Phoenix Management Services
"Lending Climate in America" Survey

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4th Quarter 2020
Summary, Trends, and Implications

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"LENDING CLIMATE IN AMERICA"
4th Quarter 2020

SUMMARY, TRENDS AND IMPLICATIONS

1. **Which of the following do you most agree with regarding a potential second round of coronavirus-related government stimulus?**

   The majority of lenders, (68%), agree that a potential second stimulus would extend the timeline of the recent lending climate with negligible changes. Twenty-seven percent of the lenders agree that a potential second stimulus would likely increase competition among lenders, push rates lower, and lead to more borrower-friendly conditions, while 5% agree it would indicate an increased (or extended) risk and lead to more restrictive covenants and higher rates.

2. **Over the next 6 months, which of the following do you expect to pose the greatest risk to your institution?**

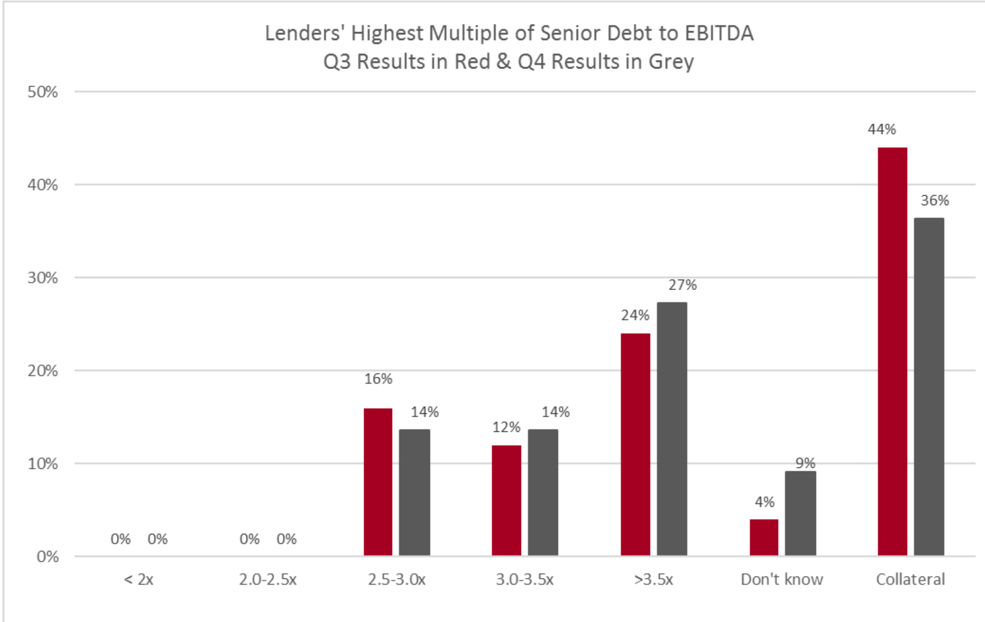
   The answer that received the highest percentage response, 59%, were the lenders that expect reduction of new business opportunities due to the economy and the competitive environment will be pose the greatest risk to their institution. Of the lenders surveyed, 23% of respondents expect deterioration of their current portfolio, while 14% of lenders expect booking riskier loans with a lower risk/return ratio will pose the greatest risk to their institution. Four percent of the lenders surveyed expect other possibilities to cause the greatest risk.

3. **Real GDP increased at an annual rate of 33.1 percent in the third quarter of 2020, as efforts continued to reopen businesses. Some parts of the economy continue to advance or have already returned to pre-pandemic activity levels, but others are struggling amid the coronavirus and new virus cases are hitting record numbers, underscoring the difficulty of a full economic recovery without a vaccine. Will the United States experience a continued recovery coming out of the crisis?**

   Lenders garnering 86% of responses, expect there will be a slow growth and a choppy recovery as things return to normal due to the shutdown and rising COVID-19 cases. Of the lenders surveyed, 14% expect that despite the virus, the economy has pent up demand and companies should prepare for a sustained v-shaped recovery going forward.

