# Phoenix Management Services
# “Lending Climate in America” Survey

## 2nd Quarter 2020
## Summary, Trends, and Implications

# PHOENIX
# "LENDING CLIMATE IN AMERICA"

## 2nd Quarter 2020

## SUMMARY, TRENDS AND IMPLICATIONS

1. **Of the borrowers that will receive Federal Stimulus funds as a result of the COVID-19 crisis, what percent do you believe will return to or exceed pre-crisis operation levels by Q1 2021?**

   Garnering the highest percentage of responses (40%), were lenders that believe 41-60% of borrowers will return to or exceed pre-crisis operation levels by Q1 2021. Thirty-three percent of the lenders surveyed believe 20-40% of borrowers will return to or exceed pre-crisis levels, while 17% believe less than 20% will return to or exceed pre-crisis operational levels by Q1 2021. Ten percent of respondents believe 61-80% of borrowers will return to or exceed pre-crisis operation levels.

2. **As of April 16, 2020, more than 22 million Americans had filed for unemployment aid in just 4 weeks - a staggering number that has wiped out a decade of employment gains and equates to a real unemployment rate of nearly 18%, with potentially more jobless claims to come. What do you think the unemployment rate will be at 12/31/20?**

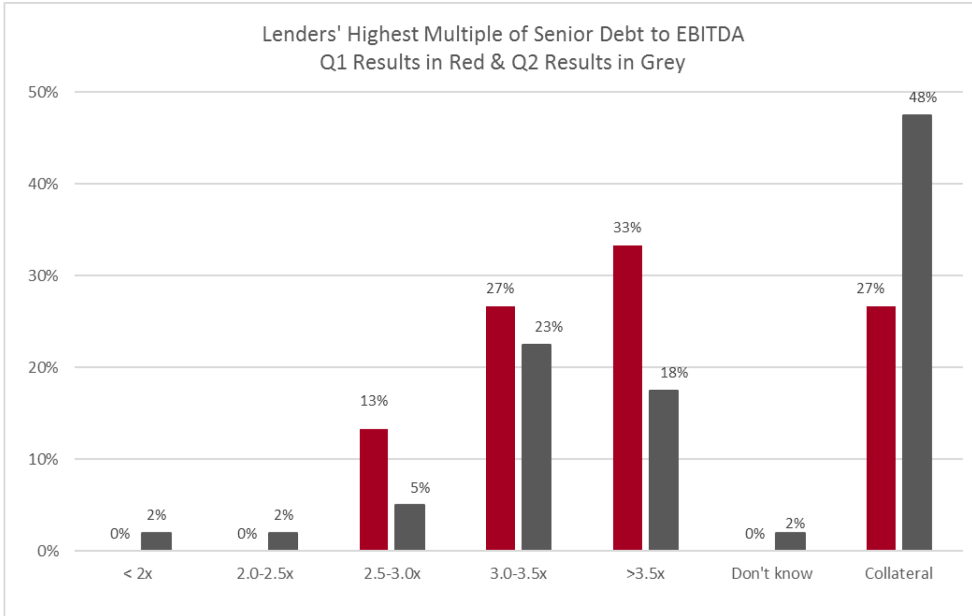
   The answer that received the highest percentage response, 50%, were the lenders that think the unemployment rate will be at 10.01-15.0% by 12/31/20. Of the lenders surveyed, 28% think the unemployment rate will be at 5.01-10.0%, while 18% think the unemployment rate will be at 15.01-20%. Two percent of lenders think the unemployment rate will be at a) less than 5%, and b) 20.01% or more at 12/31/20.

3. **The federal government has provided trillions of dollars of stimulus to buffer the economic impact brought on by COVID-19. How effective do you think these measures have been?**

   Lenders garnering 58% of responses think the trillion dollars provided by the federal government have been slightly effective. Of the lenders surveyed, 38% think the measure have been effective, and 7% of lenders think the trillion of dollars provided by the federal government have been very effective. Two percent think the measures have not been effective at all.

