Phoenix Management Services
"Lending Climate in America" Survey

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4th Quarter 2018
Summary, Trends and Implications

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"LENDING CLIMATE IN AMERICA"

4th Quarter 2018

SUMMARY, TRENDS AND IMPLICATIONS

1. **U.S. GDP growth slowed from 4.2% in Q2 to 3.5% in Q3 2018. Economists surveyed by the WSJ estimate that the growth rate will slow to 2.5% by the first quarter of 2019, which is less than the 3% projected for 2019 in this year's White House budget proposal. How do you expect lenders to react in the next 6 months?**

   Garnering the highest percentage of responses (81%), were lenders that expect lending practices to remain about the same despite expectations for slower growth in GDP. Of the lenders surveyed, 19% expect they will tighten standards and terms to mitigate the negative impacts of slower growth, and 0% of lenders surveyed expect lenders will loosen terms to fuel growth.

2. **Orders for durable goods like aircrafts, cars, and other transportation vehicles, rose 4.5 percent in August. Many economists believe strong durable goods sales are a signal of a solid economy, with businesses and individuals willing to spend money on big ticket items because they are confident in their economic prospects. Given the current performance, how do you think spending for businesses and individuals will trend in Q4?**

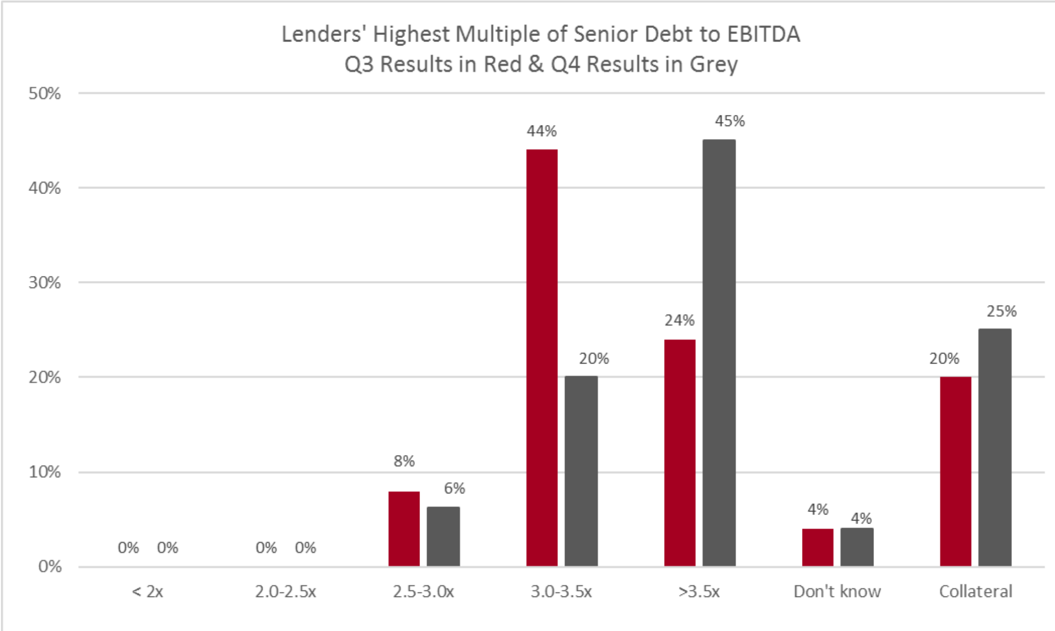
   The answer that received the highest percentage response, 63%, were the lenders that think spending for businesses and individuals will remain steady in Q4 2018. Of the lenders surveyed, 25% think spending for businesses and individuals will start to taper off in Q4, while 12% of lenders think it will continue to increase into 2019.

3. **Despite the stock market tumbling since the summer and the ongoing escalation of a trade war with China, many including Target's CEO Brian Cornell, still believe U.S. consumers to be as strong as ever heading into the holiday season. How do you expect retail sales to fare for Q4 2018?**

   Lenders garnering 75% of responses expect another strong record year for retail sales in Q4 2018 despite potential fractures in the domestic and global markets. Of the lenders surveyed, 25% are neutral in how they expect retail sales to fare in Q4 2018 but believe that retail sales will not continue the dramatic growth shown in the past few holiday seasons. 0% of lenders expect a weak holiday season for retail in 2018.

