Phoenix Management Services
"Lending Climate in America" Survey

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2nd Quarter 2016
Summary, Trends and Implications

PHOENIX
"LENDING CLIMATE IN AMERICA"

2nd Quarter 2016

SUMMARY, TRENDS AND IMPLICATIONS

1. **U.S jobless claims have dropped to a 43 year low (lowest since 1973). Which of the following factors have had the greatest influence on the decrease?**

   The majority of lenders (55%) believe the increase in Americans working part-time jobs instead of full-time has had the greatest influence on the decrease in jobless claims. The next highest contingents, garnering 19% of responses, were the lenders who believe a) the increasing number of new job openings, and b) the low interest rates stimulating consumer demand, resulting in economic growth is what has had the greatest influence on the decrease in jobless claims in the U.S. Of the lenders surveyed, only 3% believe the factors that have had the greatest influence on the decrease of jobless claims in the U.S. is from a) the increasing preparation of workforce via education, and b) the strong dollar and weak export markets in Asia and Europe slowing factory employment growth outside the U.S. 0% of the lenders believe that the trend of focusing on saving, as well as opening new small businesses has had the greatest influence on the decrease of jobless claims in the U.S.

2. **U.S. industrial production, the Federal Reserve's gauge of manufacturing, mining and utility output fell 1.8% in the first quarter, from a year earlier. Industrial production has never decreased so deeply in a year that didn't include a recession, according to records dating back to 1919. Do you think this decrease is a precursor to the U.S. economy slipping into another recession in the next 12 months?**

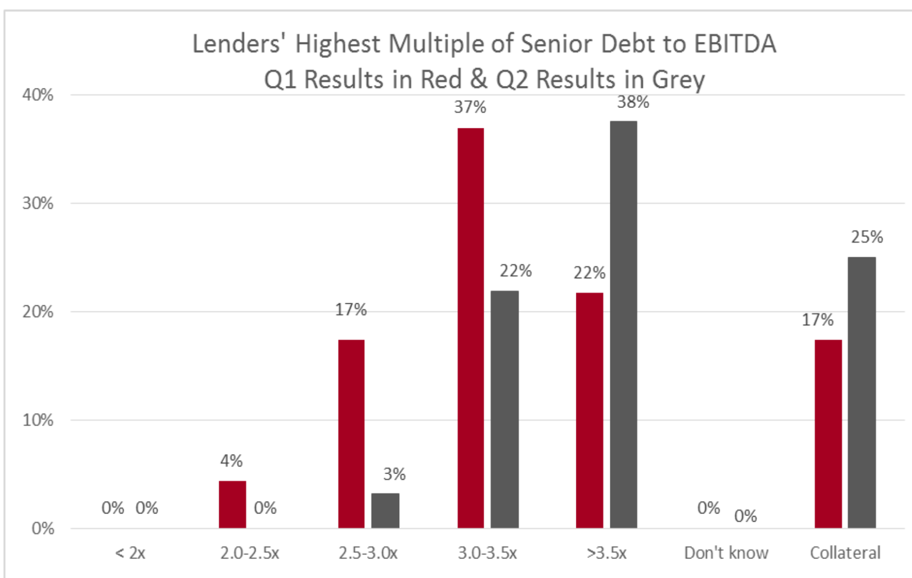
   The answer that received the highest percentage response, 38%, were lenders that do not believe a the decrease in industrial production is a precursor to the U.S. slipping into another recession in the next 12 months and the decrease in industrial production is misleading as it is largely driven by a decrease in mining due to historically low oil prices. Garnering the second highest amount of responses, at 22%, were lenders that believe the decrease in industrial production is not a precursor to the U.S. slipping into another recession and because the U.S. economy is more driven by consumer spending on services that as long as job gains and modest pay increases give the consumers the ability to spend, the risk of a near term recession could be held at bay. 19% believe a) the decrease in industrial production and the fact that corporate earnings have not grown year over year since Q4 2014 are signs the U.S. economy may slip into another recession, and b) the decline in industrial production and the modest 0.6% increase in Q1 manufacturing output shows that the U.S. economy may be headed towards another recession. 0% of lenders believe that industrial production decrease is not a precursor to the U.S. slipping into another recession within the next 12 months and that the drop in industrial production has been a drag on economic growth, but it has not derailed expansion as GDP is expected to increase in the first quarter.

