Phoenix Management Services
“Lending Climate in America” Survey

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2nd Quarter 2017
Summary, Trends and Implications

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"LENDING CLIMATE IN AMERICA"

2nd Quarter 2017

SUMMARY, TRENDS AND IMPLICATIONS

1. **President Trump has stated that it is his goal to pass comprehensive tax reform this year to lower the corporate tax rate, a move that could benefit many of the businesses in the U.S. as well as the economy as a whole. How likely do you think it is that this comprehensive corporate tax reform will be passed this year?**

   The majority of lenders (42%) agree that there is a 25% chance that President Trump will reach his goal of passing the comprehensive corporate tax reform before the end of 2017. Garnering the second highest amount of responses of 38% were the lenders that believe there is a 50% likelihood of tax reform being passed in 2017. 16% of lenders agreed that there is a 75% chance, while 4% believe there is a 0% chance of President Trump's comprehensive corporate tax reform being passed in 2017.

2. **The International Monetary Fund recently raised its outlook for global growth, citing "buoyant" financial markets, better prospects in large emerging markets, and an uptick in global trade. In your opinion, which of the following factors is likely to have the greatest impact on the global economy in 2017?**

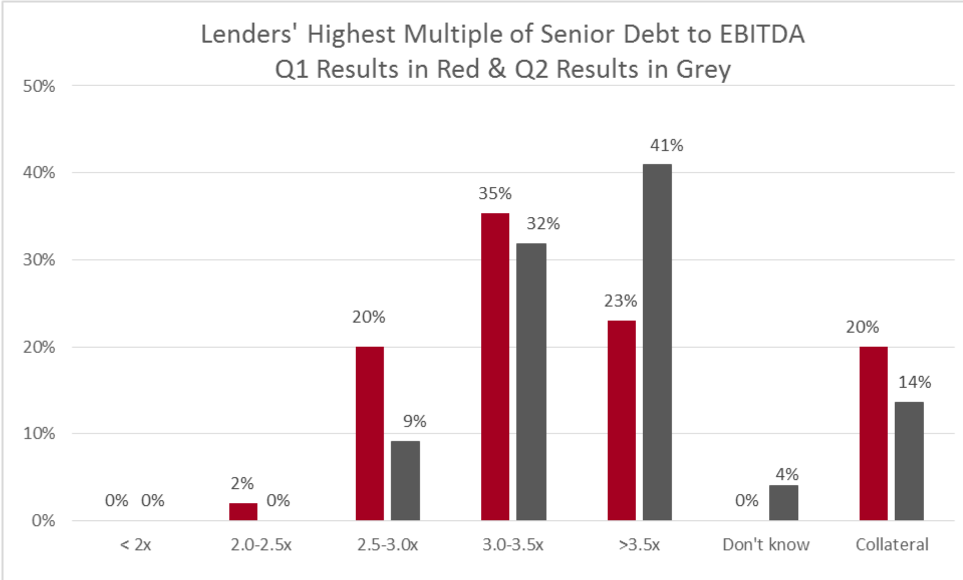
   The answer that received the highest percentage response, 58%, were the lenders that believe changes to the U.S. trade policy will have the greatest impact on the global economy in 2017. Lenders that believe slower growth in China's economy, despite a strong first quarter, garnered 29% of the responses, while 13% of lenders believe that resurgence of foreign investment in emerging markets will have the greatest impact on the global economy. 0% of lenders believe that an upward movement in crude oil prices will have the greatest impact on the global economy in 2017.

3. **Many economists expect gas prices to rise dramatically before the end of 2017, with significant increases expected during the summer months. Which factor do you think is most likely to cause this price increase?**

   The majority of lenders, garnering 63% of responses, think that geopolitical uncertainties will be the factor to cause gas prices to increase dramatically before the end of 2017. Garnering the second highest amount of responses of 29% were the lenders that think a decline in oil inventories will be the cause of gas prices increasing in 2017. Additionally, 8% of lenders believe that a reliance on foreign sources will be the reason gas prices increase before the end of 2017. 0% of lenders think that an adoption of increased environmental regulation will be the factor to cause gas prices to increase.

