Phoenix Management Services
"Lending Climate in America" Survey

PHOENIX

PROVEN. RESULTS.®

1st Quarter 2020
Summary, Trends, and Implications

PHOENIX
"LENDING CLIMATE IN AMERICA"

1st Quarter 2020
***Survey results tabulated February 25, 2020**

SUMMARY, TRENDS AND IMPLICATIONS

1. **As 2019 ended, many speculate the downturn in the economy will come in the latter half of 2020. Yet Q4 of 2019 ended with GDP growing at a 2.1% annualized rate. With consumer spending accounting for more than two-thirds of the country's GDP, how do you believe 2020 will end?**

   Garnering the highest percentage of responses (67%), were lenders that believe the 2020 GDP will match 2019. Twenty percent of the lenders surveyed believe GDP will rise modestly and end with a 0.3% - 0.5% increase, while 13% believe Q3 and Q4 will underperform and GDP will sharply decline.

2. **The WSJ recently reported that many economists believe the U.S. economy will grow in 2020 at a similar rate to the 2.3% GDP growth observed in 2019. What do you believe will be the largest driver of economic performance in the first half of 2020?**

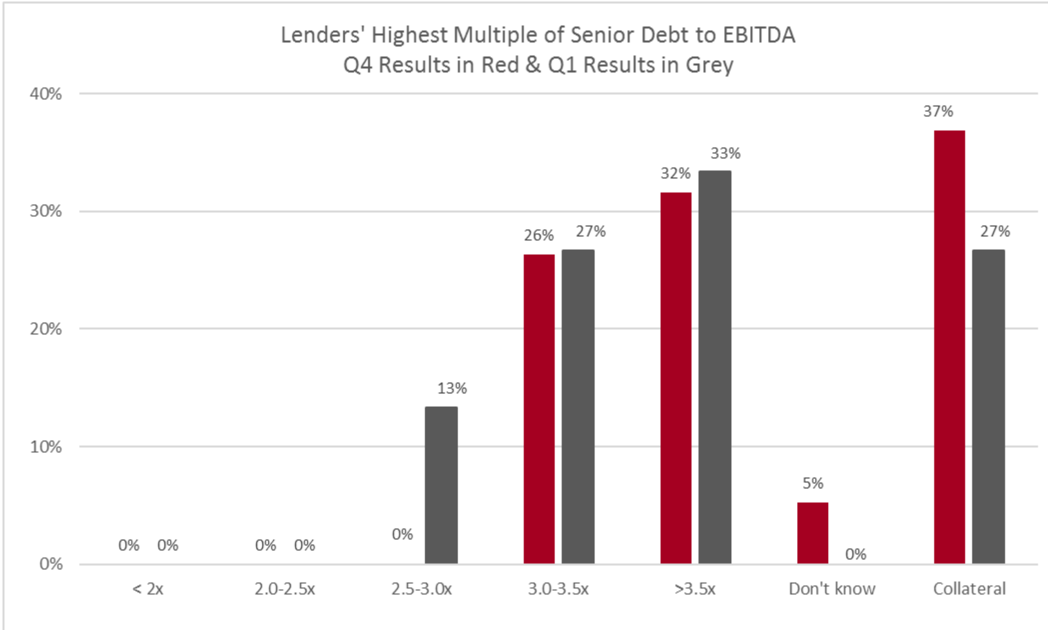
   The answer that received the highest percentage response, 40%, were the lenders that believe the effects of coronavirus and other factors will be the largest driver of economic performance in the first half of 2020. Of the lenders surveyed, 27% believe the largest driver of economic performance in the first half of 2020 will be from U.S.-China negotiations. Thirteen percent of lenders believe a) monetary policy, and b) implications of the U.S. 2020 Presidential race will be the largest driver, while 7% believe U.S.-Iran political tensions will be the largest driver of economic performance in the first half of 2020.

3. **The household sector has provided an underpinning of steady growth for the U.S. economy over the past few years. Consumer spending has grown steadily even as business investment weakened and exports faced substantial headwinds. Job growth has remained quite strong, even with relatively low wage growth, new jobs have helped put money in consumers' pockets, enabling households to continue to increase their spending. Do you think consumer behavior will be the key to a strong economy?**

   Lenders garnering 93% of responses agree that consumer behavior will be the foundation for a strong economy. Of the lenders surveyed, 7% disagree and believe factors other than consumer behavior will be responsible for the economy going forward.