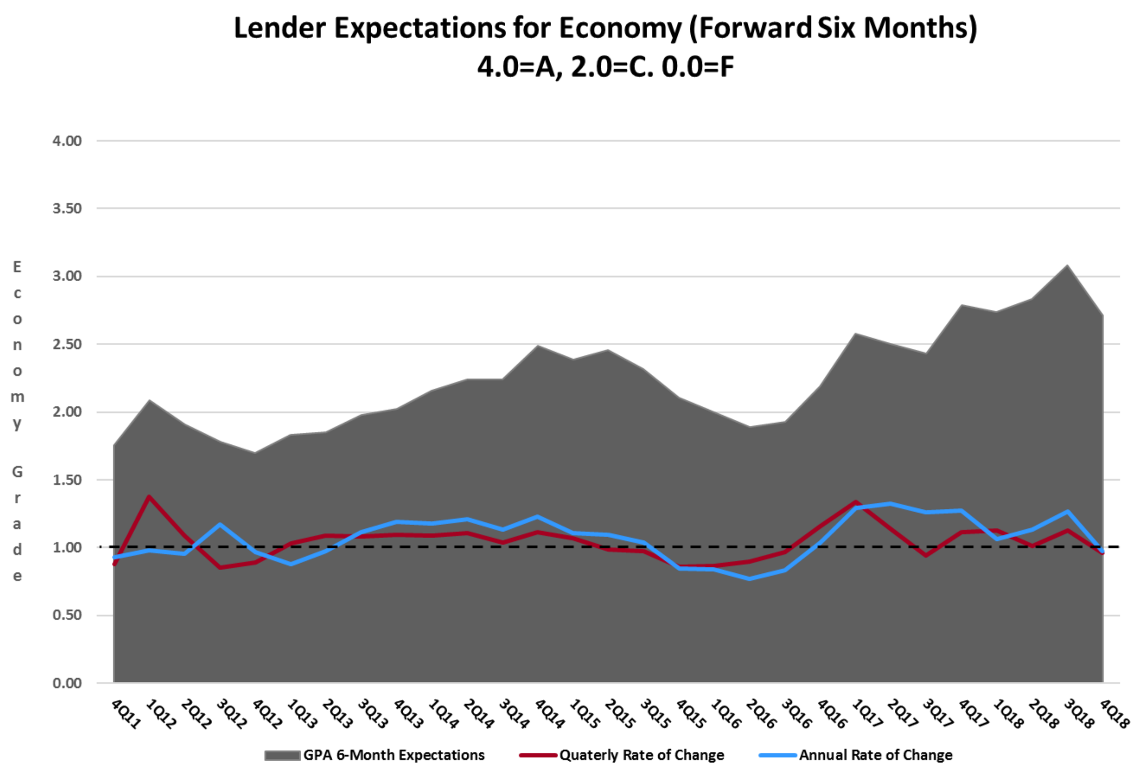
4. **Leverage multiples shifted this quarter.**

   Leverage multiples increased in 4Q 2018 with 45% of lenders indicating that the >3.5x range would be the highest EBITDA ratio they would consider versus 24% in 3Q 2018. The percentage of respondents who would consider a debt to EBITDA ratio of 3.0-3.5x decreased to 20% from the previous quarter's results of 44%. The percentage of lenders who indicated the highest ratio they would consider is between 2.5-3.0x decreased 2 percentage points to 6%, and 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 decrease for the near term in this quarter's survey.**