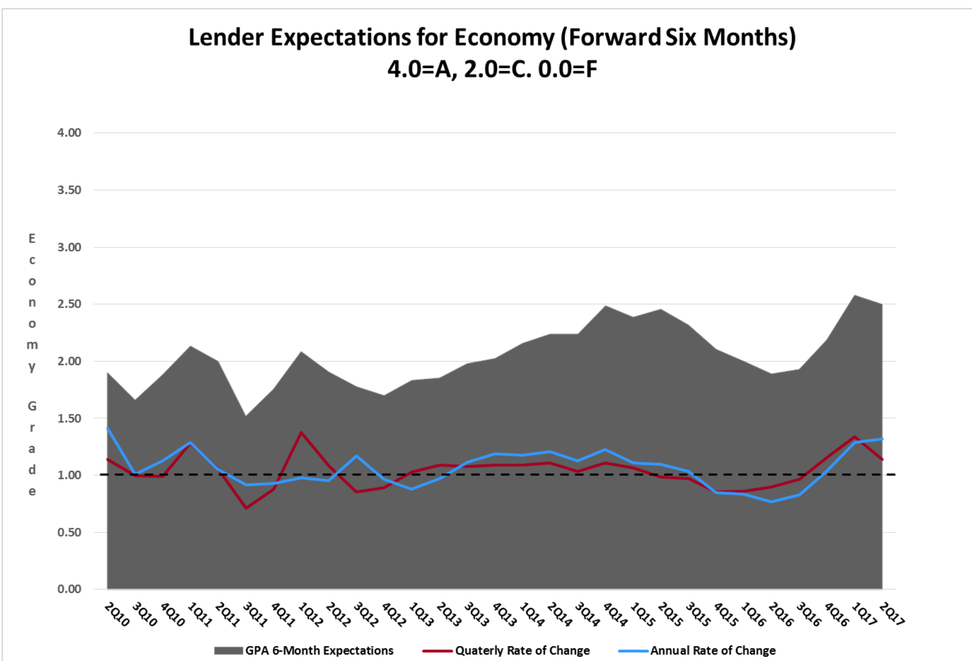
4. **Leverage multiples increased this quarter versus the prior quarter.**

   Multiples have increased in 2Q 2017. 41% of lenders indicated the >3.5x range would be the highest EBITDA ratio they would consider, an 18 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 3 percentage points to 32%. The percentage of lenders who indicated the highest ratio they would consider is between 2.5-3.0x saw a decrease of 11 points to 9%. 0% percent of respondents stated their institutions highest multiple is in the 2.0-2.5x range, a 2 percentage point decrease from the prior quarter's 2%. Zero lenders surveyed continue to indicate less than 2.0x is their institutions highest multiple. In addition, 14% of lenders responded that they were collateral lenders and therefore do not make decisions based on cash flow/leverage multiples.



