Phoenix Management Services
"Lending Climate in America" Survey

PHOENIX

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2nd Quarter 2021
Summary, Trends, and Implications

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"LENDING CLIMATE IN AMERICA"
2nd Quarter 2021

SUMMARY, TRENDS AND IMPLICATIONS

(Survey results were tabulated on May 4th, 2021)

1. **With the current administration pushing legislation with generous unemployment benefits, do you believe we will return to pre-COVID employment rates by the end of 2021?**

   The majority of lenders, (71%), believe with the current COVID unemployment benefits and the $1.9T stimulus bill, many Americans will be disincentivized from entering the labor force. Twenty-nine percent of the lenders surveyed believe that with the roll-out of the vaccines, the U.S. will reach similar pre-COVID unemployment rates by the end of 2021.

2. **What macroeconomic headwind could derail the recovery?**

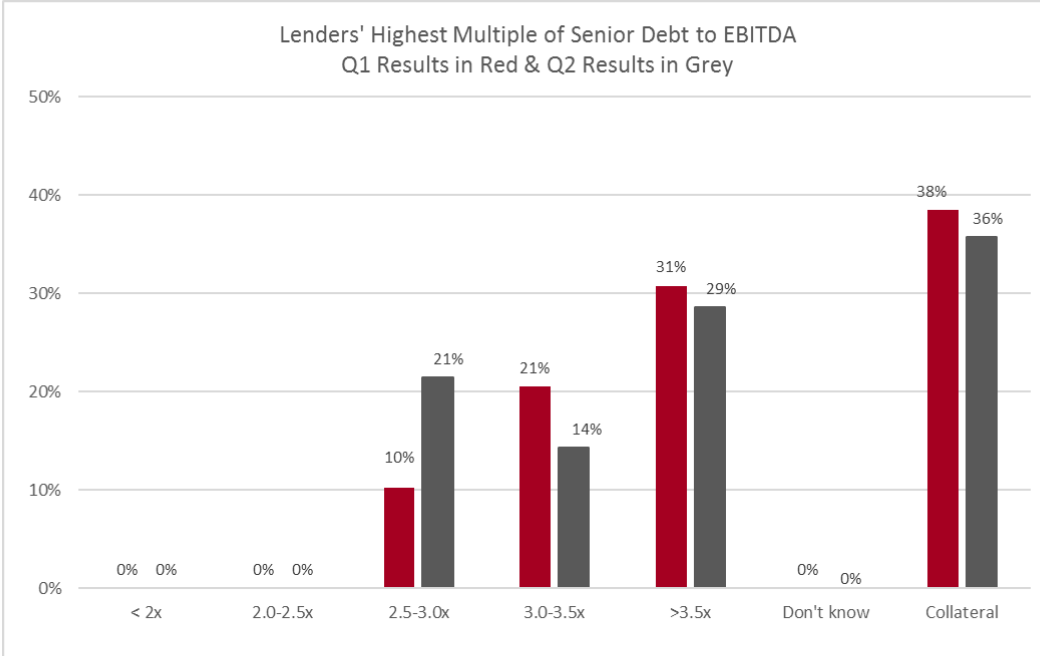
   The answer that received the highest percentage response, 50%, were the lenders that believe that policy risk (interest rates or withdrawal of stimulus) could be the macroeconomic headwind to derail recovery. Of the lenders surveyed, 21% of respondents believe a) vaccine distribution/virus mutation, and b) international supply chain issues could derail recovery, while 8% believe consumer caution as U.S. economy reopens could be the macroeconomic headwind to derail recovery.

3. **Real GDP decreased 3.5% in 2020. Given the current state of vaccine rollouts, pandemic-related restrictions (and their potential easing), and stimulus plans, what level of GDP growth do you expect for 2021?**

   Lenders garnering 58% of responses, expect GDP growth to be 4-5%. Of the lenders surveyed, 21% expect GDP growth to be less than 2%, while 14% of lender's expect GDP growth for 2021 to be 6-7% (Wall St. Journal economists estimate 6.4%). Seven percent expect GDP growth to be 2-3% for 2021.