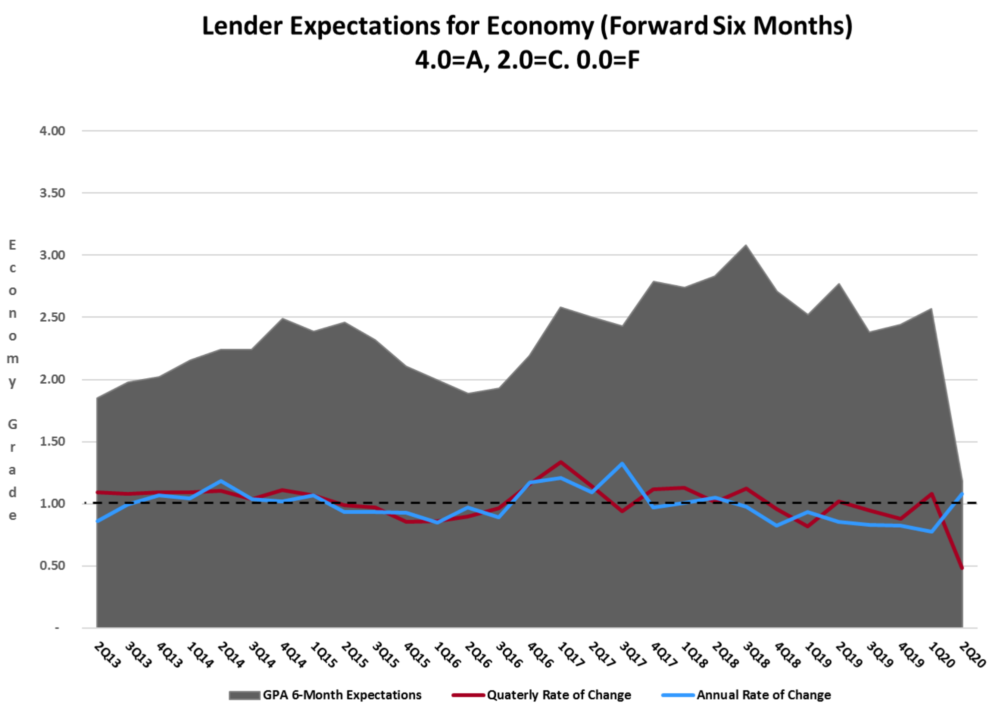
4. **Leverage multiples shifted this quarter.**

   Leverage multiples shifted in Q2 2020 with 18% of lenders indicating that the >3.5x range would be the highest EBITDA ratio they would consider versus 33% in Q1 2020. The percentage of respondents who would consider a debt to EBITDA ratio of 3.0-3.5x decreased to 23% from the previous quarter's results of 27%. Forty-eight percent of lenders responded that they were collateral lenders and therefore do not make decisions based on cash flow/leverage multiples.