3. **Quarterly earnings reported by companies in the Standard and Poor's 500-stock index have dropped in each quarter since the 4th quarter of 2014. Which of the following factors will be the most likely to materially impact corporate earnings in 2016?**

   The majority of lenders, garnering 31% of responses, believe that the appreciation of the U.S. dollar causing lower profits of U.S. corporations through two channels: (1) profits earned by firms' foreign subsidiaries translating into fewer U.S. dollars, and (2) U.S. exports becoming less competitive compared with goods produced in other countries will be the most likely to materially impact corporate earnings in 2016. Not far behind, with 28% of responses, were the lenders that believe slow GDP growth in the Chinese economy and its impact on U.S. exports will be the greatest factor to materially impact 2016 corporate earnings. 16% of lenders believe energy prices and their impact at oil and gas companies worldwide will be the factor to most likely impact corporate earnings in 2016, while 9% of respondents believe the Federal Reserve's action regarding interest rates will be the greatest factor to materially impact corporate earnings in 2016. Of the lenders surveyed, 6% believe that decreasing unemployment rates and their impact on consumer spending will be the factor to most likely impact corporate earnings in 2016.

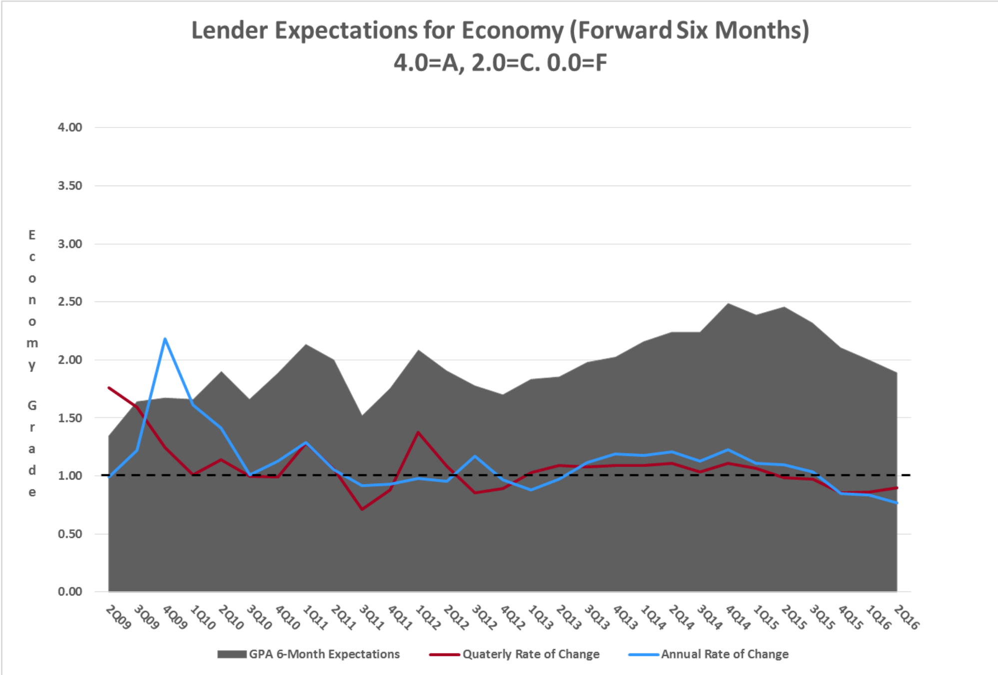
4. **Leverage multiples are expected to increase versus the prior quarter.**