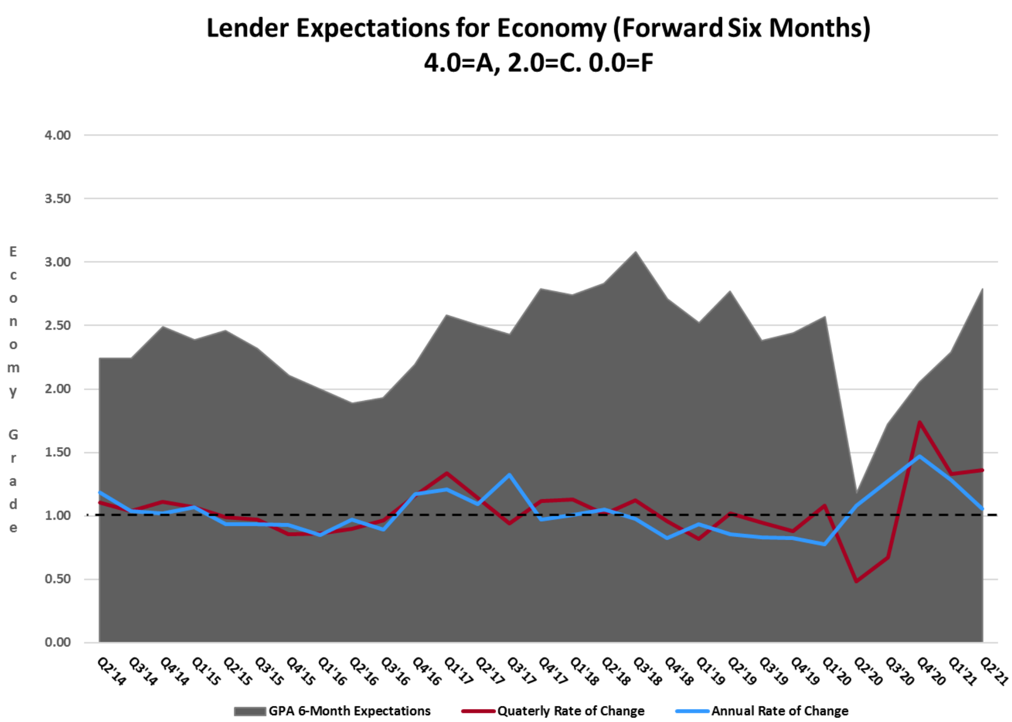
4. **Leverage multiples slightly shifted in Q2 2021.**

   Leverage multiples slightly shifted in Q2 2021 with 29% of lenders indicating that the >3.5x range would be the highest EBITDA ratio they would consider versus 31% in Q1 2021. The percentage of respondents who would consider a debt to EBITDA ratio of 3.0-3.5x decreased to 14% from the previous quarter's results of 21%. Thirty-six percent of lenders responded that they were collateral lenders and therefore do not make decisions based on cash flow/leverage multiples.



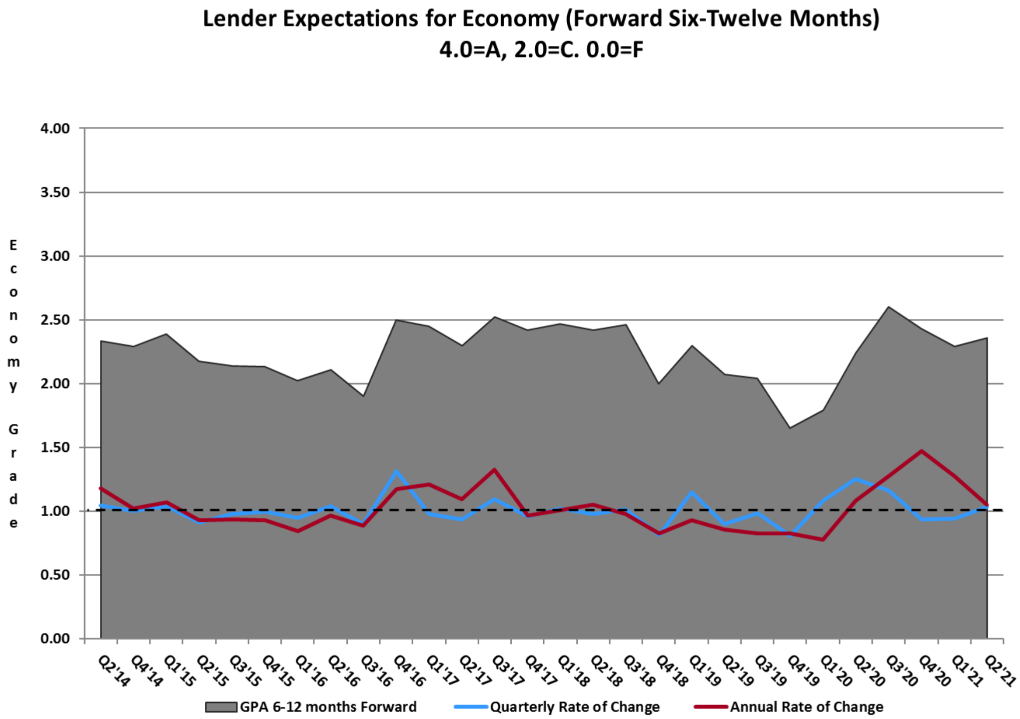
5. **Near-term and long-term economic performance expectations increase in this quarter's survey.**

Lenders' optimism in the near-term U.S. economy increased this quarter to a GPA of 2.79 from the Q1 2021 results of 2.29. Fifty percent of the lenders believe the economy will perform at a 'B' level over the next six months, and 36% believe the economy will perform at a 'C' level. Of the lenders surveyed, 14% expect the U.S. economy to perform at an 'A' grade.



