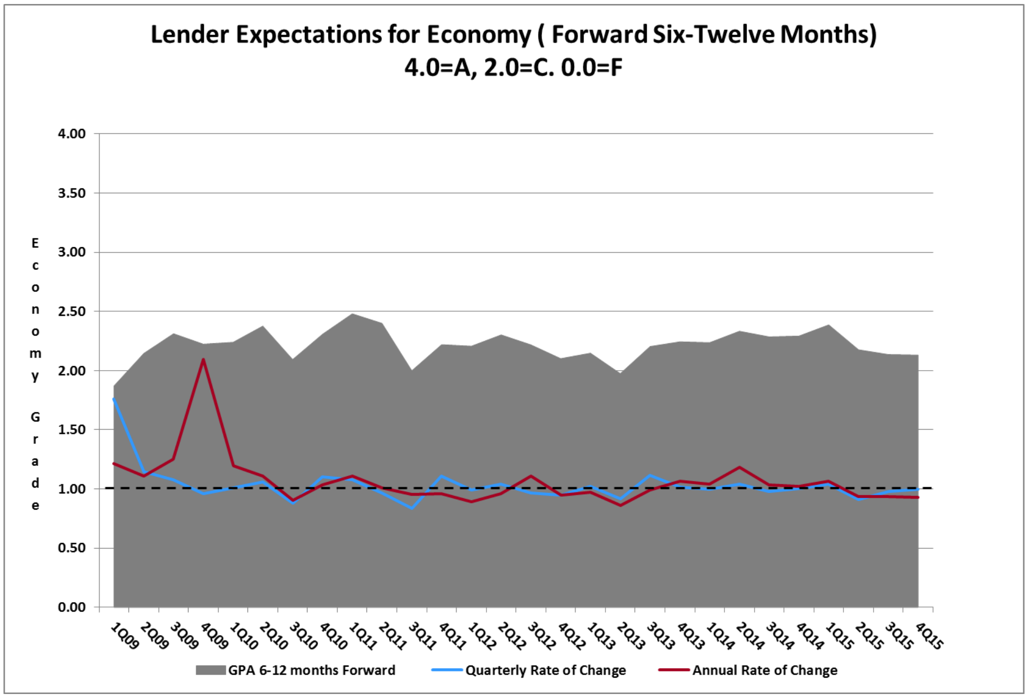

5. **Economic performance expectations continue to weaken in this quarter's survey.**

The near term economic growth sentiment remained at an overall "C" grade this quarter; the indexes GPA decreased to 2.11 from the 3Q 2015 results of 2.32. The majority of lenders (68%) believe the economy will perform at a "C" level over the next six months, compared to 55% in the previous survey.  Conversely, 21% of lenders surveyed believe the economy will perform at a "B" grade, compared to 39% in the previous survey.  There was a slight increase (11%) of lenders that believe that the economy will perform at a "D" level, a 4 percentage point increase from 7% the prior quarter. This survey continues the recent trend in which a higher percentage of lenders believe the economy will perform in the "C" grade level versus a "B" level over the next six months.



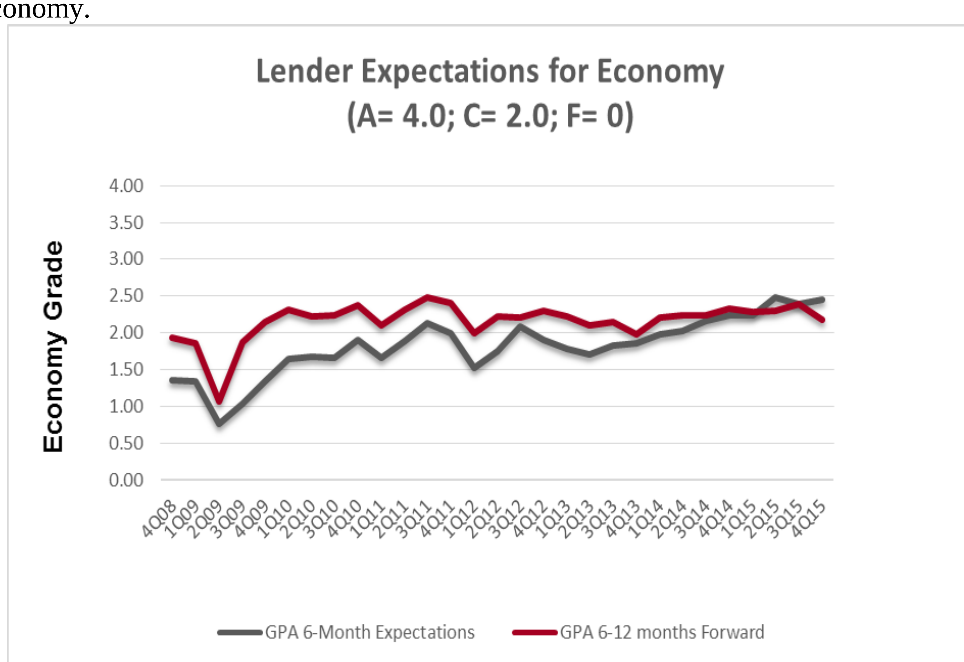
** Rate of Change of 1.0 is at equilibrium and signifies "no change" from the corresponding prior period of comparison.*

