Phoenix Management Services
"Lending Climate in America" Survey

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4th Quarter 2016
Summary, Trends and Implications

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"LENDING CLIMATE IN AMERICA"

4th Quarter 2016

SUMMARY, TRENDS AND IMPLICATIONS

1. **Now that the election cycle is over, what economic indicator will you be most focused on in determining the success of President-elect Trump?**

   The majority of lenders (62%) agree that GDP growth will be the economic factor they will focus on in determining the success of President-elect Trump. Garnering the second highest amount of responses of 32% were the lenders that will focus on new job growth in determining the success of President-elect Trump. 3% of lenders will focus on a) unemployment rate and b) consumer price index in determining the success of President-elect Trump.

2. **According to the WSJ, the U.S. added approximately 160,000 jobs in October; the strongest wage growth since the recession. What do you believe is the most important variable for a strong labor market to continue?**

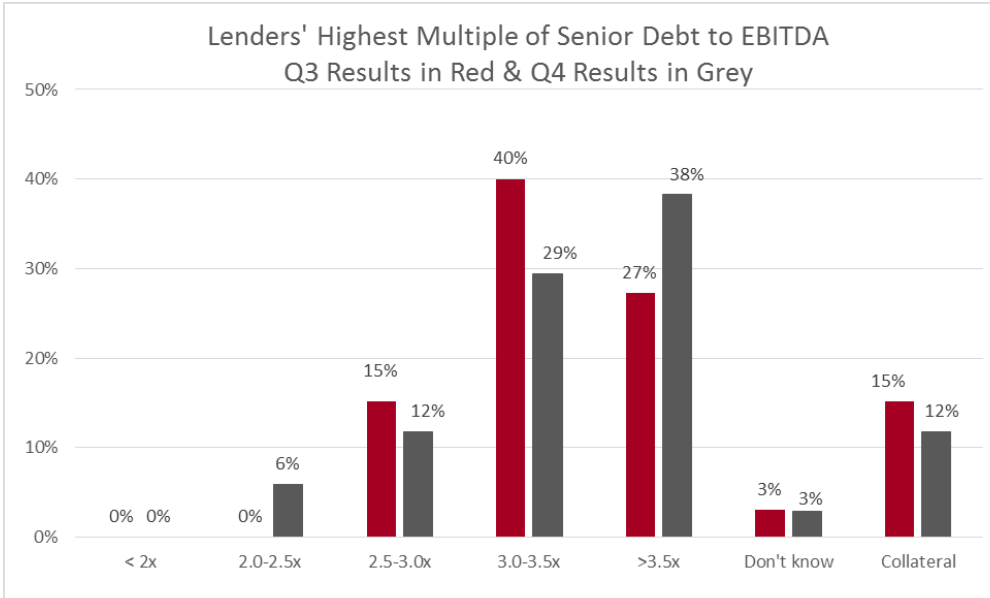
   The answer that received the highest percentage response, 64%, were lenders that believe the most important variable for a strong labor market to continue will be cutting taxes to increase spending and stimulate overall economic growth. Lenders that believe increasing government spending in targeted areas to spur employment/growth is the most important variable garnered 24% of the responses, and only 12% of lenders believe increased amount/availability of money in circulation via buying/selling is the most important variable for a strong market to continue.

3. **Some energy analysts are indicating that future oil prices are dependent on the finalization of an OPEC supply deal that was preliminary agreed upon in September 2016. However, a number of countries including Iran, Iraq, Nigeria and Libya, have demanded to be exempt from production cuts, while Saudi Arabia has threatened to increase its already-record production level if the deal breaks down. A successful agreement could prop prices up, while a failure in the agreement could drop prices below the current $44/barrel level. What do you expect to be the price per barrel at the end of Q1 2017?**

   The majority of lenders, garnering 56% of responses, believe the cost of oil at the end of Q1 2017 will be $41-$50 per barrel. Not far behind, with 35% of responses, were the lenders that believe the cost of oil will be $51-$60 per barrel at the end of Q1 2017. 9% of lenders believe at the end of Q1 2017 the cost of oil will be $31-$40 per barrel. None of the lenders surveyed believe that oil will cost less than $30 or greater than $60 per barrel at the end of Q1 2017.