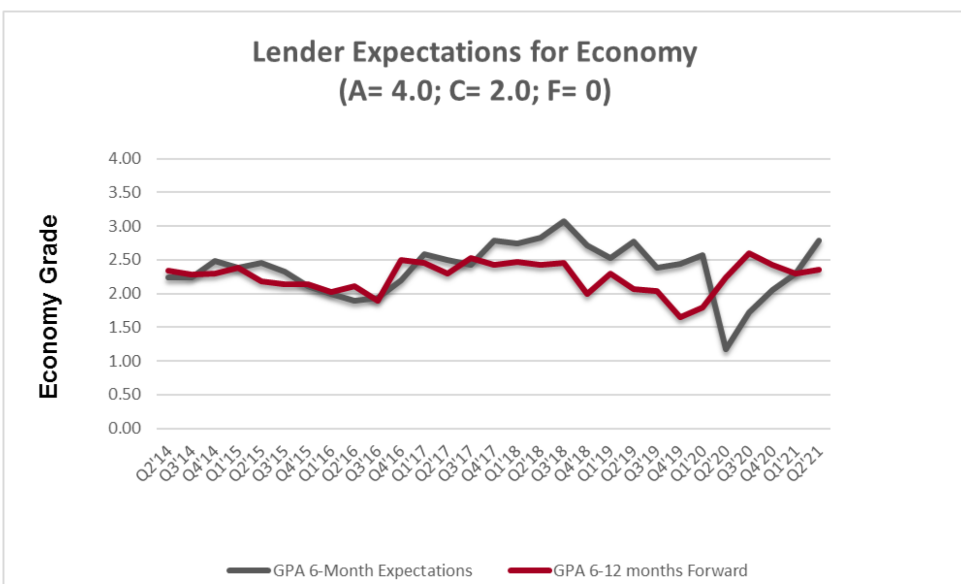
*** Rate of Change of 1.0 is at equilibrium and signifies "no change" from the corresponding prior period of comparison.***

Lenders' growth expectations for the U.S. economy beyond six months slightly increased this quarter to a 2.36 GPA from 2.29 the previous quarter. 57% of lenders believe the economy will perform at a 'B' level in the next six to twelve months which represents an increase of 23-percentage points from the Q1 2021 results of 34%. The percent of lenders (29%) that believe the economy will perform at a 'C' level decreased 13-percentage points from Q1 2021. The lenders (7%) who believe the economy will perform at a 'D' over the next twelve months decreased 4-percentage points.



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

More than one year after the start of COVID, it seems lenders are becoming more optimistic about the U.S. economy in both the near and long term.



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2nd Quarter 2021
Survey Results

(Survey results were tabulated on May 4th, 2021)

1. The majority of lenders believe that with the current COVID unemployment benefits, many Americans will be disincentivized from entering the labor force.

Lenders were asked: With the current administration pushing legislation with generous unemployment benefits, do you believe we will return to pre-COVID employment rates by the end of 2021?

No, with the current COVID unemployment benefits and the $1.9T stimulus bill, many Americans will be dis-incented from entering the labor force.	71%
Yes, with the roll-out of the vaccines, the U.S. will reach similar pre-COVID unemployment rates by the end of 2021.	29%

2. The majority of lenders believe policy risk is the macroeconomic headwind that could derail recovery.

Lenders were asked: What macroeconomic headwind could derail the recovery?

Policy risk (interest rates or withdrawal of stimulus)	50%
International supply chain issues	21%
Vaccine distribution/virus mutation	21%
Consumer caution as U.S. economy reopens	8%

3. The majority of lenders expect 4-5% GDP growth for 2021.

Lenders were asked: Real GDP decreased 3.5% in 2020. Given the current state of vaccine rollouts, pandemic-related restrictions (and their potential easing), and stimulus plans, what level of GDP growth do you expect for 2021?

