Phoenix Management Services
“Lending Climate in America” Survey

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2nd Quarter 2019
Summary, Trends and Implications

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"LENDING CLIMATE IN AMERICA"

2nd Quarter 2019

SUMMARY, TRENDS AND IMPLICATIONS

1. **Unemployment rates for March 2019 remained flat at 3.8%, with some estimates predicting unemployment rates to end the year around 3.6%. How do you expect unemployment to affect borrowers for the remainder of the year?**

   Garnering the highest percentage of responses (54%), were lenders that do not expect the unemployment rate to have a significant effect on borrower profitability for the remainder of 2019. Of the lenders surveyed, 37% expect unemployment rate will cause increased labor costs and reduce profitability, while 9% of lenders surveyed expect unemployment rate will cause revenue growth and increase profitability.

2. **There has been evidence compounding that the U.S. economy is coming upon a slowdown. Generally, this means lower stock prices and some shock to the bond markets. In your opinion, do you believe we will see a slowdown to the economy in the next twelve months?**

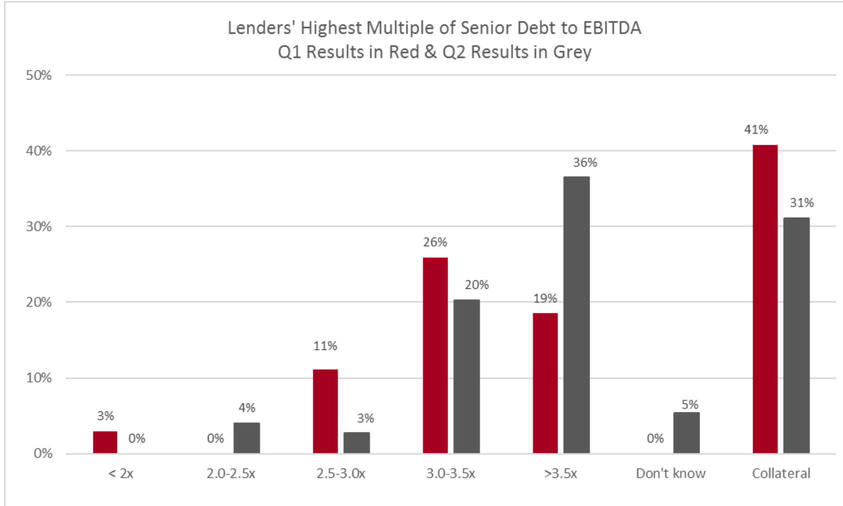
   The answer that received the highest percentage response, 57%, were the lenders that believe there is still potential for further economic growth in the next year before any slowdown of the U.S. economy. Of the lenders surveyed, 43% believe we will see a slowdown in the next year.

3. **Bed, Bath and Beyond lost nearly half its market value last year amid concerns about its negative same store comps, contracting margins, and competition with companies like Amazon. With even the negative growth, their stock rebounded nearly 60% this year. Do you think Bed, Bath and Beyond will continue to turn around its performance?**

   Lenders garnering 83% of responses think despite Bed, Bath and Beyond stock rebounding 60% this year, they will find it hard to compete with companies like Amazon and Walmart. Of the lenders surveyed, 17% think Bed, Bath and Beyond will continue to rebound with its plans to generate positive earnings growth again by 2020.