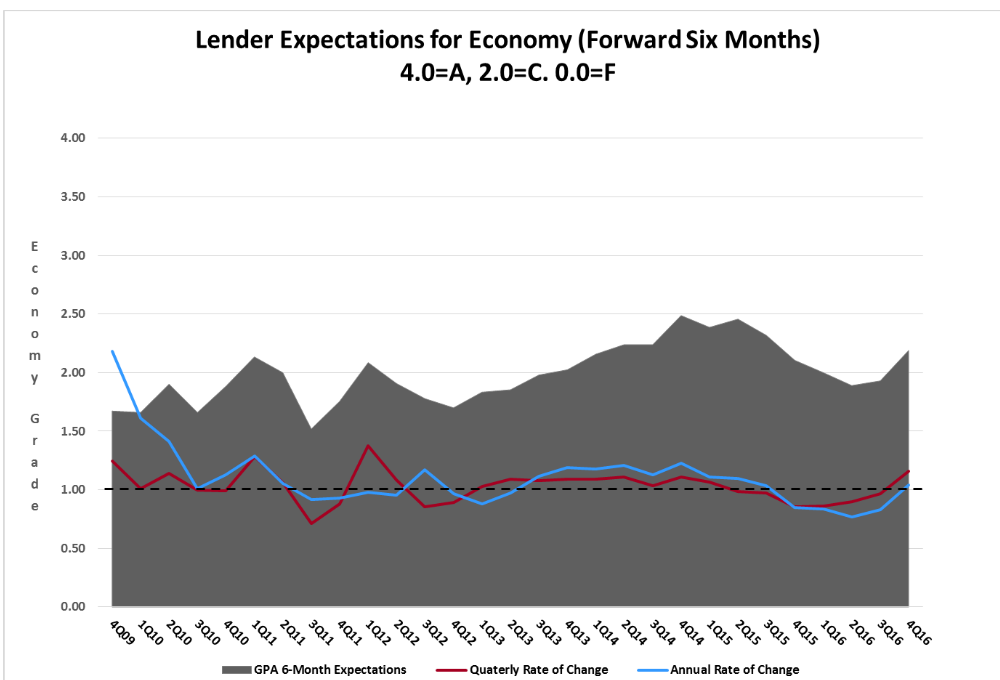
4. **Leverage multiples are expected to increase versus the prior quarter.**

   Multiples have shifted higher in 4Q 2016. 38% of lenders indicated the >3.5x range would be the highest EBITDA ratio they would consider, an 11 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 11 percentage points to 29%. The percentage of lenders who indicated the highest ratio they would consider is between 2.5-3.0x saw a decrease of 3 points to 12%. 6% percent of respondents stated their institutions highest multiple is in the 2.0-2.5x range, a 6 percentage point increase from the prior quarter's 0%. Zero lenders surveyed continue to indicate less than 2.0x is their institutions highest multiple. In addition, 12% of lenders responded that they were collateral lenders and therefore do not make decisions based on cash flow/leverage multiples.