Less than 2%	21%
2-3%	7%
3-4%	0%
4-5%	58%
6-7% (Wall St. Journal economists estimate 6.4%)	14%
Greater than 7% (recent Goldman estimate of 8%)	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	1Q 2021	2Q 2021
Greater than 3.5x	31%	29%
Between 3.01x and 3.50x	21%	14%
Between 2.51x and 3.00x	10%	21%
Between 2.01x and 2.50x	0%	0%
Less than 2.0x	0%	0%
Collateral lenders	38%	36%
N/A	0%	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	1Q 2021	2Q 2021
Increase greater than 0.5x	7%	7%
Increase less than 0.5x	5%	14%
Decrease less than 0.5x	7%	7%
Decrease greater than 0.5x	0%	0%
No change	39%	36%
Collateral lenders	39%	36%
N/A	3%	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	1Q 2021	2Q 2021
Stability of Stock Market	64%	50%
Unstable Energy Prices	36%	14%
Other	31%	43%
U.S. Budget Deficit	31%	57%
Constrained Liquidity in Capital Markets	18%	14%
Sluggish Housing Market	8%	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	1Q 2021	2Q 2021
Retail Trade	76%	50%
Accommodation and Food Services	68%	64%
Arts, Entertainment, and Recreation	32%	50%
Real Estate	58%	43%
Mining	11%	21%

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

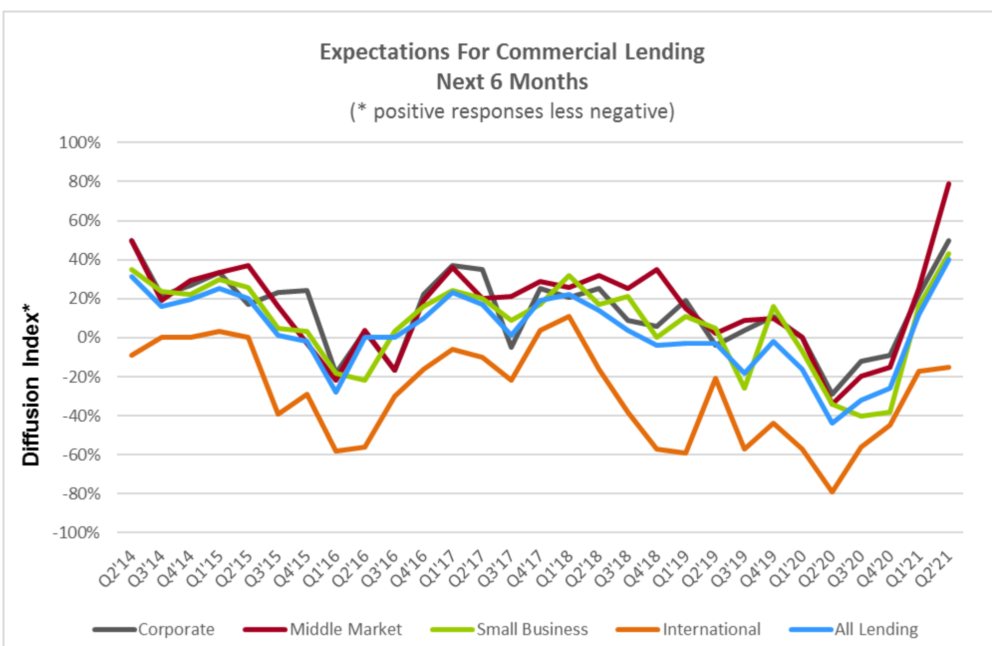
Respondents were asked which of the following actions their customers planned in the next six to twelve months. Lenders were asked to designate all potential customer actions that applied.

Customers' Plans	1Q 2021	2Q 2021
Making an Acquisition	56%	50%
Capital Improvements	50%	50%
Hiring New Employees	44%	43%
Introducing New Products or Services	32%	43%
Entering New Markets	29%	29%
Raising Additional Capital	50%	29%
"Other" Initiatives	0%	7%

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 2021, lenders optimism slightly increased in large corporate (50%), middle market (79%), small business lending (43%), and international lending (-15%). The diffusion index for the average for all lending increased to 40% from 12% in Q1 2021.



1Q/2021	Up	Down	Same	Diffusion Index
Corporate Lending	40%	18%	42%	22%
Middle Market Lending	38%	13%	49%	25%
Small Business Lending	42%	26%	32%	16%
International Lending	11%	28%	61%	-17%

2Q/2021	Up	Down	Same	Diffusion Index
Corporate Lending	50%	0%	50%	50%
Middle Market Lending	79%	0%	21%	79%
Small Business Lending	50%	7%	43%	43%
International Lending	8%	23%	69%	-15%

- In Q2 2021, there was a decrease in the bankruptcies diffusion index from 57% in Q1 2021 to 36%. The unemployment diffusion index increased to -71% in Q2 2021 compared to -47% in Q1 2021. In addition, the loan losses diffusion index decreased to 0% compared to 44% in Q1 2021, and the bank failures diffusion index increased from -10% in Q1 2021 to -29%.