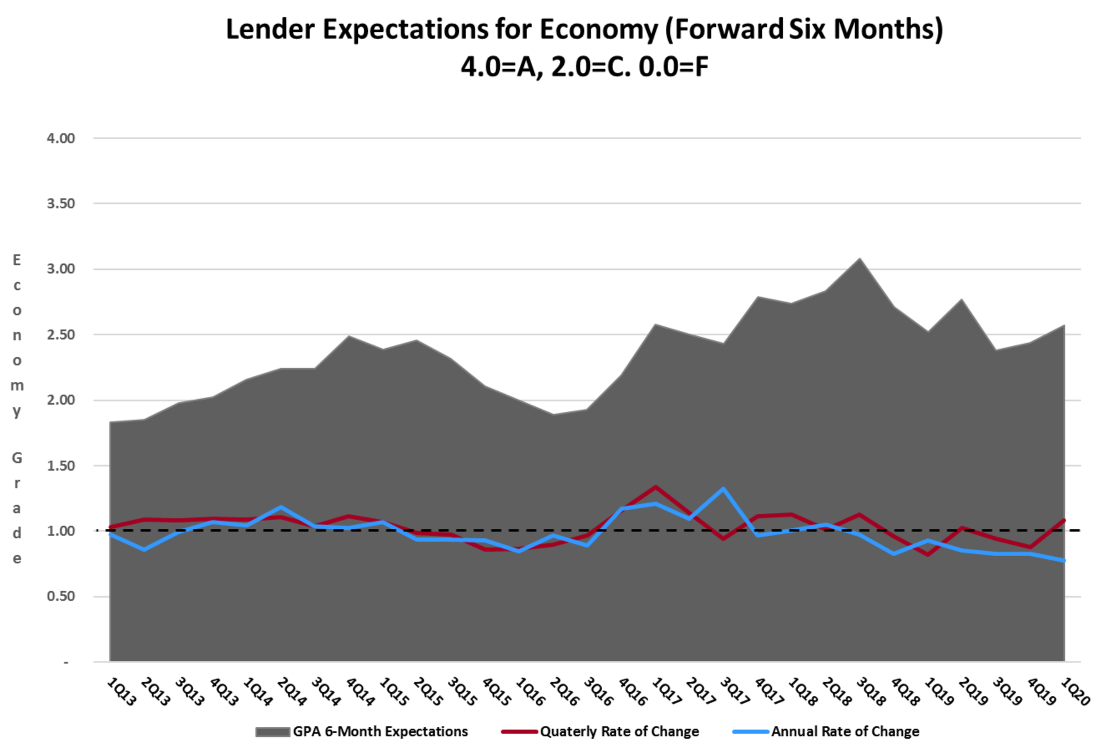
4. **Leverage multiples remained relatively the same this quarter.**

   Leverage multiples stayed relatively the same in Q1 2020 with 33% of lenders indicating that the >3.5x range would be the highest EBITDA ratio they would consider versus 32% in Q4 2019. The percentage of respondents who would consider a debt to EBITDA ratio of 3.0-3.5x increased to 27% from the previous quarter's results of 26%. Twenty-seven percent of lenders responded that they were collateral lenders and therefore do not make decisions based on cash flow/leverage multiples.



