Phoenix Management Services
"Lending Climate in America" Survey

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1st Quarter 2018
Summary, Trends and Implications

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"LENDING CLIMATE IN AMERICA"

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SUMMARY, TRENDS AND IMPLICATIONS

1. **What do you expect to be the biggest driver of new loans in Q2 2018?**

   33% of lenders expect that M&A activity will be the biggest driver of new loans in Q2 2018. Garnering the second highest amount of responses, 29%, were lenders that expect the biggest driver of new loans in Q2 2018 will be from working capital to support organic growth and expansion. 25% of lenders believe capital expenditure needs will be the biggest driver, while 13% expect increased opportunities to refinance existing loans at a lower interest rate will be the biggest driver of new loans in Q2 2018.

2. **After impressive double-digit growth in 2017, how do you expect U.S. equity markets to perform in 2018?**

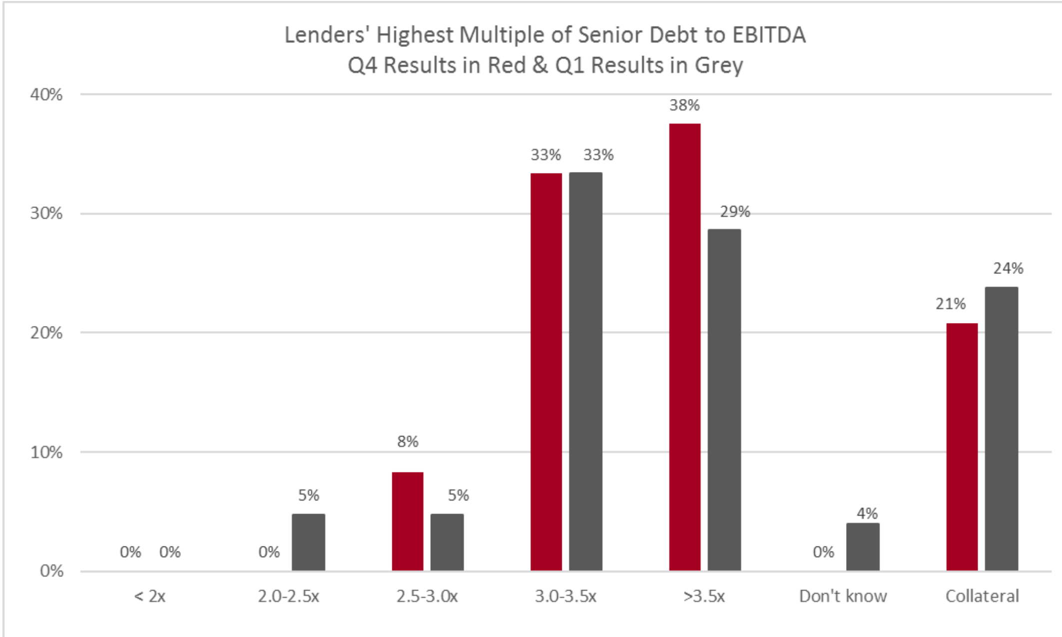
   The answer that received the highest percentage response, 67%, were the lenders that expect a modest single digit growth from U.S. equity markets in 2018. Lenders that expect markets to remain flat in 2018, garnered 21% of the responses. Of the lenders surveyed, 12% expect double digit growth again in 2018, while none of the lenders expect a decline.

3. **The volatility of Cryptocurrencies has made headlines in recent months after a 14x increase in Bitcoin's market cap during 2017 (from $15.5B to $216B) and then a 45% decline through the first week of February 2018 (back down to $118B). Over the next three years, what percentage would you ascribe to the likelihood that the SEC begins to approve exchange-traded products (such as ETFs) holding cryptocurrencies or other assets related to cryptocurrencies for listing or trading?**

   Lenders garnering 38% of responses think that there is a 25% likelihood that the SEC will begin to approve exchange-traded products holding cryptocurrencies for listing or trading. Garnering the second highest amount of responses of 17%, were the lenders that believe there is a) 0%, and b) 10% likelihood. 13% of lenders believe there is a 100% likelihood, while 8% of lenders believe there is a 50% likelihood that the SEC will approve exchange-traded products holding cryptocurrencies for listing or trading. 4% of lenders believe there is a) 75%, and b) 90% likelihood of the SEC allowing exchange-traded products holding cryptocurrencies for listing or trading.