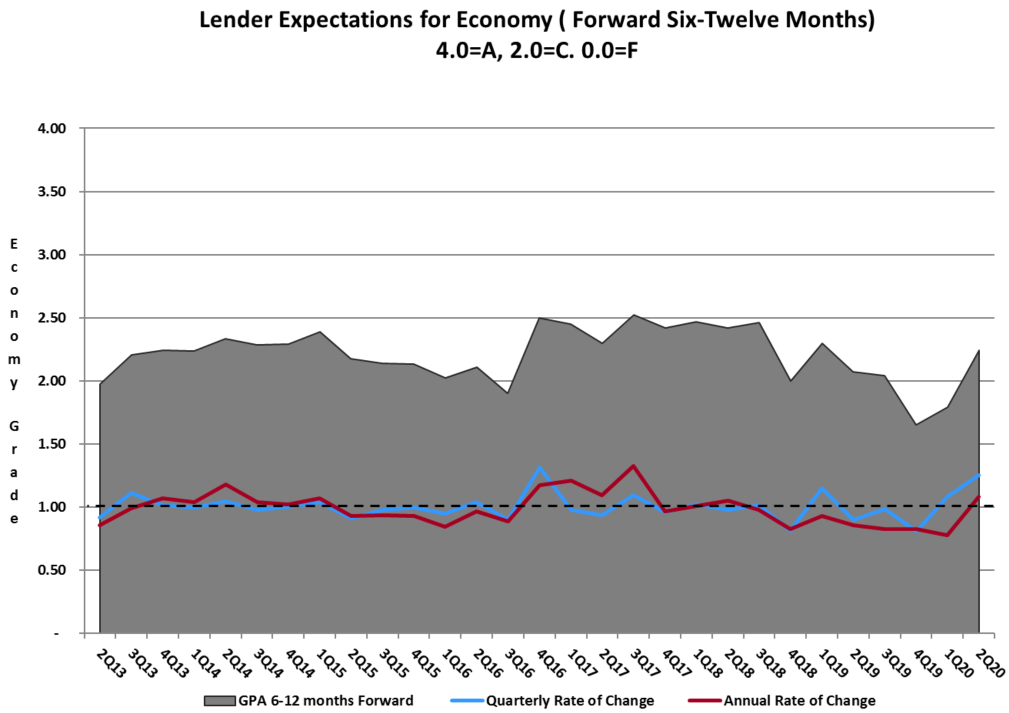

5. **Near-term economic performance expectations significantly decreased in this quarter's survey.**

Lenders optimism in the U.S. economy for the near-term significantly decreased this quarter to a GPA of 1.18 from the Q1 2020 results of 2.57. Fifty-three percent of the lenders believe the economy will perform at a "D" level over the next six months, and 16% believe the economy will perform at a 'F' level. Of the lenders surveyed, 29% expect the U.S. economy to perform at a "C" grade, while 3% of the lenders surveyed believe that the economy will perform at a "B" level. The GPA of 1.18 is the lowest since the Q1 09 results of 1.03.



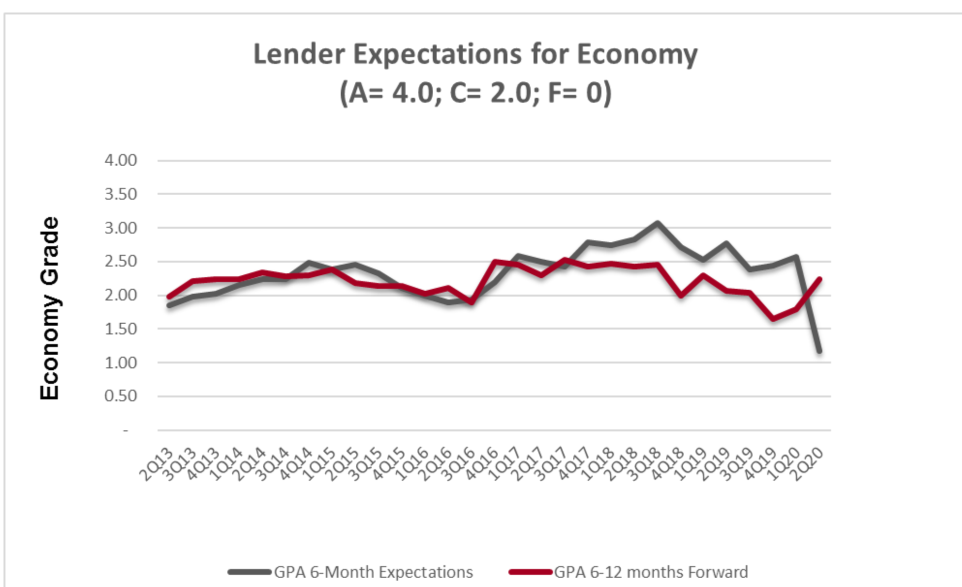

** Rate of Change of 1.0 is at equilibrium and signifies "no change" from the corresponding prior period of comparison.*

Lenders growth expectations for the U.S. economy beyond six months increased this quarter. The weighted average increased to a 2.24 GPA from 1.79 the previous quarter. 50% of lenders believe the economy will perform at a “C” level in the next six to twelve months which represents a decrease of 5-percentage points from the Q1 2020 results of 55%. The percent of lenders (24%) that believe the economy will perform at a “B” level increased 10-percentage points from Q1 2020. The lenders (11%) who believe the economy will perform at a “D” over the next twelve months decreased 25-percentage points from the Q1 2020 results of 36%.




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

The Q2 2020 survey reverses the trend of a higher near-term GPA than long-term GPA. Due to COVID-19 lenders are becoming significantly more pessimistic about the U.S. economy in the near-term.