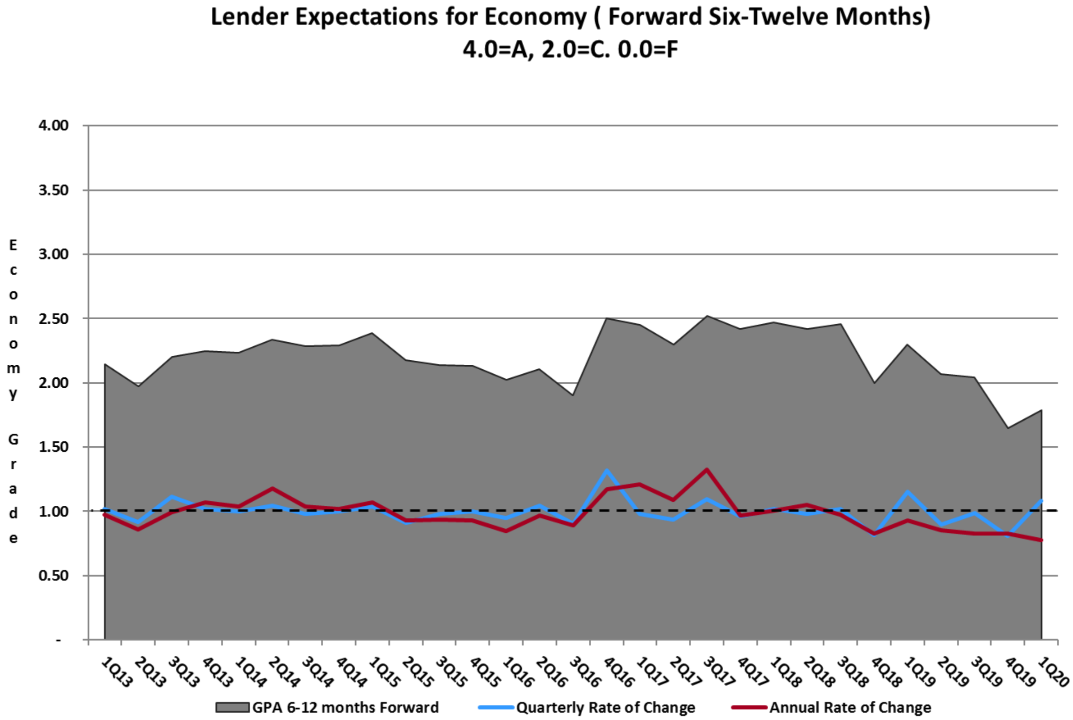
5. **Near-term & Long-term economic performance expectations slightly increased in this quarter's survey.**

   Lenders optimism in the U.S. economy for the near-term increased this quarter to a GPA of 2.57 from the Q4 2019 results of 2.44. 43% of the lenders believe the economy will perform at a "B" level over the next six months, compared to 44% in the previous survey. Of the lenders surveyed, 50% expect the U.S. economy to perform at a "C" grade, compared to 56% in the previous survey, and 7% of the lenders surveyed believe that the economy will perform at an "A" level.



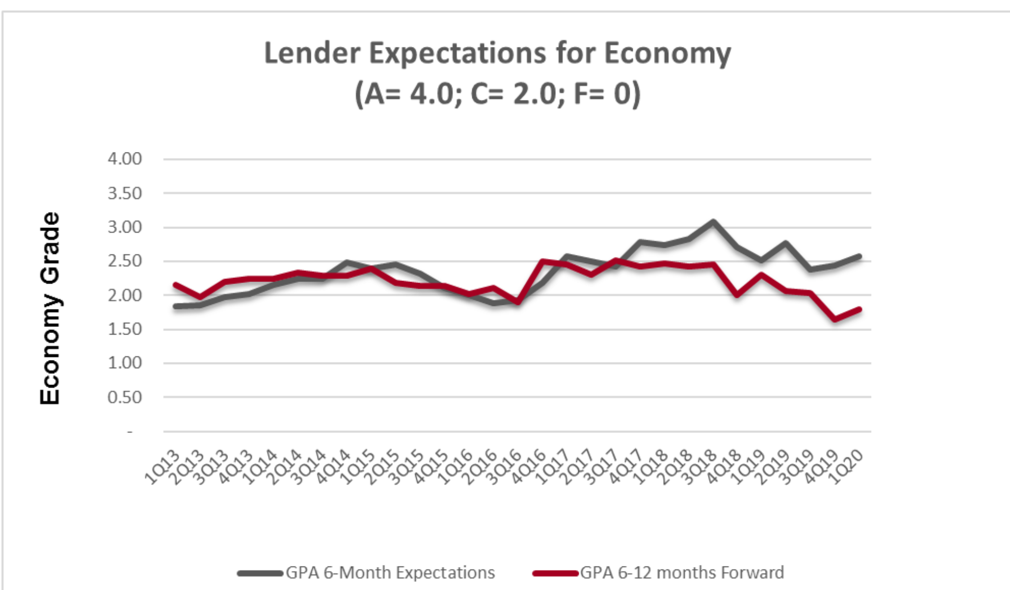
** Rate of Change of 1.0 is at equilibrium and signifies "no change" from the corresponding prior period of comparison.*