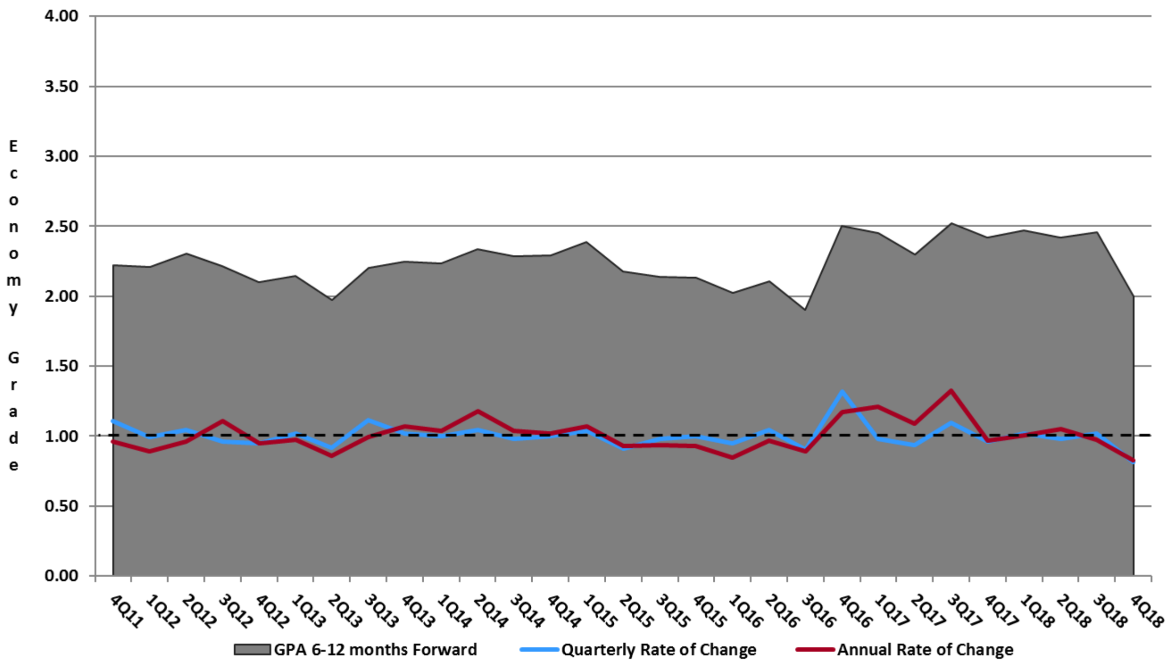
   Lenders optimism in the U.S. economy for the short term decreased this quarter but remains at an overall "B" grade; the index GPA decreased to 2.71 from the 3Q 2018 results of 3.08. 71% of the lenders believe the economy will perform at a "B" level over the next six months, compared to 83% in the previous survey. Of the lenders surveyed, 29% expect the U.S. economy to perform at a "C" grade, compared to 4% in the previous survey, and none of the lenders surveyed believe that the economy will perform at a "D" or "F" level.



** 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 decreased 46 points to a 2.00 GPA from 2.46 in the previous quarter. 29% of lenders believe the economy will perform at a "B" level in the next six to twelve months, which is a 13-percentage point decrease from the previous quarter. The percent of lenders (43%) that believe the economy will perform at a "C" level decreased 7 percentage points from the previous quarter. However, the percentage of respondents who believe the economy will perform at a "D" level beyond the next six months increased from 4% to 29%.