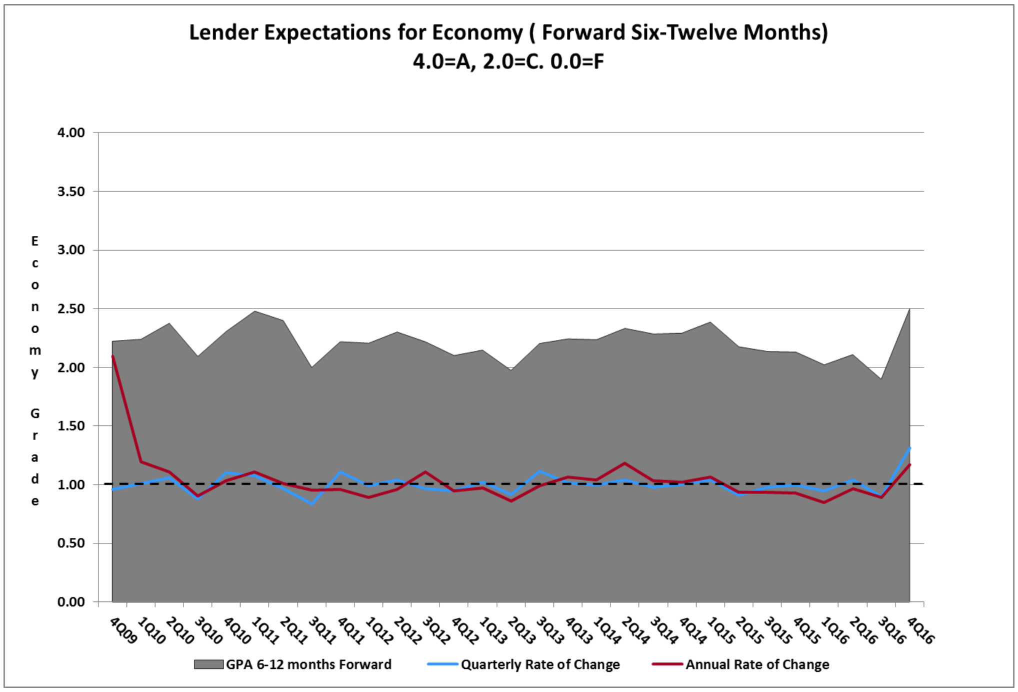
5. Economic performance expectations increased in this quarter's survey.

Lenders optimism on the U.S. economy for the short term increased this quarter but remains at an overall "C" grade this quarter; the index GPA increased to 2.19 from the 3Q 2016 results of 1.93. The majority of lenders (69%) believe the economy will perform at a "C" level over the next six months, compared to 57% in the previous survey. However, 25% of lenders surveyed believe the economy will perform at a "B" grade, compared to 20% in the previous survey. Lenders that believe that the economy will perform at a "D" level decreased 14 points from the previous quarter to 6% in 4Q 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.



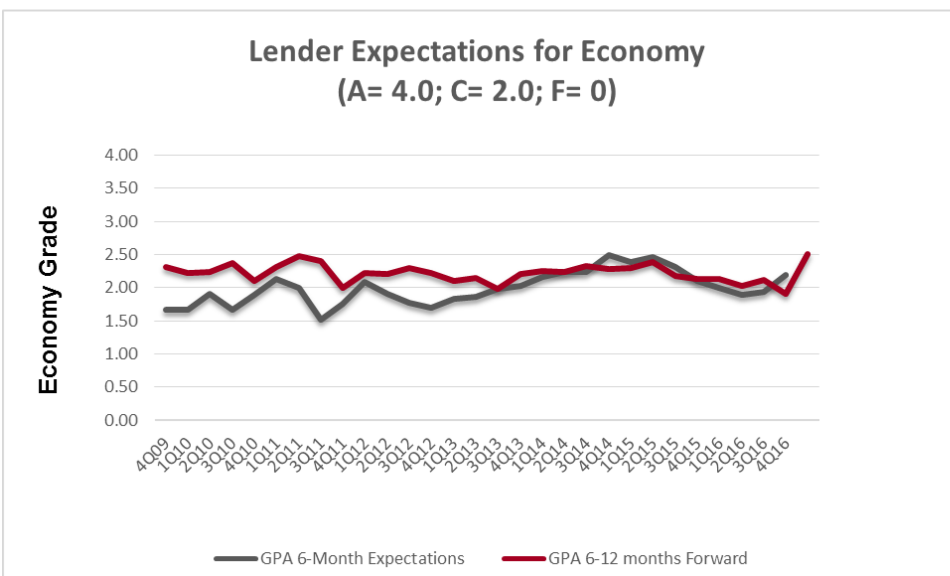
** Rate of Change of 1.0 is at equilibrium and signifies "no change" from the corresponding prior period of comparison.*

Lenders growth expectations for the U.S. economy beyond six months increased to an overall "B" grade this quarter, the highest grade since Q4 2004! The weighted average increased 60 points to a 2.50 GPA from 1.90 in the previous quarter, the largest increase since Q4 2008. 50% of lenders believe the economy will perform at a "B" level in the next six to twelve months, which is 27 percentage points higher than the previous quarter. The percent of lenders (41%) that believe the economy will perform at a "C" level decreased 3 percentage points from the previous quarter. The percentage of respondents who believe the economy will perform at a "D" level beyond the next six months significantly decreased 27 percentage points to 6%, when compared to the previous quarter.