4. **Leverage multiples slightly shifted in Q4 2020.**

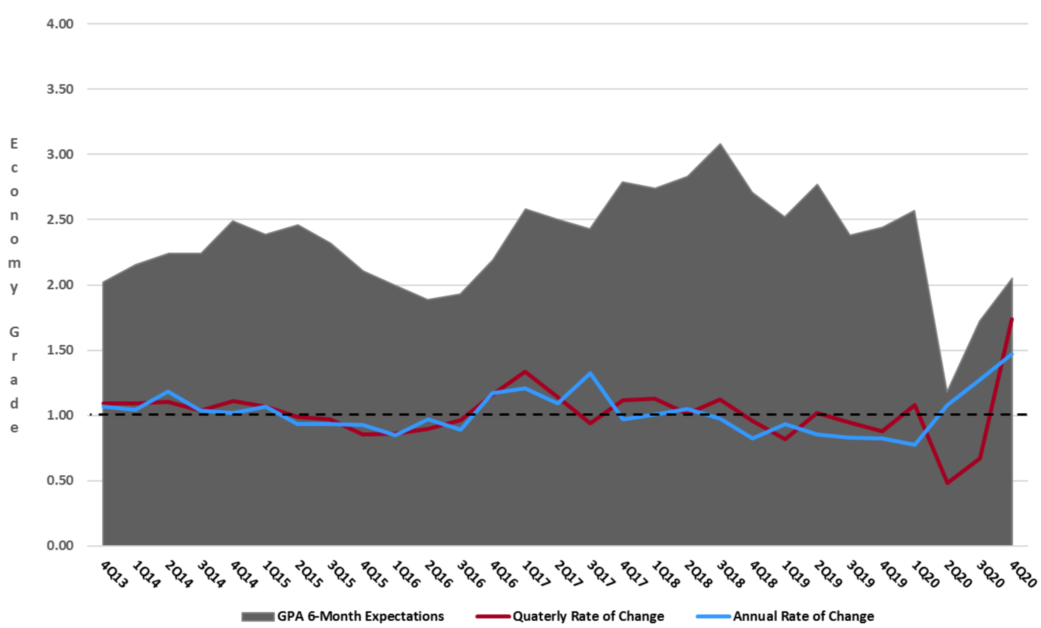
   Leverage multiples slightly shifted in Q4 2020 with 27% of lenders indicating that the >3.5x range would be the highest EBITDA ratio they would consider versus 24% in Q3 2020. The percentage of respondents who would consider a debt to EBITDA ratio of 3.0-3.5x increased to 14% from the previous quarter's results of 12%. Thirty-six percent of lenders responded that they were collateral lenders and therefore do not make decisions based on cash flow/leverage multiples.



5. **Near-term and long-term economic performance expectations increase in this quarter's survey.**