# Phoenix Management Services
# "Lending Climate in America"
# 2nd Quarter 2020

## Survey Results

### 1. The majority of lenders believe 41-60% of borrowers will return or exceed pre-crisis operation levels by Q1 2021.

Lenders were asked: Of the borrowers that will receive Federal Stimulus funds as a result of the COVID-19 crisis, what percent do you believe will return to or exceed pre-crisis operation levels by Q1 2021?

| | |
|---|---|
| Less than 20% | 17% |
| 20-40% | 33% |
| 41-60% | 40% |
| 61-80% | 10% |
| 81-100% | 0% |

### 2. The majority of lenders believe by 12/31/20 the unemployment rate will be at 10.01 to 15.0%.

Lenders were asked: As of April 16, 2020, more than 22 million Americans had filed for unemployment aid in just 4 weeks - a staggering number that has wiped out a decade of employment gains and equates to a real unemployment rate of nearly 18%, with potentially more jobless claims to come. What do you think the unemployment rate will be at 12/31/20?

| | |
|---|---|
| 5% or less | 2% |
| 5.01 to 10.0% | 28% |
| 10.01 to 15.0% | 50% |
| 15.01 to 20.0% | 18% |
| 20.01% or more | 2% |

## 3. The majority of lenders think the trillion of dollars of stimulus to buffer the economic impact brought on by COVID-19 has been slightly effective.

Lenders were asked: The federal government has provided trillions of dollars of stimulus to buffer the economic impact brought on by COVID-19. How effective do you think these measures have been?

| | |
|---|---|
| Very effective | 7% |
| Effective | 38% |
| Slightly effective | 53% |
| Not effective at all | 2% |

## 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 2020 | 2Q 2020 |
|---|---|---|
| Greater than 3.5x | 33% | 18% |
| Between 3.01x and 3.50x | 27% | 23% |
| Between 2.51x and 3.00x | 13% | 5% |
| Between 2.01x and 2.50x | 0% | 2% |
| Less than 2.0x | 0% | 2% |
| Collateral lenders | 27% | 48% |
| N/A | 0% | 2% |

## 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 2020 | 2Q 2020 |
|---|---|---|
| Increase greater than 0.5x | 0% | 10% |
| Increase less than 0.5x | 7% | 5% |
| Decrease less than 0.5x | 7% | 18% |
| Decrease greater than 0.5x | 0% | 7% |
| No change | 60% | 10% |
| Collateral lenders | 26% | 45% |
| N/A | 0% | 5% |

## 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 2020 | 2Q 2020 |
|---|---|---|
| Constrained Liquidity in Capital Markets | 13% | 65% |
| Other | 40% | 45% |
| Unstable Energy Prices | 33% | 33% |
| Stability of Stock Market | 60% | 23% |
| Sluggish Housing Market | 7% | 12% |
| U.S. Budget Deficit | 20% | 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 | 1Q 2020 | 2Q 2020 |
|---|---|---|
| Accommodation and Food Services | 15% | 80% |
| Retail Trade | 92% | 72% |
| Arts, Entertainment, and Recreation | 8% | 46% |
| Real Estate | 8% | 28% |
| Construction | 15% | 15% |