   Multiples have shifted in 2Q 2016. 38% of lenders indicated the >3.5x range would be the highest EBITDA ratio they would consider, a 16 percentage point increase from the prior quarter. The percentage of respondents who would consider a debt to EBITDA ratio of 3.0-3.5x decreased 15 percentage points to 22%. The percentage of lenders who indicated the highest ratio they would consider is between 2.5-3.0x saw a decrease of 14 points to 3%. Zero percent of respondents stated their institutions highest multiple is in the 1) 2.0-2.5x range, and 2) less than 2.0x. In addition, 25% of lenders responded that they were collateral lenders and therefore do not make decisions based on cash flow/leverage multiples.



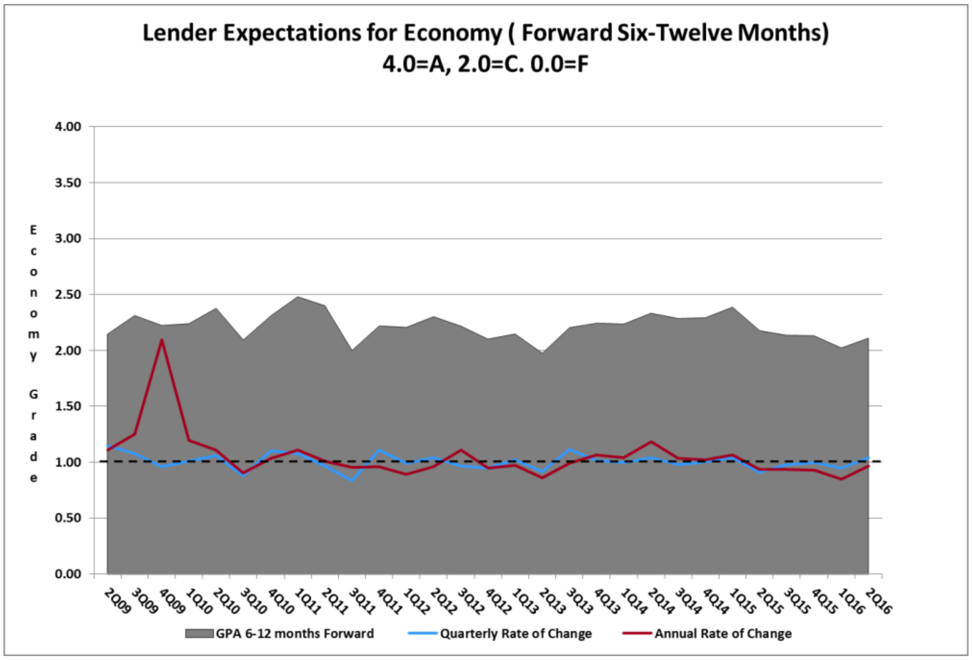
5. **Economic performance expectations continue to weaken in this quarter's survey.**

   The near term economic growth sentiment remained at an overall "C" grade this quarter; the index GPA decreased to 1.89 from the 1Q 2016 results of 2.00. The majority of lenders (82%) believe the economy will perform at a "C" level over the next six months, compared to 77% in the previous survey. Conversely, 4% of lenders surveyed believe the economy will perform at a "B" grade, compared to 11% in the previous survey. Lenders that believe that the economy will perform at a “D” level increased 3 points from the previous quarter to 14% in 2Q 2016. 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.