Lenders growth expectations for the U.S. economy beyond six months dropped 1 point to a 2.13 GPA from 2.14 in the previous quarter, but maintains a "C" grade. 29% of lenders believe the economy will perform at a "B" level in the next six to twelve months, which is 2 percentage points higher than the previous quarter. 58% of lenders believe the economy will perform at a "C" level in the next six to twelve month period, compared to 59% in the previous quarter. The percentage of respondents who believe the economy will perform at a "D" level beyond the next six months dropped 3 percentage points to 11%, 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 4Q 2015 survey continues the recent trend of higher near term GPA than long term GPA. The 0.21 point drop in nearer term GPA implies a continuing dampening of lender's expectations of the economy.



# Phoenix Management Services
# "Lending Climate in America"
# 4th Quarter 2015

## Survey Results

### 1. Lenders believe consumer confidence will be the most likely to materially impact holiday sales in 2015.

Lenders were asked: Which of the following factors will be the most likely to materially impact this year's holiday sales?

- 40% believe consumer confidence will be the greatest factor to materially impact holiday sales in 2015.
- 30% of lenders believe that the greatest impact will be the ever-increasing impact of online shopping.
- 15% believe that the greatest impact will be promotional and marketing campaigns.
- 10% believe that lower gas prices providing incremental liquidity for consumers will be the greatest impact on holiday sales in 2015.
- 3% of lenders believe new technology will have the greatest impact on holiday sales.

### 2. Lenders believe that increased U.S. trade with Pacific trading partners will be the most meaningful, long-term impact of the proposed TPP.

Lenders were asked: The United States and eleven other countries recently reached a provisional agreement on the Trans-Pacific Partnership, designed to reduce or eliminate tariffs and potentially open expanded trade between roughly 40% of the global economy. What do you believe will be the most meaningful, long-term impact of the proposed TPP?

- 43% of lenders believe that increased U.S. trade with Pacific trading partners will be the most meaningful, long-term impact of the proposed TPP.
- 25% believe that the most meaningful, long-term impact of the proposed TPP will be reduced tariffs.
- 18% believe that the U.S. Congress will not ratify the proposed TPP provisions.
- 13% of lenders believe that the most meaningful, long-term impact of the proposed TPP will be to raise labor and environmental standards of U.S. trading partners.

## 3. Lenders believe that international economic pressures will have the greatest impact on U.S. equities performance in 2016.

Lenders were asked: In your opinion, which economic factor will have the greatest impact on U.S. equities performance in 2016?

- 38% of lenders believe that international economic pressures will have the greatest impact on U.S. equities performance in 2016.
- 30% believe that the greatest impact on U.S. equities performance in 2016 will be the Federal Reserve's action regarding interest rates.
- 15% believe that stock valuations relative to corporate earnings will have the greatest impact in 2016.
- 8% of lenders believe that the relative condition of domestic labor environment will have the greatest impact on U.S. equities performance in 2016.
- 5% believe that the greatest impact on U.S. equities performance in 2016 will be from petroleum prices.

## 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 | 3Q 2015 | 4Q 2015 |
|---|---:|---:|
| Greater than 3.5x | 27% | 15% |
| Between 3.01x and 3.50x | 24% | 25% |
| Between 2.51x and 3.00x | 12% | 18% |
| Between 2.01x and 2.50x | 0% | 3% |
| Less than 2.0x | 4% | 0% |
| Collateral lenders | 27% | 28% |
| N/A | 0% | 8% |

## 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 | 3Q 2015 | 4Q 2015 |
|---|---:|---:|
| Increase greater than 0.5x | 0% | 3% |
| Increase less than 0.5x | 6% | 3% |
| Decrease less than 0.5x | 10% | 10% |
| Decrease greater than 0.5x | 2% | 0% |
| No change | 45% | 55% |
| Collateral lenders | 27% | 20% |
| N/A | 4% | 5% |

## 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 | 3Q 2015 | 4Q 2015 |
|---|---:|---:|
| Stability of Stock Market | 71% | 50% |
| Unstable Energy Prices | 33% | 50% |
| Constrained Liquidity in Capital Markets | 31% | 29% |
| Sluggish Housing Market | 11% | 26% |
| U.S. Budget Deficit | 11% | 11% |
| Other | 31% | 32% |