4. **Leverage multiples remained relatively unchanged this quarter.**

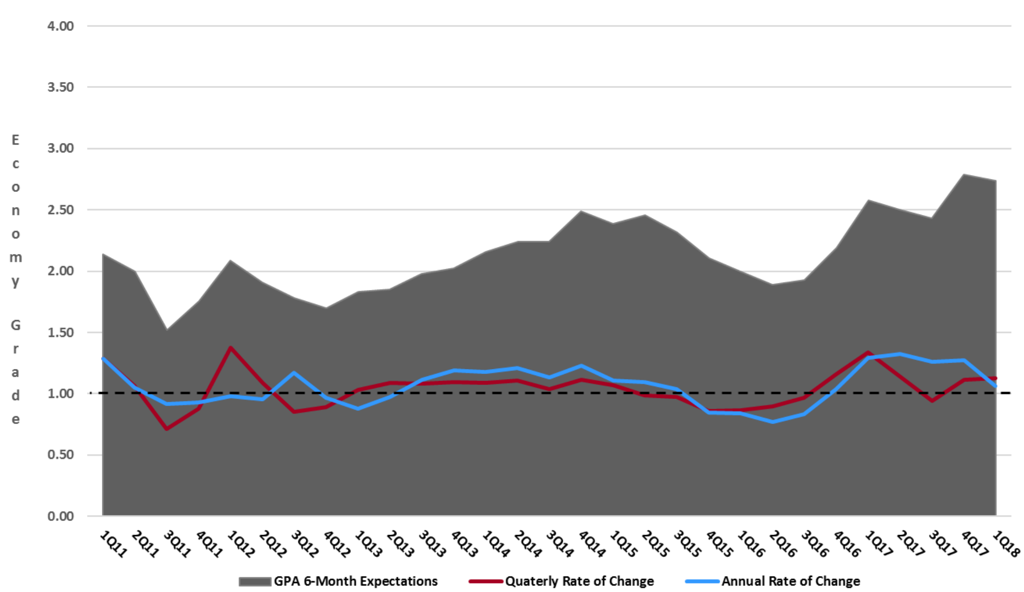
   Multiples remained relatively unchanged in 1Q 2018. 29% of lenders indicated that the >3.5x range would be the highest EBITDA ratio they would consider. The percentage of respondents who would consider a debt to EBITDA ratio of 3.0-3.5x remained unchanged at 33%. The percentage of lenders who indicated the highest ratio they would consider is between 2.5-3.0x decreased 3 percentage points to 5%. Of the lenders surveyed, 5% stated their institutions highest multiple is less than 2.5x. In addition, 24% 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 for the near term in this quarter's survey.**