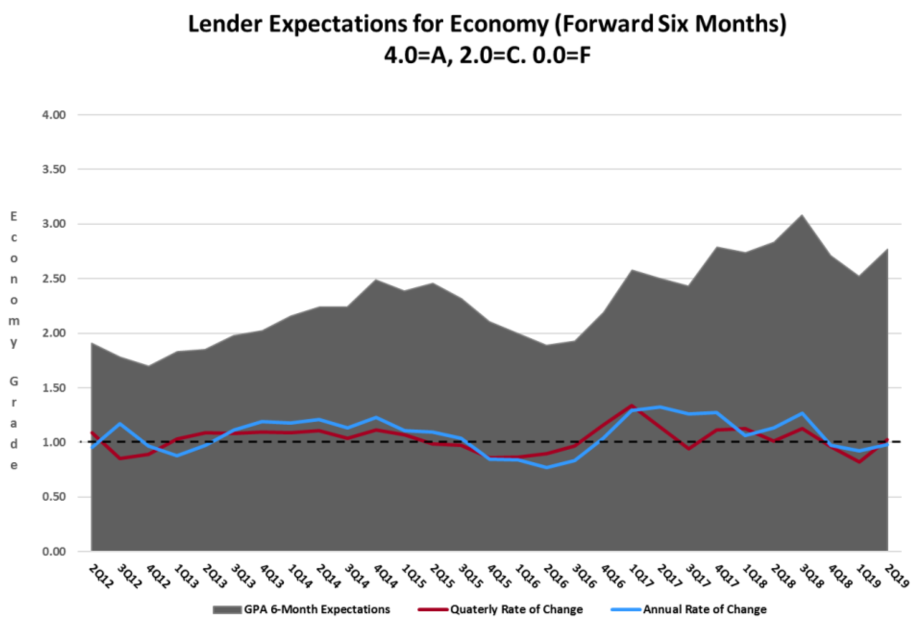
4. **Leverage multiples shifted this quarter.**

   Leverage multiples shifted in Q2 2019 with 37% of lenders indicating that the >3.5x range would be the highest EBITDA ratio they would consider versus 19% in Q1 2019. 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 26%. The percentage of lenders who indicated the highest ratio they would consider is between 2.5-3.0x decreased 8 percentage points to 3%, and 31% of lenders responded that they were collateral lenders and therefore do not make decisions based on cash flow/leverage multiples.



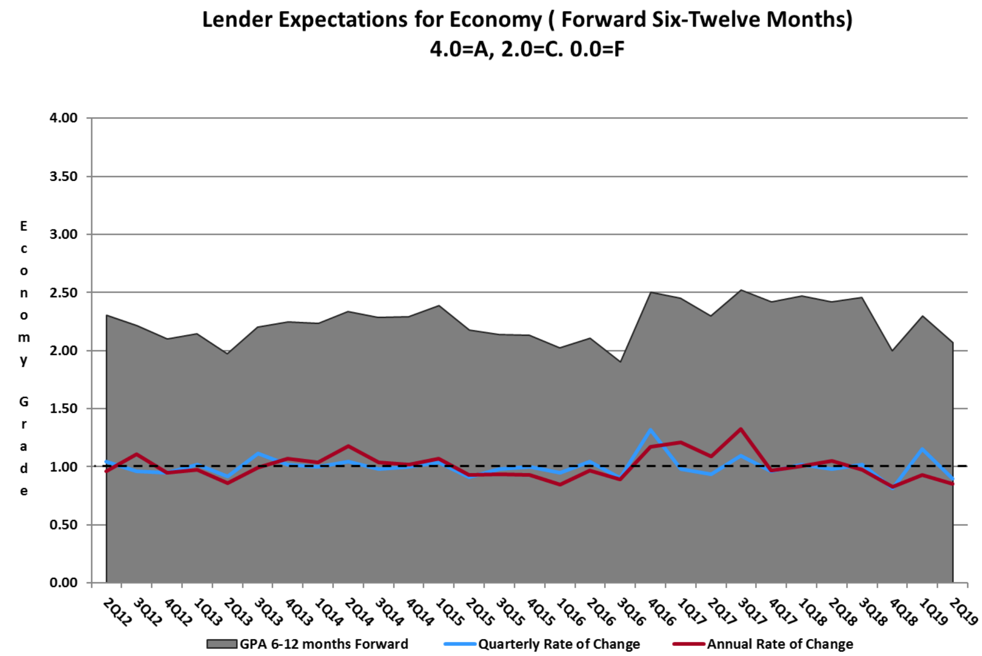
5. **Economic performance expectations increase for the near term in this quarter's survey.**

   Lenders optimism in the U.S. economy for the near term increased this quarter and remains at an overall "B" grade; the index GPA increased to 2.77 from the Q1 2019 results of 2.52. 64% of the lenders believe the economy will perform at a "B" level over the next six months, compared to 48% in the previous survey. Of the lenders surveyed, 29% expect the U.S. economy to perform at a "C" grade, compared to 44% in the previous survey, and 7% of the lenders surveyed believe that the economy will perform at an "A" level.