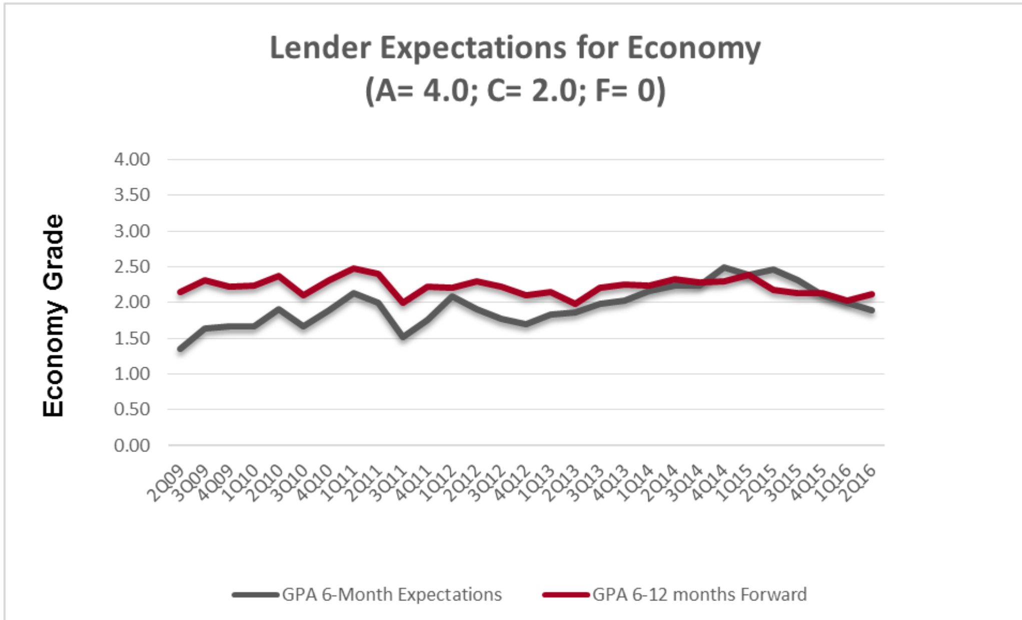
** Rate of Change of 1.0 is at equilibrium and signifies “no change” from the corresponding prior period of comparison.*

Lenders growth expectations for the U.S. economy beyond six months increased 9 points to a 2.11 GPA from 2.02 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 1 percentage point higher than the previous quarter. The percent of lenders (43%) that believe the economy will perform at a “C” level remains unchanged from the previous quarter. The percentage of respondents who believe the economy will perform at a “D” level beyond the next six months decreased 2 percentage points to 25%, when compared to the previous quarter. The 2Q 2016 survey continues the trend in lenders appearing to be more pessimistic about the future.



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

The 2Q 2016 survey reversed the previous quarter's results of a higher near term GPA than long term GPA. The 0.11 point drop in nearer term GPA implies a continuing dampening of lender's short term expectations of the economy.



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Survey Results

1. Lenders believe the increase in Americans working part-time jobs instead of full-time has had the greatest influence on the decrease of U.S. jobless claims.

Lenders were asked: U.S jobless claims have dropped to a 43 year low (lowest since 1973). Which of the following factors have had the greatest influence on the decrease?

- 55% of lenders believe the increase in Americans working part-time jobs instead of full-time has had the greatest influence on the decrease of U.S. jobless claims.

- 19% believe a) the increasing number of new job openings, and b) low interest rates stimulating consumer demand, resulting in economic growth is what has had the greatest influence on the decrease of jobless claims in the U.S.

- 3% of the lenders surveyed believe a) the increasing preparation of workforce via education, and b) the strong dollar and weak export markets in Asia and Europe slowing factory employment growth outside the U.S. has had the greatest influence on the decrease of U.S. jobless claims.

- 0% of lenders believe that the trend of focusing on saving, as well as opening new small businesses is what has had the greatest influence on the decrease of jobless claims in the U.S.

2. Leaders believe that the U.S. will not be slipping into another recession in the next 12 months and that the decrease in industrial production is misleading as it is largely driven by a decrease in mining due to historically low oil prices.

Lenders were asked: U.S. industrial production, the Federal Reserve's gauge of manufacturing, mining and utility output fell 1.8% in the first quarter, from a year earlier. Industrial production has never decreased so deeply in a year that didn't include a recession, according to records dating back to 1919. Do you think this decrease is a precursor to the U.S. economy slipping into another recession in the next 12 months?