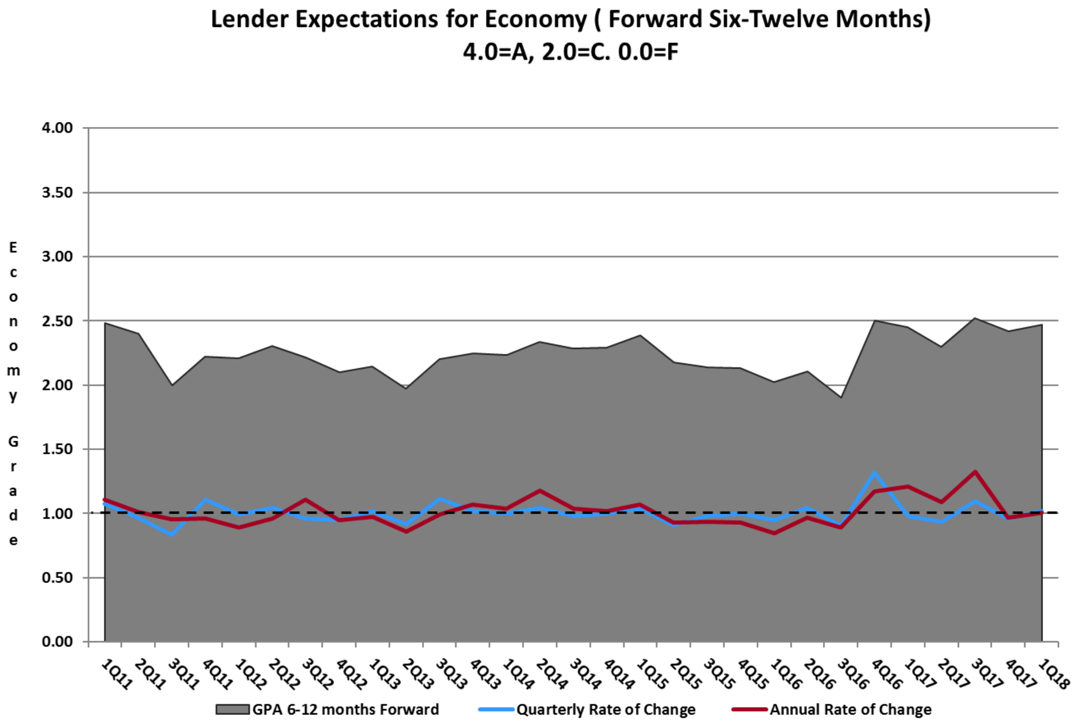
Lenders optimism in the U.S. economy for the short term decreased slightly this quarter and remains at an overall "B" grade; the index GPA decreased to 2.74 from the 4Q 2017 results of 2.79. 79% of the lenders believe the economy will perform at a "B" level over the next six months, compared to 71% in the previous survey. Furthermore, 16% of lenders surveyed believe the economy will perform at a "C" grade, compared to 25% in the previous survey. 5% of Lenders believe that the economy will perform at a "D" level.

Lender Expectations for Economy (Forward Six Months)
4.0=A, 2.0=C. 0.0=F



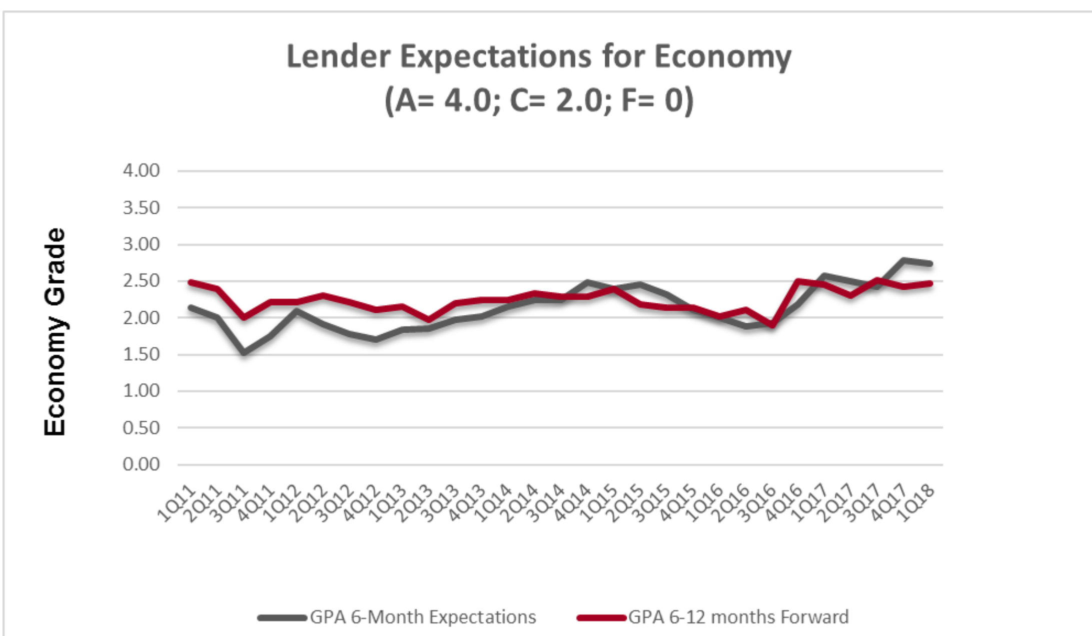
** Rate of Change of 1.0 is at equilibrium and signifies "no change" from the corresponding prior period of comparison.*

Lenders growth expectations for the U.S. economy beyond six months remained at an overall "B" grade this quarter. The weighted average increased 5 points to a 2.47 GPA from 2.42 in the previous quarter. 53% of lenders believe the economy will perform at a "B" level in the next six to twelve months, which is 7 percentage points higher than the previous quarter. The percent of lenders (42%) that believe the economy will perform at a "C" level increased 4 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 decreased from 12% to 5%.