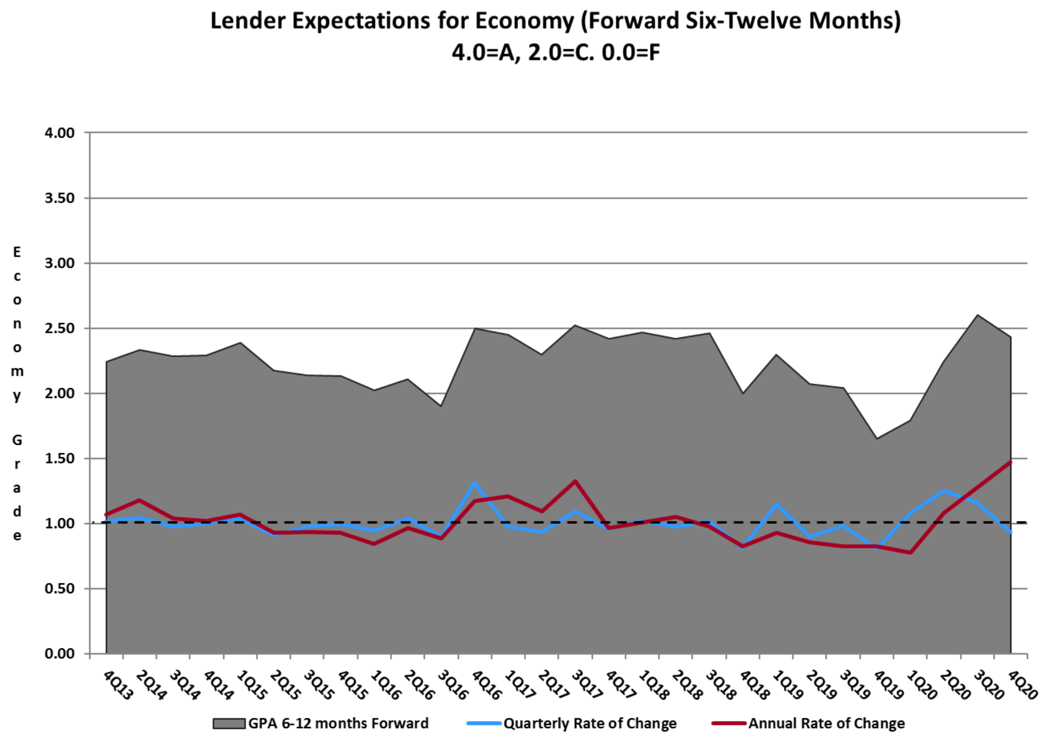
Lenders optimism in the U.S. economy for the near-term increased this quarter to a GPA of 2.05 from the Q3 2020 results of 1.72. Seventy-six percent of the lenders believe the economy will perform at a "C" level over the next six months, and 14% believe the economy will perform at a 'B' level. Of the lenders surveyed, 10% expect the U.S. economy to perform at a "D" grade.

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



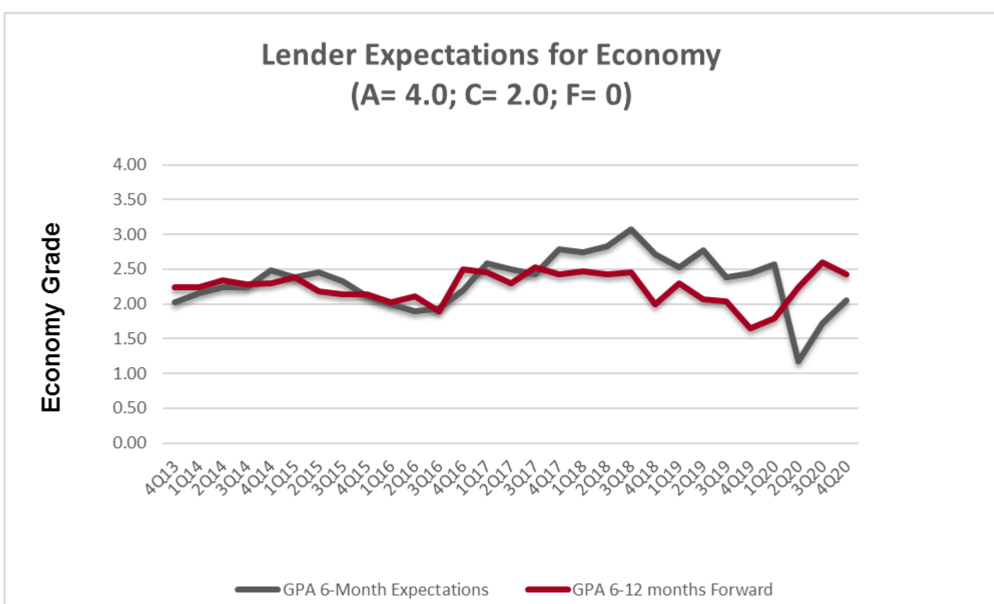
***** Rate of Change of 1.0 is at equilibrium and signifies "no change" from the corresponding prior period of comparison.***