## 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 | 3Q 2015 | 4Q 2015 |
|---|---:|---:|
| Mining | 72% | 68% |
| Retail Trade | 35% | 57% |
| Healthcare and Social Assistance | 19% | 32% |
| Construction | 28% | 24% |
| Finance and Insurance | 19% | 14% |
| Manufacturing | 33% | 11% |
| Utilities | 16% | 8% |

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

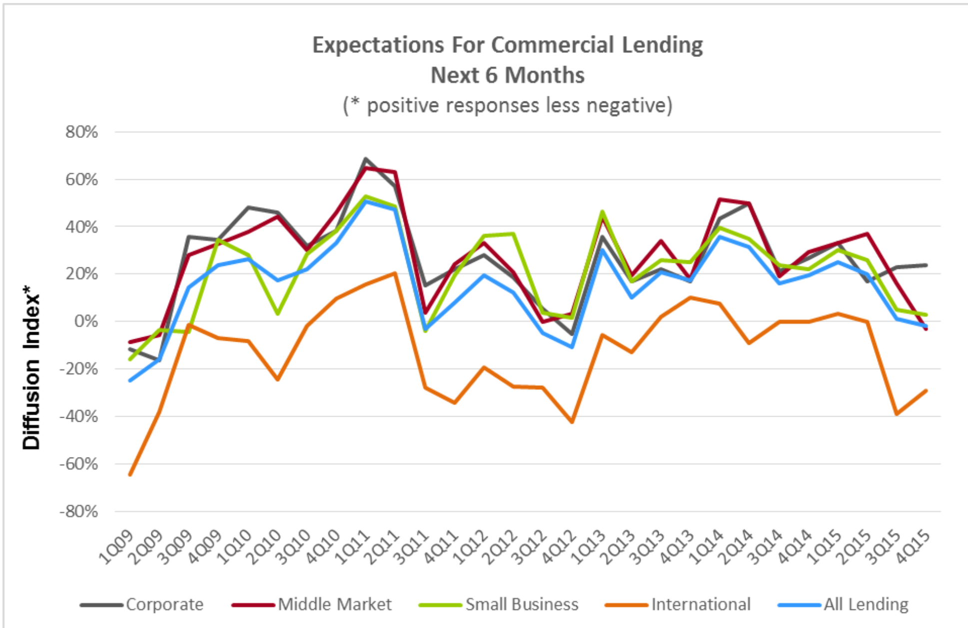
Respondents were asked which of the following actions their customers planned in the next six months. Lenders were asked to designate all potential customer actions that applied.

| Customers' Plans | 3Q 2015 | 4Q 2015 |
|---|---:|---:|
| Making an Acquisition | 57% | 62% |
| Capital Improvements | 40% | 60% |
| Entering New Markets | 36% | 49% |
| Hiring New Employees | 43% | 46% |
| Introducing New Products or Services | 40% | 41% |
| Raising Additional Capital | 40% | 27% |
| "Other" Initiatives | 10% | 11% |

## 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.

- In 4Q 2015, lenders optimism decreased significantly in middle market from a 16% in 3Q 2015 to a negative 3%. Additionally, expectations decreased slightly for small business in 4Q 2015 to 3%, a 2 percentage point difference from the previous quarter of 5%. 21% of respondents view the entire lending universe as improving compared to 20% of respondents in the previous quarter. The overall lending diffusion index decreased negatively to -2% from 1% in the prior quarter's survey. The domestic lending diffusion index decreased as well this quarter, decreasing 7 points to 8%. The diffusion index for international lending continued to stay in the negatives, however increasing to a negative 29% from negative 39% in the previous quarter.




| | 3Q/2015 | | | 4Q/2015 | | |
|---|---|---|---|---|---|---|
| | Up | Down | Same | Up | Down | Same |
| Corporate Lending | 28% | 5% | 67% | 29% | 5% | 66% |
| Middle Market Lending | 25% | 9% | 66% | 21% | 24% | 55% |
| Small Business Lending | 19% | 14% | 67% | 21% | 18% | 60% |
| International Lending | 9% | 48% | 43% | 14% | 43% | 43% |

- Lenders attitudes continue to reflect the continued inaction by the Federal Reserve, as the interest rate diffusion continues to be high at 87%. Loan losses diffusion index increased dramatically to 35% in Q4 2015 compared to 16% in Q3 2015. The bankruptcies diffusion index increased to 29% from 19% in the previous quarter, which is the highest it has been since Q3 2011.

| | 3Q/2015 | | | 4Q/2015 | | |
|---|---|---|---|---|---|---|
| | Up | Down | Same | Up | Down | Same |
| Loan Losses | 25% | 9% | 66% | 40% | 5% | 55% |
| Bankruptcies | 30% | 11% | 59% | 34% | 5% | 61% |
| Interest Rates | 68% | 5% | 27% | 87% | 0% | 13% |
| Unemployment | 14% | 32% | 55% | 5% | 5% | 90% |
| Bank Failures | 5% | 18% | 77% | 0% | 14% | 86% |