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

The 1Q 2018 survey continues the recent trend of a higher near term GPA than long term GPA. The near term grade of "B" reflects lender's positive expectations for the economy in both the near and long term.



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Survey Results

1. The majority of Lenders expect M&A activity to be the biggest driver of new loans in Q2 2018.

Lenders were asked: What do you expect to be the biggest driver of new loans in Q2 2018?

M&A activity	33%
Working capital to support organic growth and expansion	29%
Capital expenditure needs	25%
Opportunities to refinance existing loans at a lower interest rate	13%

2. Lenders expect a modest single digit growth for U.S. equity markets in 2018.

Lenders were asked: After impressive double-digit growth in 2017, how do you expect U.S. equity markets to perform in 2018?

I expect modest single digit growth in 2018	67%
I expect markets to remain about flat in 2018	21%
There is still a lot of room for the economy to expand and I expect double digit growth again in 2018	12%
I expect single digit decline in 2018	0%
We are in a bubble and I expect double digit decline in 2018	0%

3. Lenders believe, over the next 3 years, there is a 25% likelihood that the SEC begins to approve exchange-traded products holding cryptocurrencies for listing or trading.

Lenders were asked: The volatility of Cryptocurrencies has made headlines in recent months after a 14x increase in Bitcoin's market cap during 2017 (from $15.5B to $216B) and then a 45% decline through the first week of February 2018 (back down to $118B). Over the next three years, what percentage would you ascribe to the likelihood that the SEC begins to approve exchange-traded products (such as ETFs) holding cryptocurrencies or other assets related to cryptocurrencies for listing or trading?

Likelihood of SEC Approval	
100%	12%
90%	4%
75%	4%
50	8%
25%	38%
10%	17%
0%	17%

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	4Q 2017	1Q 2018
Greater than 3.5x	38%	29%
Between 3.01x and 3.50x	33%	33%
Between 2.51x and 3.00x	8%	5%
Between 2.01x and 2.50x	0%	5%
Less than 2.0x	0%	0%
Collateral lenders	21%	24%
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	4Q 2017	1Q 2018
Increase greater than 0.5x	4%	0%
Increase less than 0.5x	4%	5%
Decrease less than 0.5x	0%	10%
Decrease greater than 0.5x	0%	0%
No change	68%	57%
Collateral lenders	16%	24%
N/A	8%	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	4Q 2017	1Q 2018
Stability of Stock Market	38%	52%
U.S. Budget Deficit	50%	38%
Other	25%	38%
Sluggish Housing Market	29%	29%
Constrained Liquidity in Capital Markets	13%	14%
Unstable Energy Prices	25%	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	4Q 2017	1Q 2018
Retail Trade	83%	71%
Construction	4%	33%
Healthcare and Social Assistance	33%	29%
Real Estate and Rental/Leasing	17%	29%
Finance and Insurance	25%	24%
Manufacturing	0%	19%