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

The 4Q 2016 survey reversed the previous quarter's results of a higher near term GPA than long term GPA. The 0.60 point increase in long term GPA indicates a positive outlook of lender's long term expectations of the economy.



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Survey Results

1. The majority of Lenders agree that GDP growth will be the economic indicator most focused on to measure the success of President-elect Trump.

Lenders were asked: Now that the election cycle is over, what economic indicator will you be most focused on in determining the success of President-elect Trump?

- 62% of lenders surveyed agree that GDP growth will be the economic indicator they will be most focused on in determining the success of President-elect Trump.
- 32% of lenders agree they will focus on new job growth in determining the success of President-elect Trump.
- 3% of lenders surveyed agree that a) unemployment rate, and b) consumer price index will be the economic factor they will focus on in determining the success of President-elect Trump.

2. Leaders believe that cutting taxes to increase spending and stimulate overall economic growth is the most important variable to continue a strong labor market.

Lenders were asked: According to the WSJ, the U.S. added approximately 160,000 jobs in October; the strongest wage growth since the recession. What do you believe is the most important variable for a strong labor market to continue?

- 64% of lenders believe cutting taxes to increase spending and stimulate overall economic growth is the most important variable to continue a strong labor market.
- 24% of lenders believe that an increase of government spending in target areas to spur employment/growth is the most important variable for the continuous of a strong labor market.
- 12% of the lenders surveyed believe that an increased amount/availability of money in circulation via buying/selling will be the most important variable to continue a strong labor market.
- None of lenders believe that lowering interest rates is the most important variable for a strong labor market to continue.

3. Lenders expect that the price of oil at the end of Q1 2017 will cost $41-$50 per barrel.

Lenders were asked: Some energy analysts are indicating that future oil prices are dependent on the finalization of an OPEC supply deal that was preliminary agreed upon in September 2016. However, a number of countries including Iran, Iraq, Nigeria and Libya, have demanded to be exempt from production cuts, while Saudi Arabia has threatened to increase its already-record production level if the deal breaks down. A successful agreement could prop prices up, while a failure in the agreement could drop prices below the current $44/barrel level. What do you expect to be the price per barrel at the end of Q1 2017?

- 56% of lenders believe that the cost of oil at the end of Q1 2017 will be $41-$50 per barrel.
- 35% of lenders surveyed believe oil will cost $51-$60 per barrel at the end of Q1 2017.
- 9% of lenders believe that the cost of oil by the end of Q1 2017 will be $31-$40 per barrel.
- None of respondents believe oil will cost either a) less than $30, or b) greater than $60 per barrel at the end of Q1 2017.

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 2016	4Q 2016
Greater than 3.5x	27%	38%
Between 3.01x and 3.50x	40%	29%
Between 2.51x and 3.00x	15%	12%
Between 2.01x and 2.50x	0%	6%
Less than 2.0x	0%	0%
Collateral lenders	15%	12%
N/A	3%	3%

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 2016	4Q 2016
Increase greater than 0.5x	6%	6%
Increase less than 0.5x	9%	12%
Decrease less than 0.5x	9%	3%
Decrease greater than 0.5x	0%	0%
No change	58%	65%
Collateral lenders	15%	12%
N/A	3%	2%

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 2016	4Q 2016
Unstable Energy Prices	29%	58%
Stability of Stock Market	43%	45%
U.S. Budget Deficit	39%	33%
Sluggish Housing Market	39%	21%
Other	36%	21%
Constrained Liquidity in Capital Markets	25%	15%

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 2016	4Q 2016
Retail Trade	58%	73%
Healthcare and Social Assistance	12%	52%
Mining	52%	36%
Construction	18%	21%
Finance and Insurance	12%	18%
Real Estate and Rental/Leasing	24%	15%
Manufacturing	18%	12%
Transportation and Warehousing	12%	12%