## 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 2.32 in 3Q 2015 to 2.11 in 4Q 2015. In the current quarter, 68% of respondents believe the economy will perform at a "C" level, which represents an increase of 13 points from the previous quarter. The grade-point average remains at the "C" level as there has been concentration of opinions. 21% of lenders believe the economy will perform at a "B" level, a 19 point decrease, and 11% believe the economy will perform at a "D" level, up from 4% the previous quarter.

| Grade | 3Q/2015 | 4Q/2015 |
|---|---|---|
| A | 0% | 0% |
| B | 40% | 21% |
| C | 55% | 68% |
| D | 7% | 11% |
| F | 0% | 0% |
| Weighted Average Grade | 2.32 | 2.11 |

## 11. US Economy Grade – Beyond the Next Six Months

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

- Lenders expectations for the U.S. economy's performance in the longer term remained stable from the prior quarter. The weighted average GPA decreased 1 point from a 2.14 in the previous quarter to 2.13, which is a "C' grade. 28% of lenders feel as though the economy will perform at a "B" level beyond the next six months (compared to 27% last quarter). Lenders who believe the economy will perform at a "C" over the next twelve months also decreased 1 point from a 59% in Q3 2015 to 58% in Q4 2015. 11% of lenders believe over the next six to twelve months the economy will perform at a "D" grade while 3% believe the economy will perform at an "F" grade.

| Grade | 3Q/2015 | 4Q/2015 |
|---|---|---|
| A | 0% | 0% |
| B | 27% | 28% |
| C | 59% | 58% |
| D | 14% | 11% |
| F | 0% | 3% |
| Weighted Average | 2.14 | 2.13 |

## 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 1 point compared to 3Q 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 8% ascribe to "strong growth" for their borrower's. There was a 9 point increase in lenders favoring "no growth" to 13%. The continued belief of "moderate growth" is a positive signal from lenders on the U.S. economy.

| Indication | 3Q/2015 | 4Q/2015 |
|---|---|---|
| Very Strong | 0% | 0% |
| Strong | 9% | 8% |
| Moderate | 78% | 79% |
| No Growth | 4% | 13% |

## 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.

| | 3Q/2015 | | | 4Q/2015 | | |
|---|---|---|---|---|---|---|
| | Tighten | Maintain | Relax | Tighten | Maintain | Relax |
| Loans> $25 million | 18% | 74% | 8% | 14% | 78% | 8% |
| $15 – 25 million | 15% | 80% | 5% | 11% | 86% | 3% |
| $5-15 million | 12% | 83% | 5% | 14% | 83% | 3% |
| Under $5 million | 19% | 79% | 2% | 11% | 84% | 5% |
| Overall Average | 16% | 79% | 5% | 12% | 83% | 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 migration towards margin expansion is a function of the expectation that the Fed will increase interest rates at its December meeting, which indeed happened.

| | 3Q/2015 | | | 4Q/2015 | | |
|---|---|---|---|---|---|---|
| | Reduce | Maintain | Increase | Reduce | Maintain | Increase |
| Loans> $25 million | 10% | 80% | 10% | 11% | 75% | 14% |
| $15 – 25 million | 15% | 75% | 10% | 6% | 77% | 17% |
| $5-15 million | 12% | 67% | 21% | 6% | 69% | 25% |
| Under $5 million | 7% | 67% | 26% | 3% | 59% | 38% |
| Overall Average | 11% | 72% | 17% | 6% | 71% | 23% |

## 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.

4Q2015 saw a more proportionate dispersal between +1/4 point and +1/2 point from the previous quarter of 80% of respondents favoring +1/4 point. Lenders continue to expect rates to increase over the next six months.

| **Bps Change** | **3Q/2015** | **4Q/2015** |
|---|---|---|
| + 1/2 point or more | 9% | 58% |
| + 1/4 point | 80% | 42% |
| Unchanged | 9% | 0% |
| - 1/4 point | 0% | 0% |
| - 1/2 point or more | 0% | 0% |
| Weighted Average | 0.24 bps | 0.39 bps |

## 16. Current Competition

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

- Regional Banks were the top respondents for the survey and local commercial/community banks saw a significant increase in the number of responses placing the two at the top in regards to respondents for the survey. Money Center Banks saw a slight decrease, while Commercial Finance saw a slight increase in the number of respondents.

| | **3Q/2015** | **4Q/2015** |
|---|---|---|
| Regional Bank | 35% | 34% |
| Local Community/Commercial Bank | 14% | 26% |
| Commercial Finance Co. | 16% | 21% |
| Money Center Banks | 16% | 13% |
| Factors | 0% | 0% |
| Other: | 8% | 5% |