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

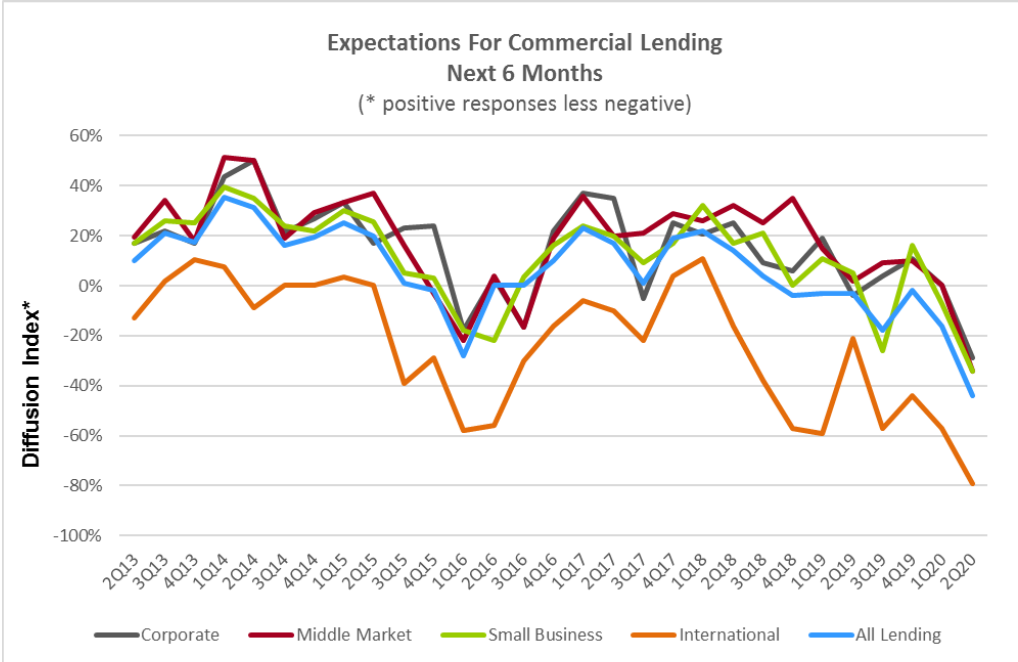
Respondents were asked which of the following actions their customers planned in the next six to twelve months. Lenders were asked to designate all potential customer actions that applied.

| Customers' Plans | 1Q 2020 | 2Q 2020 |
|---|---|---|
| Raising Additional Capital | 46% | 68% |
| Introducing New Products or Services | 62% | 29% |
| Capital Improvements | 69% | 16% |
| Making an Acquisition | 54% | 13% |
| Entering New Markets | 23% | 13% |
| "Other" Initiatives | 8% | 13% |
| Hiring New Employees | 31% | 11% |

## 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 2020, lenders optimism decreased in large corporate (-29%), middle market (-34%), small (-34%), and international lending (-79%). The diffusion index for the average for all lending decreased to -44% from -16% in Q1 2020.




| | 1Q/2020 | | | | | 2Q/2020 | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Up | Down | Same | Diffusion Index | | Up | Down | Same | Diffusion Index |
| Corporate Lending | 14% | 14% | 71% | 0% | Corporate Lending | 24% | 53% | 23% | -29% |
| Middle Market Lending | 14% | 14% | 71% | 0% | Middle Market Lending | 21% | 55% | 24% | -34% |
| Small Business Lending | 7% | 14% | 79% | -7% | Small Business Lending | 29% | 63% | 8% | -34% |
| International Lending | 7% | 64% | 29% | -57% | International Lending | 3% | 82% | 15% | -79% |

- The unemployment diffusion index increased to 26% in Q2 2020 compared to 7% in Q1 2020. In addition, the loan losses diffusion index increased to 100% compared to 29% in Q1 2020, and the bankruptcies diffusion index increased from 57% in Q1 2020 to 100%.

| | 1Q/2020 | | | | | 2Q/2020 | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Up | Down | Same | Diffusion Index | | Up | Down | Same | Diffusion Index |
| Loan Losses | 29% | 0% | 71% | 29% | Loan Losses | 100% | 0% | 0% | 100% |
| Bankruptcies | 57% | 0% | 43% | 57% | Bankruptcies | 100% | 0% | 0% | 100% |
| Interest Rates | 0% | 21% | 79% | -21% | Interest Rates | 13% | 11% | 76% | 2% |
| Unemployment | 14% | 7% | 79% | 7% | Unemployment | 58% | 32% | 10% | 26% |
| Bank Failures | 7% | 7% | 86% | 0% | Bank Failures | 50% | 0% | 50% | 50% |

## 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 significantly decreased in points this quarter from 2.57 in Q1 2020 to 1.18 in Q2 2020. This is the lowest near-term GPA since the 1.03 results in Q1 2009. In this current quarter, the majority of lenders (53%) believe the economy will perform at a "D" level during the next six months. This represents an increase of 53 points from the previous quarter. Of the lenders surveyed, 29% believe the economy will perform at a "C" level which represents a decrease of 21 points from the previous quarter. There was an increase of lenders (16%) that believe the economy will perform at a "F" level from the 0% in Q1 2020.