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

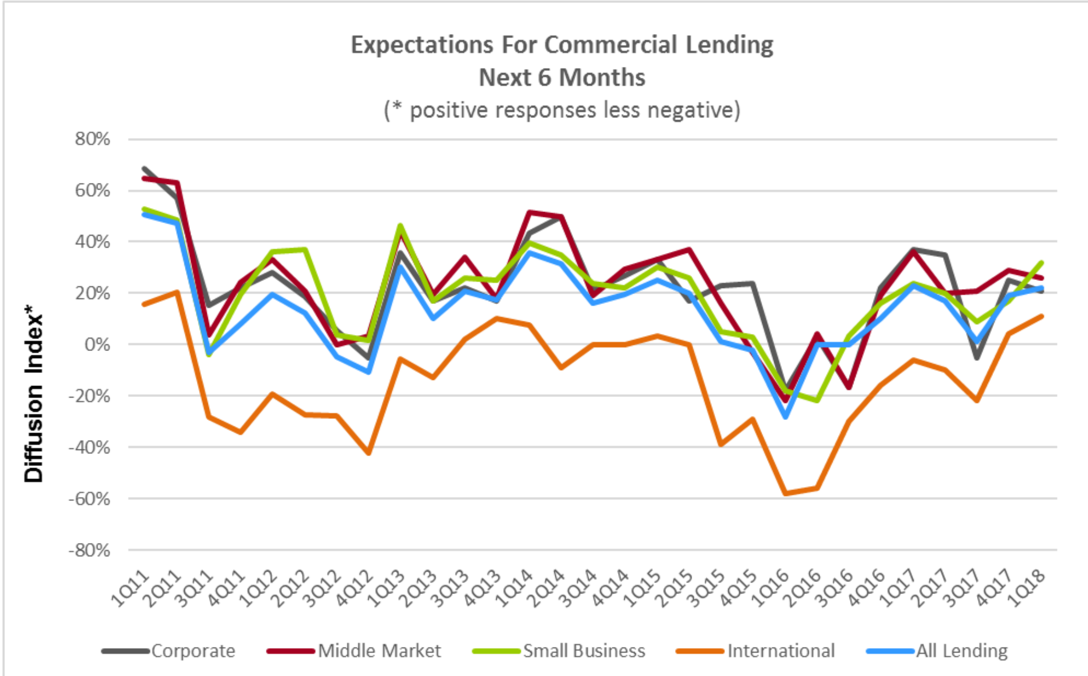
Respondents were asked which of the following actions their customers planned in the next six to twelve months. Lenders were asked to designate all potential customer actions that applied.

Customers' Plans	4Q 2017	1Q 2018
Capital Improvements	75%	81%
Making an Acquisition	67%	62%
Hiring New Employees	54%	57%
Introducing New Products or Services	42%	43%
Entering New Markets	38%	43%
Raising Additional Capital	25%	33%
"Other" Initiatives	4%	0%

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 1Q 2018, lenders optimism decreased slightly in large corporate (21%) and middle market (26%). However, expectations increased for small business in 1Q 2018 with a diffusion index of 32%, a 15-percentage point difference from the previous quarter of 17%. The diffusion index for international lending continues to increase, 11% in 1Q 2018 from 4% in 4Q 2017. The diffusion index for the average for all domestic lending increased from 23% in 4Q 2017 to 27% in 1Q 2018, and the diffusion index for all lending increased to 22% from 19% in Q4 2017.



	4Q/2017 Up	Down	Same	Diffusion Index		1Q/2018 Up	Down	Same	Diffusion Index
Corporate Lending	29%	4%	67%	25%	Corporate Lending	37%	16%	47%	21%
Middle Market Lending	33%	4%	63%	29%	Middle Market Lending	42%	16%	42%	26%
Small Business Lending	26%	9%	65%	17%	Small Business Lending	37%	5%	58%	32%
International Lending	21%	17%	62%	4%	International Lending	22%	11%	67%	11%

- The interest rate diffusion index decreased 1 percentage point to 90% compared to 91% the previous quarter. Loan losses diffusion index also increased 18 percentage points to 39% in Q1 2018 compared to 21% in Q4 2017. The bankruptcies diffusion index remains unchanged at 38%.

	4Q/2017 Up	Down	Same	Diffusion Index		1Q/2018 Up	Down	Same	Diffusion Index
Loan Losses	25%	4%	71%	21%	Loan Losses	39%	0%	61%	39%
Bankruptcies	42%	4%	54%	38%	Bankruptcies	44%	6%	50%	38%
Interest Rates	91%	0%	9%	91%	Interest Rates	95%	5%	0%	90%
Unemployment	4%	29%	67%	-16%	Unemployment	5%	32%	63%	-27%
Bank Failures	4%	8%	88%	-4%	Bank Failures	0%	26%	74%	-26%

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 slightly decreased this quarter from 2.79 in 4Q 2017 to 2.74 in 1Q 2018, which continues to remain at an overall "B" grade. In the current quarter, 79% of respondents believe the economy will perform at a "B" level, which represents an increase of 8 points from the previous quarter. However, there was a decrease of lenders (16%) that believe the economy will perform at a "C" level, and 5% of lenders believe that the economy will perform at a "D" level in the near term.