- 38% of lenders believe the decrease in industrial production is not a precursor to the U.S. slipping into another recession in the next 12 months and that the decrease in industrial production is misleading as it is largely driven by a decrease in mining due to historically low oil prices. Mining employs relatively few employees and the impact from fewer jobs is offset by consumers having more spending power due to lower gasoline prices.

- 22% believe that the decrease in industrial growth is not a precursor to the U.S. slipping into another recession and that the U.S. economy is more driven by consumer spending on services and as long as job gains and modest pay increases give the consumers the ability to spend, the risk of a near term recession could be held at bay.

- 19% of the lenders surveyed believe a) the decrease in industrial production and the fact that corporate earnings have not grown year over year since Q4 2014, and b) the decline in industrial production and manufacturing output only increasing 0.6% in the first quarter shows that the U.S. economy may be headed towards another recession.

- 0% of lenders believe that it is not a precursor to the U.S. slipping into another recession within the next 12 months and that the drop in industrial production has been a drag on economic growth, but it has not derailed expansion as GDP is expected to increase in the first quarter.

3. Lenders believe that the appreciation of the U.S. dollar causing lower profits of U.S. corporations through two channels: (1) profits earned by firms' foreign subsidiaries translating into fewer U.S. dollars, and (2) U.S. exports becoming less competitive compared with goods produced in other countries will be the factor to most likely materially impact corporate earnings in 2016.

Lenders were asked: Quarterly earnings reported by companies in the Standard and Poor’s 500-stock index have dropped in each quarter since the 4th quarter of 2014. Which of the following factors will be the most likely to materially impact corporate earnings in 2016?

- 31% of lenders believe that the appreciation of the U.S. dollar causing lower profits of U.S. corporations through two channels: (1) profits earned by firms' foreign subsidiaries translating into fewer U.S. dollars, and (2) U.S. exports becoming less competitive compared with goods produced in other countries will be the most likely to materially impact corporate earnings in 2016.

- 28% of lenders believe slow GDP growth in the Chinese economy and its impact on U.S. exports will be the greatest factor to materially impact 2016 corporate earnings.

- 16% of lenders believe energy prices and their impact at oil and gas companies worldwide will be the factor to most likely impact corporate earnings in 2016.

- 9% believe the Federal Reserve’s action regarding interest rates will be the greatest factor to materially impact corporate earnings in 2016.

- 6% of lenders believe that decreasing unemployment rates and their impact on consumer spending to be the factor to most likely impact corporate earnings in 2016.

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	1Q 2016	2Q 2016
Greater than 3.5x	22%	38%
Between 3.01x and 3.50x	37%	22%
Between 2.51x and 3.00x	17%	3%
Between 2.01x and 2.50x	4%	0%
Less than 2.0x	0%	0%
Collateral lenders	17%	25%
N/A	3%	12%

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	1Q 2016	2Q 2016
Increase greater than 0.5x	0%	0%
Increase less than 0.5x	2%	0%
Decrease less than 0.5x	20%	9%
Decrease greater than 0.5x	5%	0%
No change	52%	53%
Collateral lenders	17%	25%
N/A	4%	13%

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	1Q 2016	2Q 2016
Unstable Energy Prices	67%	64%
Stability of Stock Market	49%	43%
Constrained Liquidity in Capital Markets	27%	39%
Sluggish Housing Market	18%	18%
Other	9%	11%
U.S. Budget Deficit	9%	7%

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	1Q 2016	2Q 2016
Mining	70%	71%
Retail Trade	47%	71%
Manufacturing	29%	36%
Finance and Insurance	27%	18%
Utilities	16%	18%
Construction	27%	14%
Healthcare and Social Assistance	20%	7%

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.