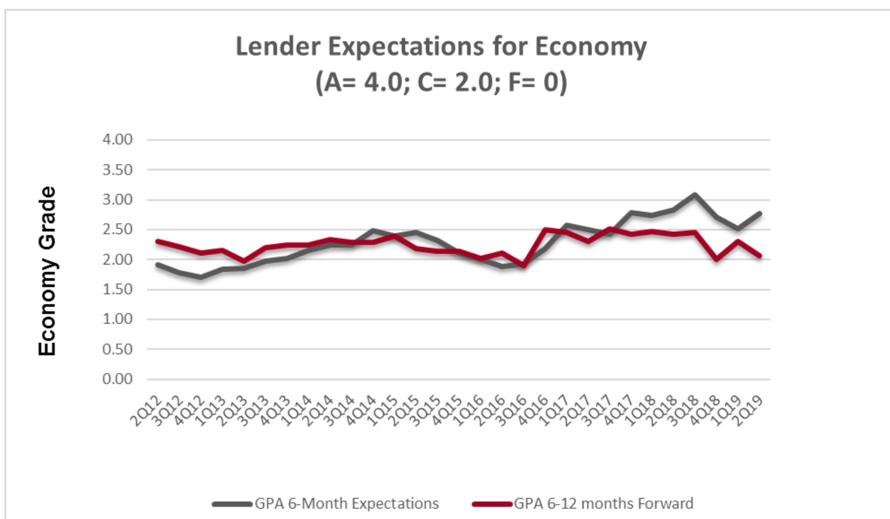
***** Rate of Change of 1.0 is at equilibrium and signifies "no change" from the corresponding prior period of comparison.*

   Lenders growth expectations for the U.S. economy beyond six months decreased this quarter. The weighted average decreased 23 points to a 2.07 GPA from 2.30 in the previous quarter. 27% of lenders believe the economy will perform at a "B" level in the next six to twelve months. The percent of lenders (49%) that believe the economy will perform at a "C" level decreased 10 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 7% to 23%.



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

The Q2 2019 survey continues the trend of a higher near-term GPA than long term GPA. Lenders are pessimistic about the U.S. economy in the long term as the GPA has decreased.



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Survey Results

1. The majority of Lenders do not expect unemployment rate to have a significant effect on borrower profitability.

Lenders were asked: Unemployment rates for March 2019 remained flat at 3.8%, with some estimates predicting unemployment rates to end the year around 3.6%. How do you expect unemployment to affect borrowers for the remainder of the year?

Do not expect unemployment rate to have a significant effect on borrower profitability	54%
Expect unemployment rate will cause increased labor costs and reduce profitability	37%
Expect unemployment rate will cause revenue growth and increase profitability	9%

2. Lenders believe there is potential for further economic growth in the next twelve months before any slowdown to the economy.

Lenders were asked: There has been evidence compounding that the U.S. economy is coming upon a slowdown. Generally, this means lower stock prices and some shock to the bond markets. In your opinion, do you believe we will see a slowdown to the economy in the next twelve months?

No, there is potential for further economic growth in the next year before any slowdown.	57%
Yes, we will see a slowdown in the next year.	43%

3. Lenders believe despite Bed, Bath and Beyond's stock rebounding nearly 60% this year, the company will find it hard to compete with companies like Amazon and Walmart.

Lenders were asked: Bed, Bath and Beyond lost nearly half its market value last year amid concerns about its negative same store comps, contracting margins, and competition with companies like Amazon. With even the negative growth, their stock rebounded nearly 60% this year. Do you think Bed, Bath and Beyond will continue to turn around its performance?

No, the company will continue to find it hard to compete with companies like Amazon and Walmart.	83%
Yes, the company will continue to rebound with its plans to generate positive earnings growth again by 2020.	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	1Q 2019	2Q 2019
Greater than 3.5x	19%	37%
Between 3.01x and 3.50x	26%	20%
Between 2.51x and 3.00x	11%	3%
Between 2.01x and 2.50x	0%	4%
Less than 2.0x	3%	0%
Collateral lenders	41%	31%
N/A	0%	5%

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 2019	2Q 2019
Increase greater than 0.5x	0%	1%
Increase less than 0.5x	4%	5%
Decrease less than 0.5x	0%	11%
Decrease greater than 0.5x	0%	3%
No change	70%	41%
Collateral lenders	26%	31%
N/A	0%	8%