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

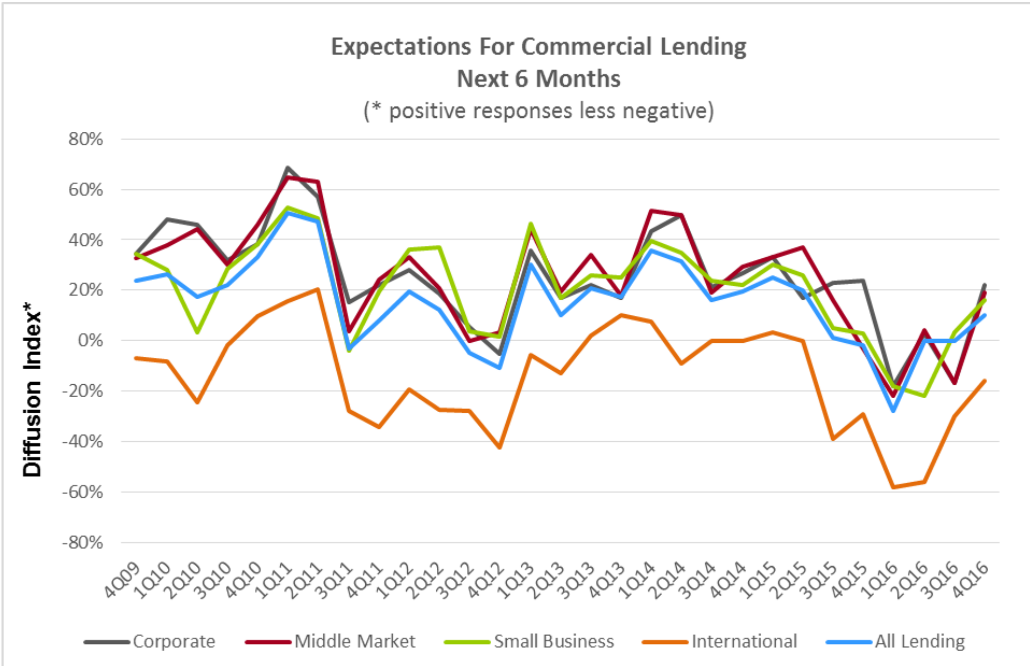
Respondents were asked which of the following actions their customers planned in the next six months. Lenders were asked to designate all potential customer actions that applied.

Customers' Plans	3Q 2016	4Q 2016
Capital Improvements	40%	55%
Making an Acquisition	53%	45%
Hiring New Employees	23%	45%
Raising Additional Capital	53%	36%
Introducing New Products or Services	37%	33%
Entering New Markets	27%	33%
"Other" Initiatives	13%	9%

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 2016, lenders optimism increased significantly in large corporate (22%) and middle market (19%) from a negative 17% in 3Q 2016. Additionally, expectations increased for small business in 4Q 2016 with a diffusion index of 16%, a 13 percentage point difference from the previous quarter of 3%. The diffusion index for international lending continued to stay in the negatives, however decreasing to a negative 16% from negative 30% in the previous quarter. The diffusion index for the average for domestic lending significantly increased from a negative 37% in 3Q 16 to a positive 19% in 4Q 16, and the diffusion index for all lending increased to a 10%.



	3Q/2016			4Q/2016		
	Up	Down	Same	Up	Down	Same
Corporate Lending	7%	23%	70%	28%	6%	66%
Middle Market Lending	10%	27%	63%	25%	6%	69%
Small Business Lending	27%	23%	50%	22%	6%	72%
International Lending	10%	40%	50%	13%	29%	58%

- The interest rate diffusion index significantly increased to 88% compared to 76% the previous quarter. Loan losses diffusion index decreased significantly to 10% in Q4 2016 compared to 37% in Q3 2016. The bankruptcies diffusion index also decreased significantly to a negative 22% from 40% in the previous quarter.