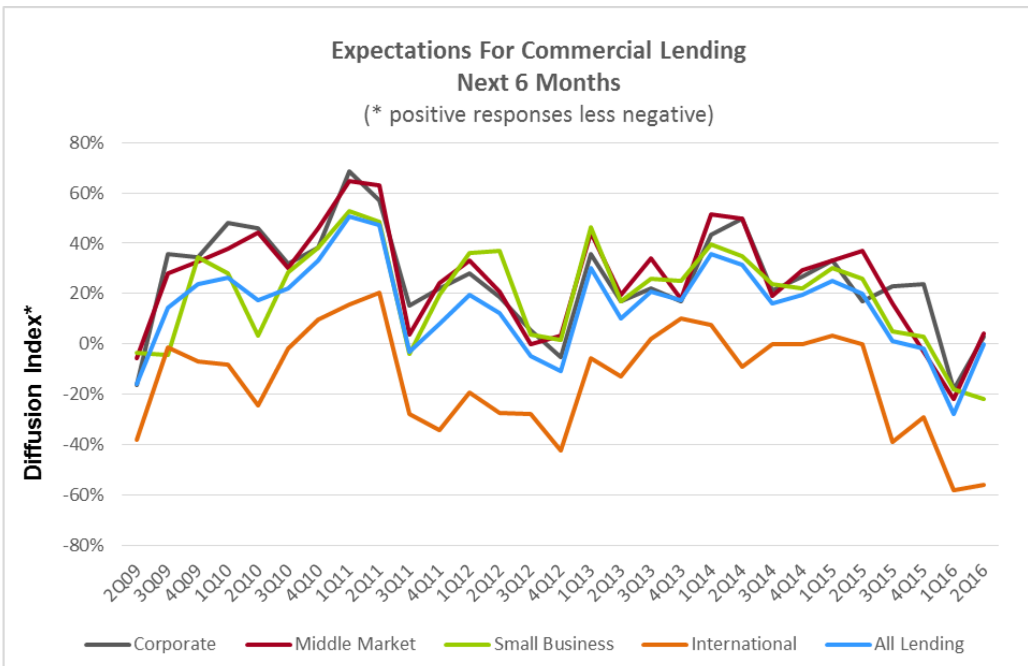
Customers' Plans	1Q 2016	2Q 2016
Making an Acquisition	65%	50%
Introducing New Products or Services	51%	50%
Capital Improvements	44%	46%
Raising Additional Capital	35%	36%

Hiring New Employees	23%	32%
Entering New Markets	42%	25%
“Other” Initiatives	5%	7%

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 2Q 2016, lenders optimism increased significantly in middle market from a negative 22% in 1Q 2016 to a positive 4%. Conversely, expectations continue to decrease for small business in 2Q 2016 with a diffusion index of negative 22%, a 4 percentage point difference from the previous quarter of negative 18%. The diffusion index for international lending also continued to stay in the negatives, however increasing to a negative 56% from negative 58% in the previous quarter. The overall lending diffusion index increased to 0% from a negative 28% in the prior quarter’s survey. The domestic lending diffusion index increased as well this quarter, increasing 18 points to 0%.



	1Q/2016 Up	1Q/2016 Down	1Q/2016 Same	2Q/2016 Up	2Q/2016 Down	2Q/2016 Same
Corporate Lending	4%	23%	73%	14%	11%	75%
Middle Market Lending	7%	25%	68%	18%	14%	68%
Small Business Lending	9%	27%	64%	4%	26%	70%
International Lending	5%	63%	32%	0%	56%	44%

- The interest rate diffusion significantly increased to a 53% compared to a 40% the previous quarter. Loan losses diffusion index increased slightly to 67% in Q2 2016 compared to 61% in Q1 2016. The bankruptcies diffusion index increased significantly to 81% from 57% in the previous quarter, which is the highest it has been since Q1 2009.