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



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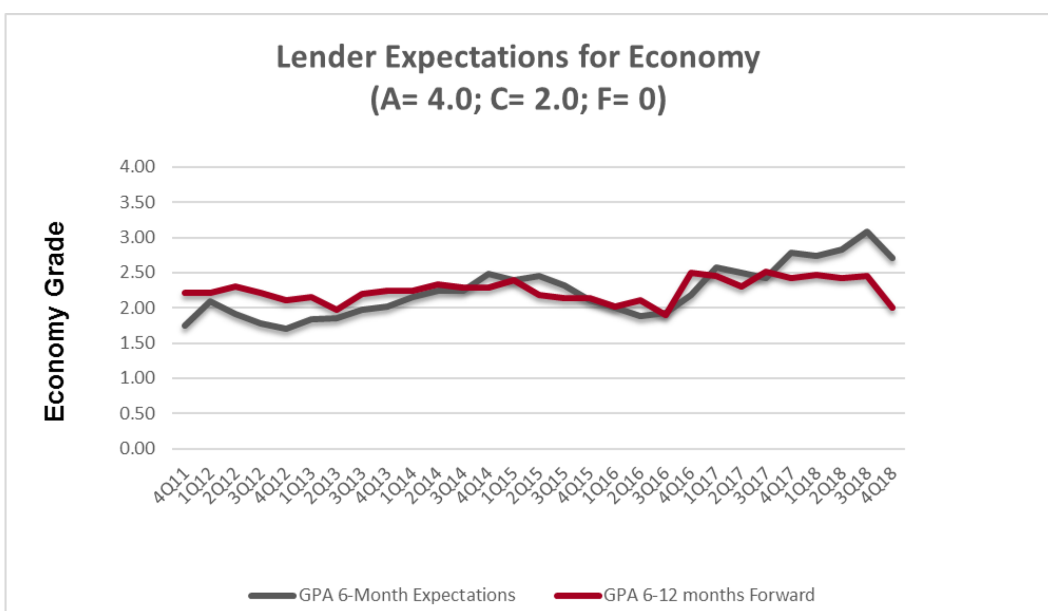
The 4Q 2018 survey continues the trend of a higher near-term GPA than long term GPA. The grade of "B" reflects lender's positive expectations for the economy in the near term.



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Survey Results

1. The majority of Lenders expect lending practices to remain the same in the next 6 months.

Lenders were asked: U.S. GDP growth slowed from 4.2% in Q2 to 3.5% in Q3 2018. Economists surveyed by the WSJ estimate that the growth rate will slow to 2.5% by the first quarter of 2019, which is less than the 3% projected for 2019 in this year's White House budget proposal. How do you expect lenders to react in the next 6 months?

Expect lending practices to remain the same	81%
Lenders will tighten standards and terms to reduce exposure	19%
Lenders will loosen terms to fuel growth	0%

2. Given the current performance, lenders think spending for businesses and individuals will remain steady in Q4.

Lenders were asked: Orders for durable goods like aircrafts, cars, and other transportation vehicles, rose 4.5 percent in August. Many economists believe strong durable goods sales are a signal of a solid economy, with businesses and individuals willing to spend money on big ticket items because they are confident in their economic prospects. Given the current performance, how do you think spending for businesses and individuals will trend in Q4?

Remain steady	63%
Start to taper off	25%
Continue to increase into 2019	12%

3. Lenders expect another record year for retail sales in Q4 2018 despite potential fractures in the domestic and global markets.

Lenders were asked: Despite the stock market tumbling since the summer and the ongoing escalation of a trade war with China, many including Target's CEO Brian Cornell, still believe U.S. consumers to be as strong as ever heading into the holiday season. How do you expect retail sales to fare for Q4 2018?

Strong: expecting another record year despite potential fractures in the domestic and global markets.	75%
Neutral: while not a negative outlook, retail sales will not continue the dramatic growth shown the past few holiday seasons.	25%
Weak: market indications and the escalating trade war could be early signs of a weak holiday season for retail in 2018.	0%

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 2018	4Q 2018
Greater than 3.5x	24%	45%
Between 3.01x and 3.50x	44%	20%
Between 2.51x and 3.00x	8%	6%
Between 2.01x and 2.50x	0%	0%
Less than 2.0x	0%	0%
Collateral lenders	20%	25%
N/A	4%	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	3Q 2018	4Q 2018
Increase greater than 0.5x	4%	0%
Increase less than 0.5x	4%	0%
Decrease less than 0.5x	0%	0%
Decrease greater than 0.5x	4%	0%
No change	68%	69%
Collateral lenders	16%	25%
N/A	4%	6%

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 2018	4Q 2018
Stability of Stock Market	32%	75%
Unstable Energy Prices	32%	38%
Sluggish Housing Market	16%	31%
U.S. Budget Deficit	32%	25%
Other	48%	19%
Constrained Liquidity in Capital Markets	20%	0%

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 2018	4Q 2018
Retail Trade	88%	80%
Manufacturing	24%	27%
Mining	12%	27%
Healthcare and Social Assistance	12%	27%
Transportation and Warehousing	20%	20%