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 2019	2Q 2019
Stability of Stock Market	44%	47%
Sluggish Housing Market	37%	39%
Constrained Liquidity in Capital Markets	22%	27%
Unstable Energy Prices	18%	27%
Other	33%	27%
U.S. Budget Deficit	22%	23%

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 2019	2Q 2019
Retail Trade	82%	73%
Construction	33%	37%
Healthcare and Social Assistance	15%	34%
Manufacturing	26%	22%
Real Estate and Rental/Leasing	19%	22%
Mining	4%	15%
Agriculture, Forestry, Fishing & Hunting	11%	15%

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

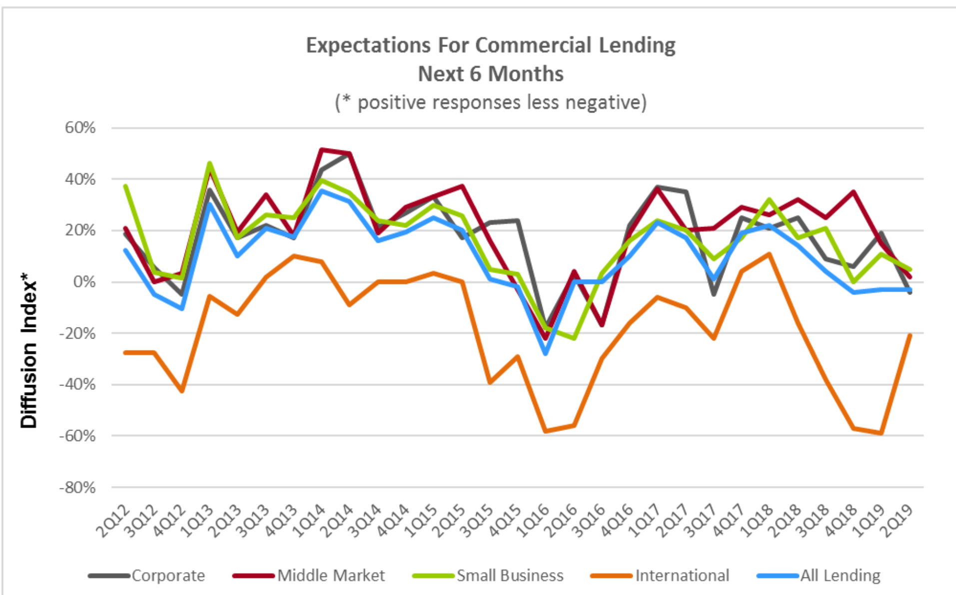
Respondents were asked which of the following actions their customers planned in the next six to twelve months. Lenders were asked to designate all potential customer actions that applied.

Customers' Plans	1Q 2019	2Q 2019
Capital Improvements	59%	65%
Hiring New Employees	63%	55%
Making an Acquisition	56%	52%
Raising Additional Capital	56%	51%
Introducing New Products or Services	59%	38%
Entering New Markets	48%	32%
"Other" Initiatives	7%	6%

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 Q2 2019, lenders optimism decreased in large corporate (-4%), middle market (2%), and small business (5%). However, expectations increased for international lending in Q2 2019 with a diffusion index of -21%, a 38-percentage point difference from the previous quarter of -59%. The diffusion index for the average for all domestic also decreased to 2%.



1Q/2019	Up	Down	Same	Diffusion Index
Corporate Lending	26%	7%	67%	19%
Middle Market Lending	22%	7%	71%	15%
Small Business Lending	22%	11%	67%	11%
International Lending	0%	59%	41%	-59%

2Q/2019	Up	Down	Same	Diffusion Index
Corporate Lending	14%	18%	68%	-4%
Middle Market Lending	19%	17%	64%	2%
Small Business Lending	28%	23%	49%	5%
International Lending	17%	38%	45%	-21%

- The unemployment diffusion index increased to 4% in Q2 2019 compared to -21% in Q1 2019. In addition, the bankruptcies diffusion index decreased 25 percentage points to 42% in Q2 2019, and the interest rate diffusion index decreased from a 48% in Q1 2019 to 22%.