Lenders growth expectations for the U.S. economy beyond six months slightly increased this quarter. The weighted average increased to a 1.79 GPA from 1.65 in the previous quarter. 14% of lenders believe the economy will perform at a "B" level in the next six to twelve months which represents an increase of 8-percentage points from the Q4 2019 results of 6%. The percent of lenders (50%) that believe the economy will perform at a "C" level decreased 9-percentage points from Q4 2019. However, the lenders (36%) who believe the economy will perform at a "D" over the next twelve months increased 7-percentage points from the Q4 2019 results of 29%.



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

The Q1 2020 survey continues the trend of a higher near-term GPA than long-term GPA. Lenders are becoming slightly more optimistic about the U.S. economy in the beginning of 2020 versus Q4 2019.



Phoenix Management Services
"Lending Climate in America"
1st Quarter 2020
***Survey results tabulated February 25, 2020**

Survey Results

1. The majority of lenders believe the 2020 GDP will match 2019.

Lenders were asked: As 2019 ended, many speculate the downturn in the economy will come in the latter half of 2020. Yet Q4 of 2019 ended with GDP growing at a 2.1% annualized rate. With consumer spending accounting for more than two-thirds of the country's GDP, how do you believe 2020 will end?

2020 GDP will match 2019.	67%
GDP will rise modestly and end with a 0.3%-0.5% increase.	20%
Q3 and Q4 2020 will underperform and GDP will sharply decline.	13%

2. The majority of lenders believe the effects of the coronavirus and other factors will be the largest driver of economic performance in the first half of 2020.

Lenders were asked: The WSJ recently reported that many economists believe the U.S. economy will grow in 2020 at a similar rate to the 2.3% GDP growth observed in 2019. What do you believe will be the largest driver of economic performance in the first half of 2020?

Other factors (such as effects of coronavirus, etc.)	40%
U.S.-China trade negotiations	27%
Monetary policy	13%
Implications of the 2020 U.S. Presidential race	13%
U.S.-Iran political tensions	7%

3. The majority of lenders agree that consumer behavior will be the foundation for a strong economy in 2020.

Lenders were asked: The household sector has provided an underpinning of steady growth for the U.S. economy over the past few years. Consumer spending has grown steadily even as business investment weakened and exports faced substantial headwinds. Job growth has remained quite strong, even with relatively low wage growth, new jobs have helped put money in consumers' pockets, enabling households to continue to increase their spending. Do you think consumer behavior will be the key to a strong economy?

Agree - Consumer behavior will be the foundation for a strong economy	93%
Disagree - Factors other than consumer behavior will be responsible for the economy going forward	7%

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 2019	1Q 2020
Greater than 3.5x	32%	33%
Between 3.01x and 3.50x	26%	27%
Between 2.51x and 3.00x	0%	13%
Between 2.01x and 2.50x	0%	0%
Less than 2.0x	0%	0%
Collateral lenders	37%	27%
N/A	5%	0%

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 2019	1Q 2020
Increase greater than 0.5x	0%	0%
Increase less than 0.5x	0%	7%
Decrease less than 0.5x	6%	7%
Decrease greater than 0.5x	5%	0%
No change	42%	60%
Collateral lenders	37%	26%
N/A	10%	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	4Q 2019	1Q 2020
Stability of Stock Market	50%	60%
Other	33%	40%
Unstable Energy Prices	5%	33%
U.S. Budget Deficit	22%	20%
Constrained Liquidity in Capital Markets	44%	13%
Sluggish Housing Market	39%	7%

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 2019	1Q 2020
Retail Trade	83%	92%
Healthcare and Social Assistance	39%	31%
Finance and Insurance	11%	23%
Manufacturing	22%	23%
Mining	22%	23%
Transportation and Warehousing	11%	23%