Lenders growth expectations for the U.S. economy beyond six months slightly decreased this quarter. The weighted average decreased to a 2.43 GPA from 2.60 the previous quarter. 33% of lenders believe the economy will perform at a "C" level in the next six to twelve months which represents a decrease of 15-percentage points from the Q3 2020 results of 48%. The percent of lenders (52%) that believe the economy will perform at a "B" level increased 12-percentage points from Q3 2020. The lenders (5%) who believe the economy will perform at an "A" over the next twelve months decreased 3-percentage points. Of the lenders surveyed, 10% believe that economy will perform at a 'F' over the next twelve months.



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

The Q4 2020 survey reversed the recent trend of a higher long-term GPA than near-term GPA. Although lenders are still quite pessimistic about the U.S. economy due to COVID-19, they are becoming more optimistic about the U.S. economy in the near and long-term.



Phoenix Management Services
"Lending Climate in America"
4th Quarter 2020
Survey Results

1. The majority of lenders agree that a potential second stimulus would extend the timeline of the recent lending climate with negligible changes.

Lenders were asked: Which of the following do you most agree with regarding a potential second round of coronavirus-related government stimulus?

It would extend the timeline of the recent lending climate with negligible changes.	68%
It would likely increase competition among lenders, push rates lower and lead to more borrower-friendly conditions.	27%
If necessary, it would indicate an increased (or extended) risk and lead to more restrictive covenants and higher rates.	5%

2. The majority of lenders expect reduction in new business opportunities due to the economy and competitive environment to pose the greatest risk to their institution.

Lenders were asked: Over the next 6 months, which of the following do you expect to pose the greatest risk to your institution?

Reduction of new business opportunities due to the economy and the competitive environment.	59%
Deterioration of current portfolio.	23%
Booking riskier loans with a lower risk/return ratio	14%
Other	4%

3. The majority of lenders expect there will be a slow growth and a choppy recovery as things return to normal due to the shutdown and rising COVID-19 cases.

Lenders were asked: Real GDP increased at an annual rate of 33.1 percent in the third quarter of 2020, as efforts continued to reopen businesses. Some parts of the economy continue to advance or have already returned to pre-pandemic activity levels, but others are struggling amid the coronavirus and new virus cases are hitting record numbers, underscoring the difficulty of a full economic recovery without a vaccine. Will the United States experience a continued recovery coming out of the crisis?

Due to the shutdown and rising virus cases, there will be slow growth and a choppy recovery as things return to normal.	86%
Despite the virus, the economy has pent up demand and companies should prepare for a sustained v-shaped recovery going forward.	14%

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 2020	4Q 2020
Greater than 3.5x	24%	27%
Between 3.01x and 3.50x	12%	14%
Between 2.51x and 3.00x	16%	14%
Between 2.01x and 2.50x	0%	0%
Less than 2.0x	0%	0%
Collateral lenders	44%	36%
N/A	4%	9%

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 2020	4Q 2020
Increase greater than 0.5x	4%	9%
Increase less than 0.5x	0%	5%
Decrease less than 0.5x	16%	5%
Decrease greater than 0.5x	0%	4%
No change	32%	41%
Collateral lenders	44%	36%
N/A	4%	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	3Q 2020	4Q 2020
Other	58%	59%
Stability of Stock Market	46%	36%
U.S. Budget Deficit	33%	32%
Constrained Liquidity in Capital Markets	29%	23%
Sluggish Housing Market	8%	18%
Unstable Energy Prices	8%	9%

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 2020	4Q 2020
Retail Trade	88%	71%
Accommodation and Food Services	71%	76%
Arts, Entertainment, and Recreation	54%	52%
Real Estate	33%	43%
Healthcare & Social Assistance	4%	14%
Mining	13%	14%