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

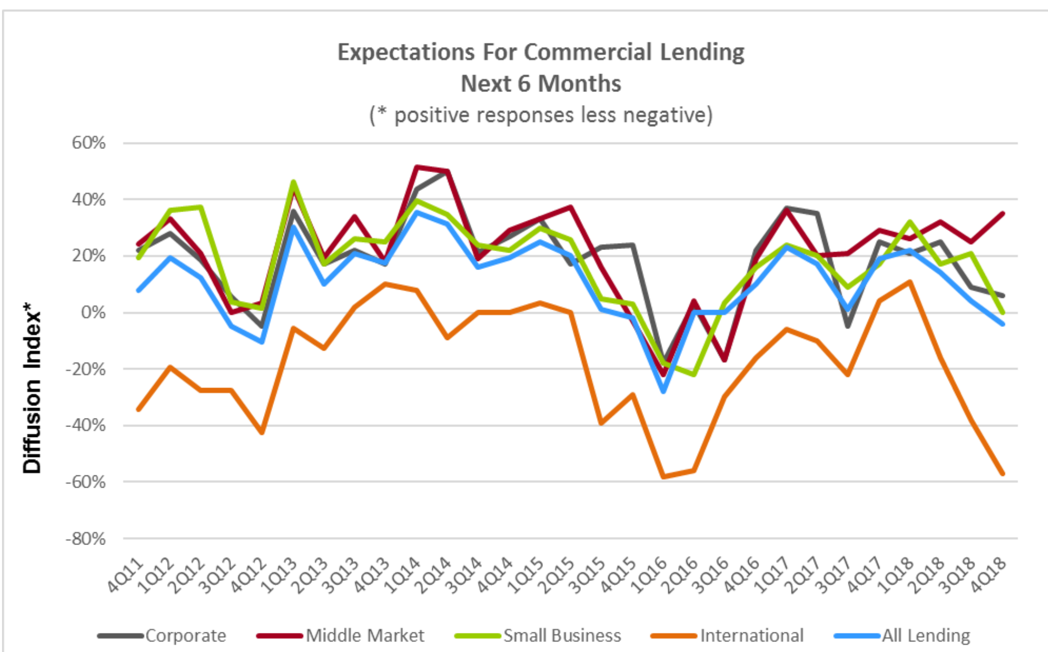
Respondents were asked which of the following actions their customers planned in the next six to twelve months. Lenders were asked to designate all potential customer actions that applied.

Customers' Plans	3Q 2018	4Q 2018
Capital Improvements	84%	79%
Hiring New Employees	76%	79%
Making an Acquisition	44%	64%
Introducing New Products or Services	40%	57%
Raising Additional Capital	48%	50%
Entering New Markets	32%	36%
"Other" Initiatives	0%	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 4Q 2018, lenders optimism decreased in large corporate (6%) and small business (0%). However, expectations increased slightly for middle market in 4Q 2018 with a diffusion index of 35%, a 10-percentage point difference from the previous quarter of 25%. The diffusion index for the average for all domestic lending slightly decreased from 18% in 3Q 2018 to 14% in 4Q 2018, and the diffusion index for all lending decreased to -4% from 4% in Q3 2018.



	3Q/2018					4Q/2018			
	Up	Down	Same	Diffusion Index		Up	Down	Same	Diffusion Index
Corporate Lending	17%	8%	75%	9%	Corporate Lending	13%	7%	80%	6%
Middle Market Lending	25%	0%	75%	25%	Middle Market Lending	53%	18%	29%	35%
Small Business Lending	30%	9%	61%	21%	Small Business Lending	41%	41%	8%	0%
International Lending	24%	6%	70%	-38%	International Lending	18%	75%	7%	-57%

- The loan losses diffusion index increased 57 percentage points to 91% in Q4 2018 compared to 34% in Q3 2018. In addition, the bankruptcies diffusion index increased 50 percentage points to 71% in Q4 2018, and the bank failures diffusion index decreased from a -4% in Q3 2018 to -67%.