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

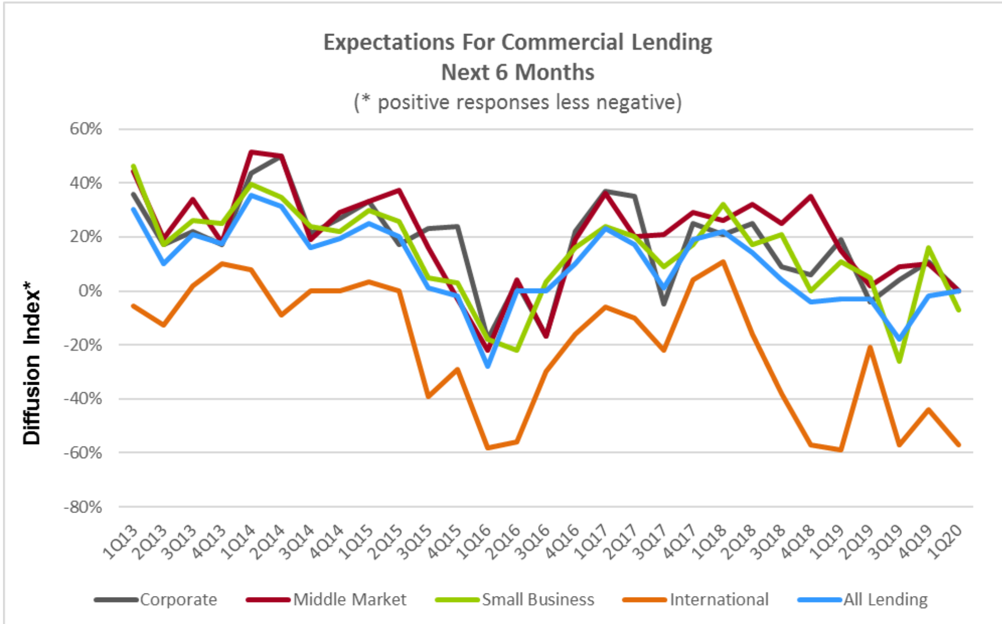
Respondents were asked which of the following actions their customers planned in the next six to twelve months. Lenders were asked to designate all potential customer actions that applied.

Customers' Plans	4Q 2019	1Q 2020
Capital Improvements	39%	69%
Introducing New Products or Services	33%	62%
Making an Acquisition	50%	54%
Raising Additional Capital	50%	46%
Hiring New Employees	33%	31%
Entering New Markets	33%	23%
"Other" Initiatives	0%	8%

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 Q4 2019, lenders optimism increased in large corporate (11%) and middle market (10%), and small business saw a significant increase (16%). Expectations for international lending also slightly increased in Q4 2019 with a diffusion index of -44%, a 13-percentage point difference from the previous quarter of -57%. The diffusion index for the average for all lending increased to -2% from -18% in Q3 2019.



	4Q/2019					**1Q/2020**			
	Up	Down	Same	Diffusion Index		Up	Down	Same	Diffusion Index
Corporate Lending	11%	0%	89%	11%	Corporate Lending	14%	14%	71%	0%
Middle Market Lending	16%	6%	78%	10%	Middle Market Lending	14%	14%	71%	0%
Small Business Lending	22%	6%	72%	16%	Small Business Lending	7%	14%	79%	-7%
International Lending	0%	44%	56%	-44%	International Lending	7%	64%	29%	-57%

- The unemployment diffusion index decreased to 3% in Q4 2019 compared to 18% in Q3 2019. In addition, the loan losses diffusion index decreased 56% compared to 66% in Q3 2019, and the interest rate diffusion index decreased from a -26% in Q3 2019 to -11%.