Grade	4Q/2017	1Q/2018
A	4%	0%
B	71%	79%
C	25%	16%
D	0%	5%
F	0%	0%
Weighted Average Grade	2.79	2.74

11. U.S. 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 increased from the prior quarter. The weighted average GPA increased 5 points from a 2.42 in the previous quarter to 2.47, which is a "B" grade. 53% of lenders feel as though the economy will perform at a "B" level beyond the next six months (compared to 46% last quarter). Lenders who believe the economy will perform at a "C" over the next twelve months increased 4 percentage points to a 42%. There was a decrease of lenders (5%) that believe the economy will perform at a "D" grade over the next six to twelve months while 0% believe the economy will perform at an "A" grade.

Grade	4Q/2017	1Q/2018
A	4%	0%
B	46%	53%
C	38%	42%
D	12%	5%
F	0%	0%
Weighted Average	2.42	2.47

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 10 percentage points from 78% in Q4 2017 to 68% in Q1 2018. 32% of lenders ascribe "strong growth" for their borrower's growth in the next six months, a 14-percentage point increase from Q4 2017. Furthermore, 0%

of lenders favor "no growth" or "very strong". This continued belief of "moderate growth" is a positive signal from lenders on the U.S. economy.

Indication	**4Q/2017**	**1Q/2018**
Very Strong	4%	0%
Strong	18%	32%
Moderate	78%	68%
No Growth	0%	0%

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 2018 we did see a slight increase, 9 percentage points, of lenders that plan to tighten their loan structure.

	4Q/2017			**1Q/2018**		
	Tighten	Maintain	Relax	Tighten	Maintain	Relax
Loans> $25 million	9%	77%	14%	25%	69%	6%
$15 – 25 million	9%	77%	14%	19%	75%	6%
$5-15 million	4%	87%	9%	12%	76%	12%
Under $5 million	8%	79%	13%	11%	72%	17%
Overall Average	8%	80%	12%	17%	73%	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, more lenders (12 percentage points more) expect to reduce their interest rates spreads in Q1 2018 versus Q4 2017.

	4Q/2017			**1Q/2018**		
	Reduce	Maintain	Increase	Reduce	Maintain	Increase
Loans > $25 million	18%	73%	9%	31%	63%	6%
$15 – 25 million	13%	73%	14%	19%	69%	13%
$5-15 million	0%	87%	13%	13%	67%	20%
Under $5 million	0%	88%	12%	17%	61%	22%
Overall Average	8%	80%	12%	20%	65%	15%

15. The Fed and Interest Rates

Respondents were asked in what direction they thought the Fed would move interest rates and by how much in the coming six months.

1Q 2018 displayed a less even dispersion between +1/4 point and +1/2 point increases, with 89% of respondents favoring an increase of +1/2 point or more and 0% of respondents favoring +1/4 point increase.

Bps Change	**4Q/2017**	**1Q/2018**
+ 1/2 point or more	50%	89%
+ 1/4 point	46%	0%
Unchanged	0%	5%
- 1/4 point	4%	0%
- 1/2 point or more	0%	6%
Weighted Average	0.38 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 continue to place at the top of the survey, garnering 39% of responses. Local Community/Commercial Bank, at 33% of respondents, saw an increase of 12 percentage points. Commercial Financial saw a slight decrease with 6% of respondents, and Money Center Banks also saw a slight decrease in respondents (11%).

	4Q/2017	**1Q/2018**
Regional Bank	45%	39%
Local Community/Commercial Bank	21%	33%
Commercial Finance Co.	17%	6%
Money Center Banks	17%	11%
Factors	0%	0%
Other	0%	11%