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

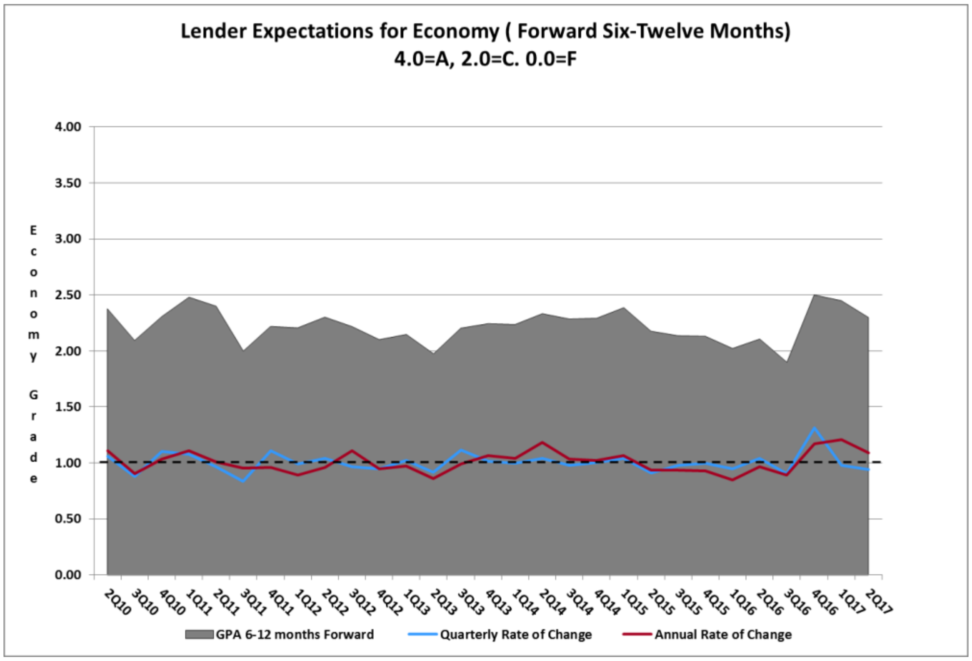
Lenders optimism on the U.S. economy for the short term decreased slightly this quarter but remains at an overall "B" grade; the index GPA decreased to 2.50 from the 1Q 2017 results of 2.58. 50% of the lenders believe the economy will perform at a "B" level over the next six months, compared to 55% in the previous survey. Furthermore, 50% of lenders surveyed believe the economy will perform at a "C" grade, compared to 39% in the previous survey. Lenders that believe that the economy will perform at a "D" level decreased 3 points from the previous quarter to 0% in 2Q 2017.



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

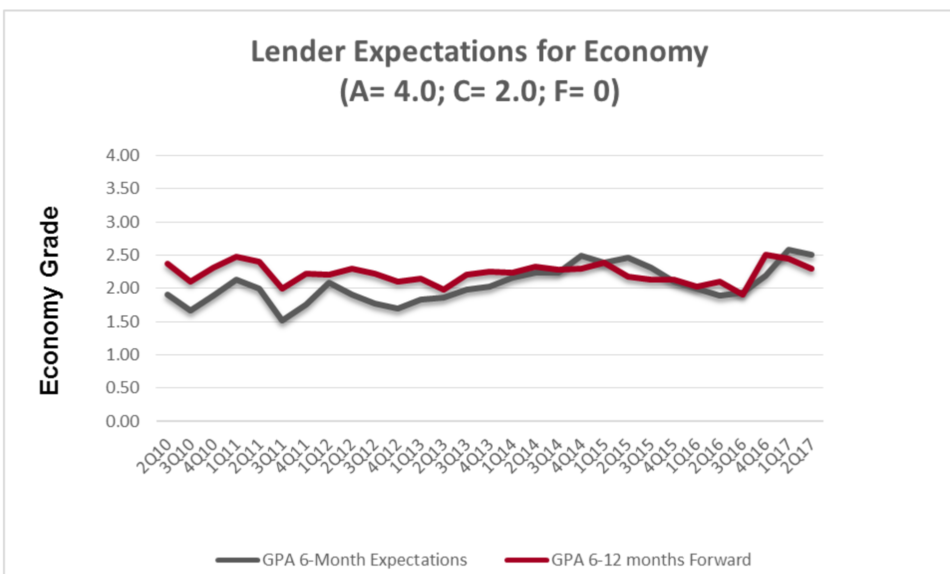
Lenders growth expectations for the U.S. economy beyond six months decreased from an overall "B" grade to an overall "C" grade this quarter. The weighted average decreased 15 points to a 2.30

GPA from 2.45 in the previous quarter. 40% of lenders believe the economy will perform at a "B" level in the next six to twelve months, which is 12 percentage points lower than the previous quarter. The percent of lenders (50%) that believe the economy will perform at a "C" level increased 17 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 declined 2 percentage points to 10%, 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 2Q 2017 survey continues the trend of the previous quarter's results of a higher near term GPA than long term GPA. However, the near term grade of "B" reflects lender's positive near term expectations for the economy.