	1Q/2016			2Q/2016		
	Up	Down	Same	Up	Down	Same
Loan Losses	61%	0%	39%	71%	4%	25%
Bankruptcies	57%	0%	43%	81%	0%	19%
Interest Rates	40%	0%	60%	57%	4%	39%
Unemployment	7%	9%	84%	14%	4%	82%
Bank Failures	11%	5%	84%	11%	7%	82%

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 continues to decrease this quarter, but its GPA remains at the "C" level, with a 2.00 in 1Q 2016 to 1.89 in 2Q 2016. In the current quarter, 82% of respondents believe the economy will perform at a "C" level, which represents an increase of 5 points from the previous quarter. The grade-point average remains at the "C" level as there has been concentration of opinions. 4% of lenders believe the economy will perform at a "B" level, a 7 point decrease, and 14% believe the economy will perform at a "D" level, a 3 point increase.

Grade	1Q/2016	2Q/2016
A	0%	0%
B	11%	4%
C	77%	82%
D	11%	14%
F	0%	0%
Weighted Average Grade	2.00	1.89

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 has increased from the prior quarter. The weighted average GPA increased 9 points from a 2.02 in the previous quarter to 2.11, 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 30% last quarter). Lenders who believe the economy will perform at a "C" over the next twelve months remains unchanged at 43%. There was a decrease of lenders (25%) that believe the economy will perform at a "D" grade over the next six to twelve months while the percentage of lenders that believe the economy will perform at an "F" grade remains unchanged at 0%.

Grade	1Q/2016	2Q/2016
A	0%	4%
B	30%	28%
C	43%	43%
D	27%	25%
F	0%	0%
Weighted Average	2.02	2.11

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 2 points compared to 1Q 2016. With a concentration remaining towards moderation, 0% of lenders ascribe "very strong growth", and 4% of lenders ascribe "strong growth" for their borrower's growth in the next six months, a 4 percentage points increase from 1Q 2016. There was a 6 point decrease in lenders favoring "no growth" to 21%. The continued belief of "moderate growth" is a positive signal from lenders on the U.S. economy.

Indication	1Q/2016	2Q/2016
Very Strong	0%	0%
Strong	0%	4%
Moderate	73%	75%
No Growth	27%	21%

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, in 2Q 2016 we did see a slight decrease, 6 percentage points, with lenders that plan to tighten their loan structure.

	1Q/2016			2Q/2016		
	Tighten	Maintain	Relax	Tighten	Maintain	Relax
Loans> $25 million	20%	78%	2%	9%	87%	4%
$15 – 25 million	20%	78%	2%	9%	87%	4%
$5-15 million	14%	84%	2%	8%	88%	4%
Under $5 million	16%	82%	2%	19%	81%	0%
Overall Average	17%	81%	2%	11%	85%	3%

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 decrease in their plan to reduce interest rates.

	1Q/2016			2Q/2016		
	Reduce	Maintain	Increase	Reduce	Maintain	Increase
Loans> $25 million	17%	71%	12%	4%	87%	9%
$15 – 25 million	15%	68%	17%	4%	88%	8%

$5-15 million	9%	67%	24%	4%	88%	8%
Under $5 million	7%	60%	33%	4%	78%	18%
Overall Average	12%	67%	21%	4%	85%	11%

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.

2Q 2016 continues to display a less proportionate dispersal between +1/4 point and +1/2 point with 59% of respondents continuing to favor +1/4 point. There was a slight decrease, 4 percentage points, with lenders expecting interest rates to remain unchanged.

Bps Change	1Q/2016	2Q/2016
+ 1/2 point or more	14%	11%
+ 1/4 point	50%	59%
Unchanged	34%	30%
- 1/4 point	2%	0%
- 1/2 point or more	0%	0%
Weighted Average	0.19 bps	0.20 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 and continues to place at the top in regards to respondents for the survey. Money Center Banks and Commercial Finance, both at 19%, also saw a slight increase in the number of respondents.

	1Q/2016	2Q/2016
Regional Bank	30%	33%
Local Community/Commercial Bank	22%	22%
Commercial Finance Co.	17%	19%
Money Center Banks	15%	19%
Factors	0%	0%
Other	11%	7%