1Q/2019	Up	Down	Same	Diffusion Index
Loan Losses	48%	8%	44%	40%
Bankruptcies	67%	0%	33%	67%
Interest Rates	48%	0%	52%	48%
Unemployment	7%	15%	78%	-21%
Bank Failures	4%	15%	81%	-11%

2Q/2019	Up	Down	Same	Diffusion Index
Loan Losses	42%	4%	54%	38%
Bankruptcies	46%	4%	50%	42%
Interest Rates	29%	7%	64%	22%
Unemployment	14%	18%	68%	4%
Bank Failures	6%	10%	84%	-4%

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 from 2.52 in Q1 2019 to 2.77 in Q2 2019, which continues to remain at an overall "B" grade. In the current quarter, 64% of respondents believe the economy will perform at a "B" level, which represents an increase of 16 points from the previous quarter. There was a decrease of lenders (29%) that believe the economy will perform at an "C" level, and an increase of lenders (7%) that believe that economy will perform at an "A" level.

Grade	1Q/2019	2Q/2019
A	4%	7%
B	48%	64%
C	44%	29%
D	4%	0%
F	0%	0%
Weighted Average Grade	2.52	2.77

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 significantly decreased from the prior quarter. The weighted average GPA decreased 23 points from a 2.30 in the previous quarter to 2.07. While 49% of lenders feel as though the economy will perform at a "C" level beyond the next six months (compared to 59% last quarter), lenders who believe the economy will perform at a "D" over the next twelve months increased 16 percentage points to a 23%. There was a decrease of lenders (28%) that believe the economy will perform at a "B" grade or higher over the next six to twelve months.

Grade	1Q/2019	2Q/2019
A	4%	1%
B	30%	27%
C	59%	49%
D	7%	23%
F	0%	0%
Weighted Average Grade	2.30	2.07

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 7 percentage points to 67%. In Q2 2019, 27% of lenders ascribe "strong" growth for their borrower's in the next six months, a 5-percentage point increase from Q1 2019.

Indication	1Q/2019	2Q/2019
Very Strong	4%	2%
Strong	22%	27%
Moderate	74%	67%
No Growth	0%	4%

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 Q2 2019 we did see a slight increase, 10 percentage points, of lenders that plan to tighten their loan structure.

	1Q/2019			2Q/2019		
	Tighten	Maintain	Relax	Tighten	Maintain	Relax

Loans> $25 million	17%	79%	4%	20%	76%	4%
$15 – 25 million	4%	92%	4%	21%	77%	2%
$5-15 million	4%	92%	4%	26%	73%	1%
Under $5 million	26%	70%	4%	24%	75%	1%
Overall Average	13%	83%	4%	23%	75%	2%

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 (74%) continue to maintain their interest rate spreads and fee structures. In Q2 2019, the percentage of lenders that plan to reduce their interest rate spreads increased to 11%, and there was a 5-percentage point increase (15%) that plan to increase their interest rate spreads.

	1Q/2019			2Q/2019		
	Reduce	Maintain	Increase	Reduce	Maintain	Increase
Loans > $25 million	9%	83%	8%	17%	80%	3%
$15 – 25 million	4%	96%	0%	12%	79%	9%
$5-15 million	8%	88%	4%	8%	74%	18%
Under $5 million	0%	73%	27%	8%	65%	28%
Overall Average	5%	85%	10%	11%	74%	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.

26% of respondents in Q2 2019 believe the Fed will raise interest rates in the next six months, with 25% of respondents favoring an increase of +1/4 point. Of the lenders surveyed, 65% of respondents surveyed believe interest rates will remain unchanged.

Bps Change	1Q/2019	2Q/2019
+ 1/2 point or more	19%	1%
+ 1/4 point	39%	25%
Unchanged	42%	65%
- 1/4 point	0%	9%
- 1/2 point or more	0%	0%
Weighted Average	0.24 bps	0.05 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 35% of responses. Money Center Banks, at 10% of respondents, saw a decrease of 12 percentage points, and Local Community/Commercial Bank saw an increase with 20% of respondents.

	1Q/2019	**2Q/2019**
Regional Bank	33%	35%
Commercial Finance Co.	26%	27%
Local Community/Commercial Bank	15%	20%
Money Center Banks	22%	10%
Factors	0%	0%
Other	4%	8%