1Q/2021	Up	Down	Same	Diffusion Index
Loan Losses	57%	13%	30%	44%
Bankruptcies	68%	11%	21%	57%
Interest Rates	43%	0%	57%	43%
Unemployment	13%	60%	27%	-47%
Bank Failures	3%	13%	84%	-10%

2Q/2021	Up	Down	Same	Diffusion Index
Loan Losses	29%	29%	42%	0%
Bankruptcies	50%	14%	36%	36%
Interest Rates	71%	0%	29%	71%
Unemployment	0%	71%	29%	-71%
Bank Failures	0%	29%	71%	-29%

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 2.29 in Q1 2021 to 2.79 in Q2 2021. In this current quarter, the majority of lenders (50%) believe the economy will perform at a "B" level during the next six months. This represents an increase of 11 points from the previous quarter. Of the lenders surveyed, 36% believe the economy will perform at a "C" level which represents a decrease of 14 points from the previous quarter.

Grade	1Q/2021	2Q/2021
A	0%	14%
B	39%	50%
C	50%	36%
D	11%	0%
F	0%	0%
Weighted Average Grade	2.29	2.79

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 increased from the prior quarter. The weighted average GPA increased 7 points from a 2.29 in Q1 2021 to 2.36 in Q2 2021. Of the lenders surveyed, 57% feel as though the U.S. economy will perform at a "B" level beyond the next six months, while 29% expect the economy to perform at a "C" level, a decrease of 13 percentage points from Q1 2021. In addition, the lenders who believe the economy will perform at an "A" over the next twelve months decreased.

Grade	1Q/2021	2Q/2021
A	8%	0%
B	34%	57%
C	42%	29%
D	11%	7%
F	5%	7%
Weighted Average Grade	2.29	2.36

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 14 percentage points to 64%. In Q2 2021, there was an increase in the percentage of lenders that ascribed to very strong growth (7%) and no growth (14%).

Indication	1Q/2021	2Q/2021
Very Strong	3%	7%
Strong	15%	14%
Moderate	79%	64%
No Growth	3%	15%

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 (78%) plan to maintain their current loan structure. In Q2 2021, 5% of lenders plan to tighten their loan structure, while 16% of the lenders surveyed plan to relax their current loan structure.

	1Q/2021			2Q/2021		
	Tighten	Maintain	Relax	Tighten	Maintain	Relax
Loans> $25 million	15%	70%	15%	0%	75%	25%
$15 – 25 million	12%	76%	12%	0%	75%	25%
$5-15 million	14%	77%	9%	0%	91%	8%
Under $5 million	19%	73%	8%	22%	71%	7%
Overall Average	15%	74%	11%	5%	78%	16%

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 (70%) plan to maintain their interest rate spreads and fee structures. In Q2 2021, the percentage of lenders that plan to tighten their interest rate spreads increased to 15%, and 15% plan to reduce their interest rate spreads.

	1Q/2021			2Q/2021		
	Reduce	Maintain	Increase	Reduce	Maintain	Increase
Loans > $25 million	24%	70%	6%	33%	59%	8%
$15 – 25	18%	76%	6%	25%	67%	8%
$5-15 million	9%	77%	14%	0%	85%	15%
Under $5 million	3%	74%	23%	0%	71%	29%
Overall Average	13%	75%	12%	15%	70%	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.

79% of respondents in Q2 2021 believe the Fed will leave interest rates unchanged in the next six months. Of the lenders surveyed, 7% of respondents favor a decrease of -1/4 points, while 14% favor an increase of +1/4 points.

Bps Change	1Q/2021	2Q/2021
+ 1/2 point or more	5%	0%
+ 1/4 point	16%	14%
Unchanged	76%	79%
- 1/4 point	3%	7%
- 1/2 point or more	0%	0%
Weighted Average	0.06 bps	0.02 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. continue to place at the top of the survey, garnering 72% of responses. Local Community/Commercial Bank saw a decrease with 0% of respondents, and Money Center Banks saw an increase of respondents with 14% in Q2 2021.

	1Q/2021	**2Q/2021**
Regional Bank	39%	43%
Commercial Finance Co.	29%	29%
Local Community/Commercial Bank	16%	0%
Money Center Banks	13%	14%
Other	3%	14%
Factors	0%	0%