	3Q/2016			4Q/2016		
	Up	Down	Same	Up	Down	Same
Loan Losses	43%	7%	50%	19%	9%	72%
Bankruptcies	47%	7%	47%	31%	53%	16%
Interest Rates	76%	0%	24%	88%	0%	12%
Unemployment	20%	10%	70%	9%	13%	78%
Bank Failures	3%	23%	73%	6%	16%	78%

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 increased this quarter, buts its GPA remains at a "C" level, with a 1.93 in 3Q 2016 to 2.19 in 4Q 2016. In the current quarter, 69% of respondents believe the economy will perform at a "C" level, which represents an increase of 12 points from the previous quarter. The grade-point average remains at the "C" level as there has been concentration of opinions. There was a significant increase of lenders (25%) that believe the economy will perform at a "B" level, a 5 point increase from the 3Q 2016 results, while 6% believe the economy will perform at a "D" level, a 14 point decrease. 0% of lenders believe the economy will perform at an "F" level, a 3 point decrease from 3Q 2016.

Grade	3Q/2016	4Q/2016
A	0%	0%
B	20%	25%
C	57%	69%
D	20%	6%
F	3%	0%
Weighted Average Grade	1.93	2.19

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 60 points from a 1.90 in the previous quarter to 2.50, which is a "B' grade. 50% of lenders feel as though the economy will perform at a "B" level beyond the next six months (compared to 23% last quarter). Lenders who believe the economy will perform at a "C" over the next twelve months decreased 3 percentage points to a 41%. There was also a significant decrease of lenders (6%) 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	3Q/2016	4Q/2016
A	0%	3%
B	23%	50%
C	44%	41%
D	33%	6%
F	0%	0%
Weighted Average	1.90	2.50

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 remained unchanged at 84%. With a concentration remaining towards moderation, 0% of lenders ascribe "very strong growth", and

3% of lenders continue to ascribe "strong growth" for their borrower's growth in the next six months. Furthermore, 13% of lenders continue to favor "no growth". This continued belief of "moderate growth" is a positive signal from lenders on the U.S. economy.

Indication	3Q/2016	4Q/2016
Very Strong	0%	0%
Strong	3%	3%
Moderate	84%	84%
No Growth	13%	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. However, in 4Q 2016 we did see a slight decrease, 8 percentage points, with lenders that plan to tighten their loan structure.

	3Q/2016			4Q/2016		
	Tighten	Maintain	Relax	Tighten	Maintain	Relax
Loans> $25 million	11%	81%	8%	7%	86%	7%
$15 – 25 million	7%	85%	8%	7%	86%	7%
$5-15 million	27%	69%	4%	6%	94%	0%
Under $5 million	29%	64%	7%	20%	77%	3%
Overall Average	18%	75%	7%	10%	86%	4%

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, fewer lenders (12 percentage points less) expect to increase their interest rates spreads in Q4 2016 versus Q3 2016.

	3Q/2016			4Q/2016		
	Reduce	Maintain	Increase	Reduce	Maintain	Increase
Loans> $25 million	12%	76%	12%	13%	83%	3%
$15 – 25 million	7%	68%	25%	7%	83%	10%
$5-15 million	8%	64%	28%	13%	71%	16%
Under $5 million	4%	64%	32%	6%	74%	19%
Overall Average	8%	68%	24%	10%	78%	12%

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.

4Q 2016 displayed a more proportionate dispersion between +1/4 point and +1/2 point with 54% of respondents continuing to favor +1/4 point and 44% of respondents favoring +1/2 points or more.

Bps Change	3Q/2016	4Q/2016
+ 1/2 point or more	24%	44%
+ 1/4 point	67%	54%
Unchanged	3%	2%
- 1/4 point	3%	0%
- 1/2 point or more	3%	0%
Weighted Average	0.26 bps	0.37 bps

16. Current Competition

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

- Regional Banks continues to place at the top in regards to respondents (34%) for the survey. Commercial Finance, at 25% of respondents, saw a slight decrease while Local Community/Commercial Banks saw a slight increase with 19% of respondents. Money Center Banks saw a decrease in the number of respondents (13%) from the previous quarter's survey.

	3Q/2016	4Q/2016
Regional Bank	33%	34%
Commercial Finance Co.	27%	25%
Local Community/Commercial Bank	13%	19%
Money Center Banks	17%	13%
Factors	0%	0%
Other	10%	9%