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Survey Results

1. The majority of Lenders agree that there is a 25% chance that comprehensive tax reform will be passed in 2017.

Lenders were asked: President Trump has stated that it is his goal to pass comprehensive tax reform this year to lower the corporate tax rate, a move that could benefit many of the businesses in the U.S. as well as the economy as a whole. How likely do you think it is that this comprehensive corporate tax reform will be passed this year?

- 42% of lenders surveyed agree that there is a 25% chance that President Trump will reach his goal of passing comprehensive corporate tax reform before the end of 2017.
- 38% of lenders believe that likelihood of tax reform being passed in 2017 is 50%.
- 16% of lenders agreed that there is a 75% chance that tax reform will be passed in 2017.
- 4% of lenders surveyed believe that there is no chance the President Trump's corporate tax reform will be passed in 2017.

2. Lenders believe that changes to the U.S. trade policy will have the greatest impact on the global economy in 2017.

Lenders were asked: The International Monetary Fund recently raised its outlook for global growth, citing "buoyant" financial markets, better prospects in large emerging markets, and an uptick in global trade. In your opinion, which of the following factors is likely to have the greatest impact on the global economy in 2017?

- 58% of lenders believe that changes to the U.S. trade policy will have the greatest impact on the global economy in 2017.
- 29% of lenders believe slower growth in China's economy, despite a strong first quarter will be the factor to have the greatest impact on the global economy in 2017.
- 13% of the lenders surveyed believe that the resurgence of foreign investment in emerging markets will have the greatest impact on the global economy.
- 0% of lenders believe that an upward movement in crude oil prices will have the greatest impact.

3. Lenders think that geopolitical uncertainties will be the most likely factor to cause gas prices to rise dramatically before the end of 2017.

Lenders were asked: Many economists expect gas prices to rise dramatically before the end of 2017, with significant increases expected during the summer months. Which factor do you think is most likely to cause this price increase?

- 63% of lenders think that geopolitical uncertainties will be the factor to cause gas prices to rise dramatically before the end of 2017.

- 29% of lenders believe that a decline in oil inventories will cause gas prices to increase before the end of 2017.

- 8% of respondents think that a reliance on foreign sources will be the factor to cause gas prices to increase.

- 0% of lenders surveyed believe that the adoption of increased environmental regulation will be the cause for gas prices to increase before the end of 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	1Q 2017	2Q 2017
Greater than 3.5x	23%	41%
Between 3.01x and 3.50x	35%	32%
Between 2.51x and 3.00x	20%	9%
Between 2.01x and 2.50x	2%	0%
Less than 2.0x	0%	0%
Collateral lenders	20%	14%
N/A	0%	4%

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 2017	2Q 2017
Increase greater than 0.5x	0%	5%
Increase less than 0.5x	6%	5%
Decrease less than 0.5x	6%	5%
Decrease greater than 0.5x	0%	0%
No change	67%	73%
Collateral lenders	20%	12%
N/A	1%	0%

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 2017	2Q 2017
Stability of Stock Market	58%	55%
Unstable Energy Prices	42%	36%
Other	18%	32%
U.S. Budget Deficit	39%	27%
Sluggish Housing Market	27%	23%
Constrained Liquidity in Capital Markets	15%	5%

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 2017	2Q 2017
Retail Trade	82%	86%
Healthcare and Social Assistance	49%	62%
Real Estate and Rental/Leasing	15%	29%
Mining	33%	19%
Construction	3%	19%
Finance and Insurance	24%	14%
Transportation and Warehousing	9%	14%