	3Q/2018					4Q/2018			
	Up	Down	Same	Diffusion Index		Up	Down	Same	Diffusion Index
Loan Losses	38%	4%	58%	34%	Loan Losses	91%	0%	9%	91%
Bankruptcies	25%	4%	71%	21%	Bankruptcies	71%	0%	29%	71%
Interest Rates	100%	0%	0%	100%	Interest Rates	99%	0%	1%	99%
Unemployment	9%	13%	78%	-4%	Unemployment	20%	7%	73%	13%
Bank Failures	0%	4%	96%	-4%	Bank Failures	0%	67%	33%	-67%

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 this quarter from 3.08 in 3Q 2018 to 2.71 in 4Q 2018, which continues to remain at an overall "B" grade. In the current quarter, 71% of respondents believe the economy will perform at a "B" level, which represents a decrease of 12 points from the previous quarter. There was also a decrease of lenders (13%) that believe the economy will perform at an "A" level, and an increase of lenders (29%) that believe that economy will perform at a "C" level.

Grade	3Q/2018	4Q/2018
A	13%	0%
B	83%	71%
C	4%	29%
D	0%	0%
F	0%	0%
Weighted Average Grade	3.08	2.71

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 decreased from the prior quarter. The weighted average GPA decreased 46 points from a 2.46 in the previous quarter to 2.00. 43% of lenders feel as though the economy will perform at a "C" level beyond the next six months (compared to 50% last quarter). Lenders who believe the economy will perform at a "B" over the next twelve months decreased 13 percentage points to a 29%. There was also an increase of lenders (29%) that believe the economy will perform at a "D" grade over the next six to twelve months.

Grade	3Q/2018	4Q/2018
A	4%	0%
B	42%	29%
C	50%	43%
D	4%	29%
F	0%	0%
Weighted Average Grade	2.46	2.00

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 6 percentage points to 64%. In Q4 2018, 36% of lenders ascribe "strong" growth for their borrower's in the next six months, a 3-percentage point increase from Q3 2018.

Indication	3Q/2018	4Q/2018
Very Strong	9%	0%
Strong	33%	36%
Moderate	58%	64%
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 4Q 2018 we did see a slight increase, 5 percentage points, of lenders that plan to tighten their loan structure.

	3Q/2018			4Q/2018		
	Tighten	Maintain	Relax	Tighten	Maintain	Relax
Loans> $25 million	5%	90%	5%	0%	100%	0%
$15 – 25 million	5%	95%	0%	0%	100%	0%
$5-15 million	5%	95%	0%	23%	77%	0%
Under $5 million	17%	75%	8%	31%	69%	0%
Overall Average	8%	89%	3%	13%	87%	0%

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.

A majority of lenders continue to maintain their interest rate spreads and fee structures. In Q4 2018, the percentage of lenders that plan to reduce their interest rate spreads decreased to 23%, and there was a 6-percentage point increase (10%) that plan to increase their interest rate spreads.

	3Q/2018			4Q/2018		
	Reduce	Maintain	Increase	Reduce	Maintain	Increase
Loans > $25 million	27%	73%	0%	42%	58%	0%
$15 – 25 million	32%	64%	4%	42%	58%	0%
$5-15 million	39%	57%	4%	8%	77%	15%
Under $5 million	17%	74%	9%	0%	77%	23%
Overall Average	29%	67%	4%	23%	68%	10%

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.

86% of respondents in 4Q 2018 believe the Fed will raise interest rates in the next six months, with 57% of respondents favoring an increase of +1/2 point or more and 29% of respondents favoring +1/4 point increase.

Bps Change	3Q/2018	4Q/2018
+ 1/2 point or more	67%	57%
+ 1/4 point	33%	29%
Unchanged	0%	14%
- 1/4 point	0%	0%
- 1/2 point or more	0%	0%
Weighted Average	0.42 bps	0.38 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 43% of responses. Commercial Financial, at 36% of respondents, saw an increase of 15 percentage points. Local Community/Commercial Bank saw a decrease with 14% of respondents, and Money Center Banks also saw a slight decrease in respondents (7%).

	3Q/2018	4Q/2018
Regional Bank	33%	43%
Commercial Finance Co.	21%	36%
Local Community/Commercial Bank	21%	14%
Money Center Banks	13%	7%
Factors	0%	0%
Other	12%	0%