	4Q/2019					**1Q/2020**			
	Up	Down	Same	Diffusion Index		Up	Down	Same	Diffusion Index
Loan Losses	56%	0%	44%	56%	Loan Losses	29%	0%	71%	29%
Bankruptcies	61%	0%	39%	61%	Bankruptcies	57%	0%	43%	57%
Interest Rates	11%	22%	67%	-11%	Interest Rates	0%	21%	79%	-21%
Unemployment	17%	0%	83%	3%	Unemployment	14%	7%	79%	7%
Bank Failures	6%	0%	94%	6%	Bank Failures	7%	7%	86%	0%

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 increased 13 points this quarter from 2.44 in Q4 2019 to 2.57 in Q1 2020. In the current quarter, 43% of respondents believe the economy will perform at a "B" level, which represents a decrease of 1 point from the previous quarter. Of the lenders surveyed, 50% believe the economy will perform at a "C" level which represents a decrease of 6 points from the previous quarter. There was an increase of lenders (7%) that believe the economy will perform at a "A" level from the 0% in Q4 2019.

Grade	4Q/2019	1Q/2020
A	0%	7%
B	44%	43%
C	56%	50%
D	0%	0%
F	0%	0%
Weighted Average Grade	2.44	2.57

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 also slightly increased from the prior quarter. The weighted average GPA increased 14 points from a 1.65 in Q4 2019 to 1.79 in Q1 2020. Of the lenders surveyed, 50% feel as though the U.S. economy will perform at a "C" level beyond the next six months, while 14% expect the economy to perform at a "B" level, an increase of 8 percentage points from Q4 2019. However, the lenders who believe the economy will perform at a "D" over the next twelve months increased 7 percentage points to 36%.

Grade	4Q/2019	1Q/2020
A	0%	0%
B	6%	14%
C	59%	50%
D	29%	36%
F	6%	0%
Weighted Average Grade	1.65	1.79

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 21 percentage points to 86%. In Q1 2020, 7% of lenders ascribe "very strong" growth for their borrower's in the next six months, and 7% of lenders ascribe to "no growth", a 10-percentage point decrease from the previous quarter.

Indication	4Q/2019	1Q/2020
Very Strong	6%	7%
Strong	12%	0%
Moderate	65%	86%
No Growth	17%	7%

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 Q1 2020 we did see a slight increase (24%) of lenders that plan to tighten their loan structure.

	4Q/2019			1Q/2020		
	Tighten	Maintain	Relax	Tighten	Maintain	Relax
Loans> $25 million	6%	94%	0%	15%	85%	0%
$15 – 25 million	6%	94%	0%	31%	69%	0%
$5-15 million	18%	82%	0%	23%	77%	0%
Under $5 million	17%	77%	6%	29%	64%	7%
Overall Average	12%	87%	1%	24%	74%	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 (83%) continue to maintain their interest rate spreads and fee structures. In Q1 2020, the percentage of lenders that plan to reduce their interest rate spreads decreased to 4%, and there was a 2-percentage point decrease (13%) that plan to increase their interest rate spreads.

	4Q/2019			1Q/2020		
	Reduce	Maintain	Increase	Reduce	Maintain	Increase
Loans > $25 million	13%	81%	6%	8%	85%	8%
$15 – 25 million	13%	75%	12%	8%	85%	8%
$5-15 million	12%	69%	19%	0%	85%	15%
Under $5 million	6%	72%	22%	0%	77%	23%
Overall Average	11%	74%	15%	4%	83%	13%

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.

21% of respondents in Q1 2020 believe the Fed will raise interest rates in the next six months. Of the lenders surveyed, 14% of respondents favor a raise of +1/4 point, and 7% of respondents surveyed believe interest rates believe the Fed will raise interest rates by +1/2 point or more.

Bps Change	**4Q/2019**	**1Q/2020**
+ 1/2 point or more	0%	7%
+ 1/4 point	0%	14%
Unchanged	45%	43%
- 1/4 point	44%	29%
- 1/2 point or more	11%	7%
Weighted Average	-0.17 bps	-0.04 bps

16. Current Competition

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

- Regional Banks and Commercial Finance Co. placed at the top of the survey, garnering 50% of responses. Commercial Finance Co., at 22% of respondents, saw a decrease of 11 percentage points, and Local Community/Commercial Bank saw a decrease with 14% of respondents.

	4Q/2019	**1Q/2020**
Regional Bank	33%	50%
Commercial Finance Co.	33%	22%
Local Community/Commercial Bank	17%	14%
Other	11%	14%
Money Center Banks	6%	0%
Factors	0%	0%