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

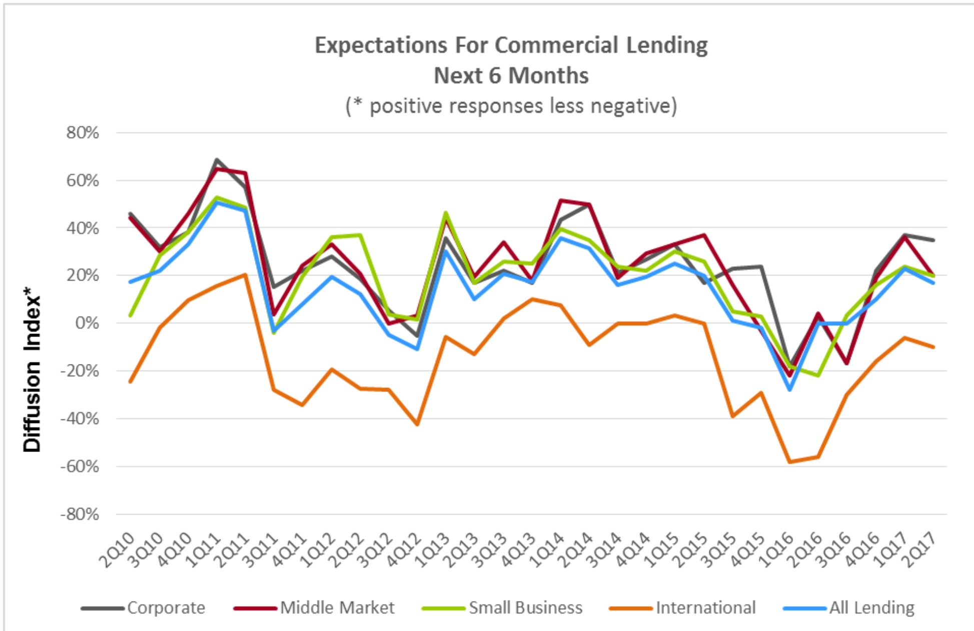
Respondents were asked which of the following actions their customers planned in the next six months. Lenders were asked to designate all potential customer actions that applied.

Customers' Plans	1Q 2017	2Q 2017
Hiring New Employees	52%	65%
Capital Improvements	61%	50%
Introducing New Products or Services	52%	50%
Making an Acquisition	67%	50%
Entering New Markets	36%	40%
Raising Additional Capital	48%	30%
"Other" Initiatives	3%	5%

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 2017, lenders optimism decreased slightly in large corporate (35%) and middle market (20%). Additionally, expectations decreased for small business in 2Q 2017 with a diffusion index of 20%, a 4 percentage point difference from the previous quarter of 24%. The diffusion index for international lending continued to stay in the negatives, however increasing to a negative 10% from negative 6% in the previous quarter. The diffusion index for the average for domestic lending slightly decreased from a 33% in 1Q 17 to 26% in 2Q 17, and the diffusion index for all lending decreased to a 17%.



	1Q/2017			2Q/2017		
	Up	Down	Same	Up	Down	Same
Corporate Lending	37%	0%	63%	35%	0%	65%
Middle Market Lending	39%	3%	58%	35%	15%	50%
Small Business Lending	36%	12%	52%	32%	11%	58%
International Lending	15%	21%	64%	5%	15%	80%

- The interest rate diffusion index increased to 100% compared to 91% the previous quarter. Loan losses diffusion index increased 35 percentage points to 50% in Q2 2017 compared to 15% in Q1 2017. The bankruptcies diffusion index also increased this quarter to 65% from 18% in the previous quarter.

	1Q/2017			2Q/2017		
	Up	Down	Same	Up	Down	Same
Loan Losses	27%	12%	61%	55%	5%	40%
Bankruptcies	33%	15%	52%	70%	5%	25%
Interest Rates	94%	3%	3%	100%	0%	0%
Unemployment	3%	15%	82%	5%	15%	80%
Bank Failures	9%	21%	70%	10%	20%	70%

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 decreased slightly this quarter from 2.58 in 1Q 2017 to 2.50 in 2Q 2017, which is a "B" grade. In the current quarter, 50% of respondents believe the economy will perform at a "B" level, which represents a decrease of 5 points from the previous quarter. There was a slight increase of lenders (50%) that believe the economy will perform at a "C" level, an 11 point increase from the 1Q 2017 results, while 0% believe the economy will perform at a "D" level, a 3 point decrease. 0% of lenders continue to believe the economy will perform at an "F" level.