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

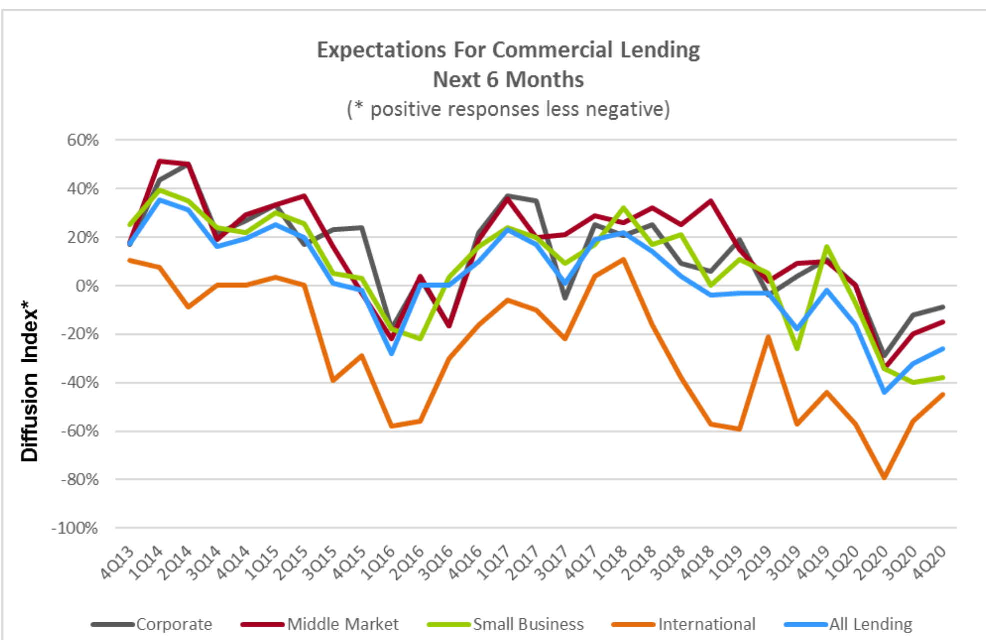
Respondents were asked which of the following actions their customers planned in the next six to twelve months. Lenders were asked to designate all potential customer actions that applied.

Customers' Plans	3Q 2020	4Q 2020
Raising Additional Capital	62%	53%
Capital Improvements	48%	53%
Making an Acquisition	19%	53%
Introducing New Products or Services	38%	47%
Entering New Markets	24%	37%
Hiring New Employees	19%	32%
"Other" Initiatives	14%	5%

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 2020, lenders optimism slightly increased in large corporate (-9%), middle market (-15%), and small business lending (38%). The diffusion index for the average for all lending increased to -45% from -56% in Q3 2020.



	3Q/2020					4Q/2020			
	Up	Down	Same	Diffusion Index		Up	Down	Same	Diffusion Index
Corporate Lending	8%	20%	72%	-12%	Corporate Lending	10%	19%	71%	-9%
Middle Market Lending	20%	40%	40%	-20%	Middle Market Lending	14%	29%	57%	-15%
Small Business Lending	24%	64%	12%	-40%	Small Business Lending	10%	48%	42%	-38%
International Lending	0%	56%	44%	-56%	International Lending	5%	50%	45%	-45%

- The unemployment diffusion index increased to -43% in Q4 2020 compared to -36% in Q3 2020. In addition, the loan losses diffusion index decreased to 76% compared to 84% in Q3 2020, and the bank failures diffusion index decreased from 20% in Q3 2020 to 14%.

	3Q/2020					4Q/2020			
	Up	Down	Same	Diffusion Index		Up	Down	Same	Diffusion Index
Loan Losses	88%	4%	8%	84%	Loan Losses	81%	5%	14%	76%
Bankruptcies	88%	4%	8%	84%	Bankruptcies	90%	5%	5%	85%
Interest Rates	0%	4%	96%	-4%	Interest Rates	10%	10%	80%	0%
Unemployment	12%	48%	40%	-36%	Unemployment	14%	57%	29%	-43%
Bank Failures	28%	8%	64%	20%	Bank Failures	19%	5%	76%	14%

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 in points this quarter from 1.72 in Q3 2020 to 2.05 in Q4 2020. In this current quarter, the majority of lenders (76%) believe the economy will perform at a "C" level during the next six months. This represents an increase of 28 points from the previous quarter. Of the lenders surveyed, 10% believe the economy will perform at a "D" level which represents a decrease of 30 points from the previous quarter. There was an increase of lenders (14%) that believe the economy will perform at a "B" level from the 12% in Q3 2020.