| Grade | 1Q/2020 | 2Q/2020 |
|---|---|---|
| A | 7% | 0% |
| B | 43% | 3% |
| C | 50% | 29% |
| D | 0% | 53% |
| F | 0% | 16% |
| Weighted Average Grade | 2.57 | 1.18 |

## 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 increased from the prior quarter. The weighted average GPA increased 45 points from a 1.79 in Q1 2020 to 2.24 in Q2 2020. Of the lenders surveyed, 55% feel as though the U.S. economy will perform at a "C" level beyond the next six months, while 24% expect the economy to perform at a "B" level, an increase of 10 percentage points from Q1 2020. In addition, the lenders who believe the economy will perform at an "A" over the next twelve months increased 8 percentage points to 8%.

| Grade | 1Q/2020 | 2Q/2020 |
|---|---|---|
| A | 0% | 8% |
| B | 14% | 24% |
| C | 50% | 55% |
| D | 36% | 11% |
| F | 0% | 3% |
| Weighted Average Grade | 1.79 | 2.24 |

## 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 65 percentage points to 21%. In Q2 2020, 76% of lenders ascribe "no growth" for their borrower's in the next six months, a 69-percentage point increase from the previous quarter, and 3% of lenders ascribe to "strong" growth.

| Indication | 1Q/2020 | 2Q/2020 |
|---|---|---|
| Very Strong | 7% | 0% |
| Strong | 0% | 3% |
| Moderate | 86% | 21% |
| No Growth | 7% | 76% |

## 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 plan to tighten their current loan structure, a trend we have not seen since Q4 2008. In Q2 2020, 56% of lenders plan to tighten their loan structure while only 37% are content and plan to maintain their current loan structure.

| | 1Q/2020 | | | 2Q/2020 | | |
|---|---|---|---|---|---|---|
| | Tighten | Maintain | Relax | Tighten | Maintain | Relax |
| Loans> $25 million | 15% | 85% | 0% | 53% | 38% | 9% |
| $15 – 25 million | 31% | 69% | 0% | 56% | 38% | 6% |
| $5-15 million | 23% | 77% | 0% | 60% | 34% | 6% |
| Under $5 million | 29% | 64% | 7% | 58% | 36% | 6% |
| Overall Average | 24% | 74% | 2% | 56% | 37% | 7% |

## 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 (56%) plan to increase their interest rate spreads and fee structures. In Q2 2020, the percentage of lenders that plan to maintain their interest rate spreads decreased to 39%, and there was a 1-percentage point increase (5%) that plan to reduce their interest rate spreads.

| | 1Q/2020 | | | 2Q/2020 | | |
|---|---|---|---|---|---|---|
| | Reduce | Maintain | Increase | Reduce | Maintain | Increase |
| Loans > $25 million | 8% | 85% | 8% | 6% | 36% | 58% |
| $15 – 25 million | 8% | 85% | 8% | 6% | 36% | 58% |
| $5-15 million | 0% | 85% | 15% | 3% | 40% | 57% |
| Under $5 million | 0% | 77% | 23% | 3% | 43% | 54% |
| Overall Average | 4% | 83% | 13% | 5% | 39% | 56% |

## 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.

83% of respondents in Q2 2020 believe the Fed will leave interest rates unchanged in the next six months. Of the lenders surveyed, 6% of respondents favor a raise of +1/4 point, and 11% of respondents surveyed believe interest rates believe the Fed will decrease interest rates by -1/2 point or more.

| Bps Change | 1Q/2020 | 2Q/2020 |
|---|---|---|
| + 1/2 point or more | 7% | 0% |
| + 1/4 point | 14% | 6% |
| Unchanged | 43% | 83% |
| - 1/4 point | 29% | 0% |
| - 1/2 point or more | 7% | 11% |
| Weighted Average | -0.04 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 67% of responses. Commercial Finance Co., at 32% of respondents, saw an increase of 10 percentage points, and Local Community/Commercial Bank saw a decrease with 11% of respondents.

| | 1Q/2020 | 2Q/2020 |
|---|---|---|
| Regional Bank | 50% | 35% |
| Commercial Finance Co. | 22% | 32% |
| Local Community/Commercial Bank | 14% | 11% |
| Other | 14% | 0% |
| Money Center Banks | 0% | 8% |
| Factors | 0% | 14% |