Grade	1Q/2017	2Q/2017
A	3%	0%
B	55%	50%
C	39%	50%
D	3%	0%
F	0%	0%
Weighted Average Grade	2.58	2.50

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 decreased from the prior quarter. The weighted average GPA decreased 15 points from a 2.45 in the previous quarter to 2.30, which is a "C" grade. 40% of lenders feel as though the economy will perform at a "B" level beyond the next six months (compared to 52% last quarter). Lenders who believe the economy will perform at a "C" over the next twelve months increased 17 percentage points to a 50%. There was a slight decrease of lenders (2%) 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/2017	2Q/2017
A	3%	0%
B	52%	40%
C	33%	50%
D	12%	10%
F	0%	0%
Weighted Average	2.45	2.30

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 14 percentage points from 88% in Q1 2017 to 74% in Q2 2017. With a concentration remaining towards moderation, 0% of lenders ascribe "very strong growth", and 16% of lenders ascribe "strong growth" for their borrower's growth in the next six months. Furthermore, 10% of lenders favor "no growth", a 10 percentage point increase from the previous quarter's results of 0%. This continued belief of "moderate growth" is a positive signal from lenders on the U.S. economy.

Indication	1Q/2017	2Q/2017
Very Strong	0%	0%
Strong	12%	16%
Moderate	88%	74%
No Growth	0%	10%

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 1Q 2017 we did see a slight increase, 2 percentage points, of lenders that plan to relax their loan structure.

	1Q/2017			2Q/2017		
	Tighten	Maintain	Relax	Tighten	Maintain	Relax
Loans> $25 million	3%	84%	13%	6%	82%	12%
$15 – 25 million	4%	88%	8%	6%	82%	12%
$5-15 million	3%	94%	3%	6%	83%	11%
Under $5 million	19%	74%	7%	5%	90%	5%
Overall Average	7%	85%	8%	6%	84%	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, fewer lenders (12 percentage points less) expect to maintain their interest rates spreads, and more lenders (12 percentage points more) expect to reduce their interest rate spreads in Q2 2017 versus Q1 2017.

	1Q/2017			2Q/2017		
	Reduce	Maintain	Increase	Reduce	Maintain	Increase
Loans > $25 million	10%	87%	3%	24%	70%	6%
$15 – 25 million	7%	90%	3%	18%	76%	6%
$5-15 million	0%	94%	6%	11%	78%	11%
Under $5 million	0%	81%	19%	11%	78%	11%
Overall Average	4%	88%	8%	16%	76%	8%

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 2017 displayed a greater dispersion between +1/4 point and +1/2 point increases, with 73% of respondents continuing to favor +1/2 point or more increase and 26% of respondents favoring an increase of +1/4 point.

Bps Change	1Q/2017	2Q/2017
+ 1/2 point or more	61%	73%
+ 1/4 point	36%	26%
Unchanged	3%	0%
- 1/4 point	0%	0%
- 1/2 point or more	0%	0%
Weighted Average	0.40 bps	0.46 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 (37%) for the survey. Commercial Finance, at 21% of respondents, saw no change. Additionally, Local Community/Commercial Banks saw a slight increase with 21% of respondents, and Money Center Banks saw an increase in the number of respondents (16%) from the previous quarter's survey.

	1Q/2017	2Q/2017
Regional Bank	55%	37%
Commercial Finance Co.	21%	21%
Local Community/Commercial Bank	12%	21%
Money Center Banks	9%	16%
Factors	0%	0%
Other	3%	5%