Grade	3Q/2020	4Q/2020
A	0%	0%
B	12%	14%
C	48%	76%
D	40%	10%
F	0%	0%
Weighted Average Grade	1.72	2.05

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 slightly decreased from the prior quarter. The weighted average GPA decreased 17 points from a 2.60 in Q3 2020 to 2.43 in Q4 2020. Of the lenders surveyed, 52% feel as though the U.S. economy will perform at a "B" level beyond the next six months, while 33% expect the economy to perform at a "C" level, a decrease of 15 percentage points from Q3 2020. In addition, the lenders who believe the economy will perform at an "A" over the next twelve months increased 3 percentage points.

Grade	3Q/2020	4Q/2020
A	8%	5%
B	44%	52%
C	48%	33%
D	0%	0%
F	0%	10%
Weighted Average Grade	2.60	2.43

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 16 percentage points to 67%. In Q4 2020, 19% of lenders ascribe "no growth" for their borrower's in the next six months, a 13-percentage point decrease from the previous quarter, and 5% of lenders ascribe to "strong" growth.

Indication	3Q/2020	4Q/2020
Very Strong	0%	0%
Strong	8%	5%
Moderate	60%	76%
No Growth	32%	19%

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 (74%) plan to maintain their current loan structure. In Q4 2020, 20% of lenders plan to tighten their loan structure, while 5% of the lenders surveyed plan to relax maintain their current loan structure.

	3Q/2020			4Q/2020		
	Tighten	Maintain	Relax	Tighten	Maintain	Relax
Loans> $25 million	21%	79%	0%	26%	63%	11%
$15 – 25 million	17%	83%	0%	26%	63%	11%
$5-15 million	17%	83%	0%	5%	95%	0%
Under $5 million	21%	79%	0%	24%	76%	0%
Overall Average	19%	81%	0%	20%	74%	5%

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 (69%) plan to maintain their interest rate spreads and fee structures. In Q4 2020, the percentage of lenders that plan to tighten their interest rate spreads decreased to 25%, while 5% plan to reduce their interest rate spreads.

	3Q/2020			4Q/2020		
	Reduce	Maintain	Increase	Reduce	Maintain	Increase
Loans > $25 million	8%	67%	25%	11%	68%	21%
$15 – 25	13%	62%	25%	11%	68%	21%
$5-15 million	4%	71%	25%	0%	79%	21%
Under $5 million	0%	67%	33%	0%	62%	38%
Overall Average	6%	67%	27%	5%	69%	25%

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.

90% of respondents in Q4 2020 believe the Fed will leave interest rates unchanged in the next six months. Of the lenders surveyed, 5% of respondents favor a decrease of -1/4 points, while 5% favor an increase of +1/2 point or more.

Bps Change	3Q/2020	4Q/2020
+ 1/2 point or more	0%	5%
+ 1/4 point	0%	0%
Unchanged	88%	90%
- 1/4 point	12%	5%
- 1/2 point or more	0%	0%
Weighted Average	0.03 bps	0.01 bps

16. Current Competition

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

- Commercial Finance Co. and Regional Banks continue to place at the top of the survey, garnering 72% of responses. Local Community/Commercial Bank saw a decrease with 14% of respondents, and Money Center Banks saw an increase of respondents with 10% in Q4 2020.

	3Q/2020	**4Q/2020**
Commercial Finance Co.	32%	43%
Regional Bank	36%	29%
Local Community/Commercial Bank	20%	14%
Money Center Banks	8%	10%
Other	0%	5%
Factors	4%	0%