Phoenix Management Services

"Lending Climate in America"

3rd Quarter 2023

Survey Results

(Survey results were tabulated on October 16, 2023)

1. **Since April 1, 2023, how has your institution pursued new business?**

Less Aggressive	50%
No Change	25%
More Aggressive	25%
Extremely Aggressive	0%

2. **Which loan class is your institution most concerned about from a risk and performance perspective?**

Commercial and Industrial Loans	62.5%
Commercial Real Estate Loans	37.5%
Residential Real Estate Loans	0%
Consumer Related Loans	0%

3. **When do you think interest rates will begin to decline?**

Second Half of 2023	0%
First Half of 2024	37.5%
Second Half of 2024	37.5%
2025 or Later	25%

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 2023	3Q 2023
Greater than 3.5x	0%	25%
Between 3.01x and 3.50x	33%	12.5%
Between 2.51x and 3.00x	22%	12.5%
Between 2.01x and 2.50x	0%	0%
Less than 2.0x	0%	0%
Collateral lenders	44%	37.5%
N/A	0%	12.5%

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 2023	3Q 2023
Increase greater than 0.5x	0%	12.5%
Increase less than 0.5x	11%	0%
Decrease less than 0.5x	22%	12.5%
Decrease greater than 0.5x	0%	0%
No change	22%	37.5%
Collateral lenders	44%	37.5%
N/A	0%	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 2023	3Q 2023
Unstable Energy Prices	22%	50%
Other	22%	12.5%
Stability of Stock Market	89%	50%
Constrained Liquidity in Capital Markets	56%	62.5%
U.S. Budget Deficit	11%	12.5%
Supply Chain	0%	0%
Sluggish Housing Market	0%	12.5%

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 2023	3Q 2023
Retail Trade	67%	62.5%
Finance and Insurance	44%	12.5%
Construction	11%	37.5%
Educational Services	0%	12.5%
Transportation & Warehousing	11%	0%
Real Estate & Rental/Leasing	78%	50%
Healthcare and Social Assistance	0%	25%
Accommodation & Food Service	22%	12.5%
Arts, Entertainment, and Recreation	0%	12.5%
Information	0%	12.5%
Mining	11%	25%
Manufacturing	20%	25%
Other Services	0%	12.5%
Wholesale Trade	20%	0%

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 2023	3Q 2023
Hiring New Employees	44%	25%
Introducing New Products or Services	44%	37.5%
Raising Additional Capital	33%	50%
Capital Improvements	44%	37.5%
Making an Acquisition	33%	25%
Entering New Markets	22%	25%
"Other" Initiatives	11%	0%

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.

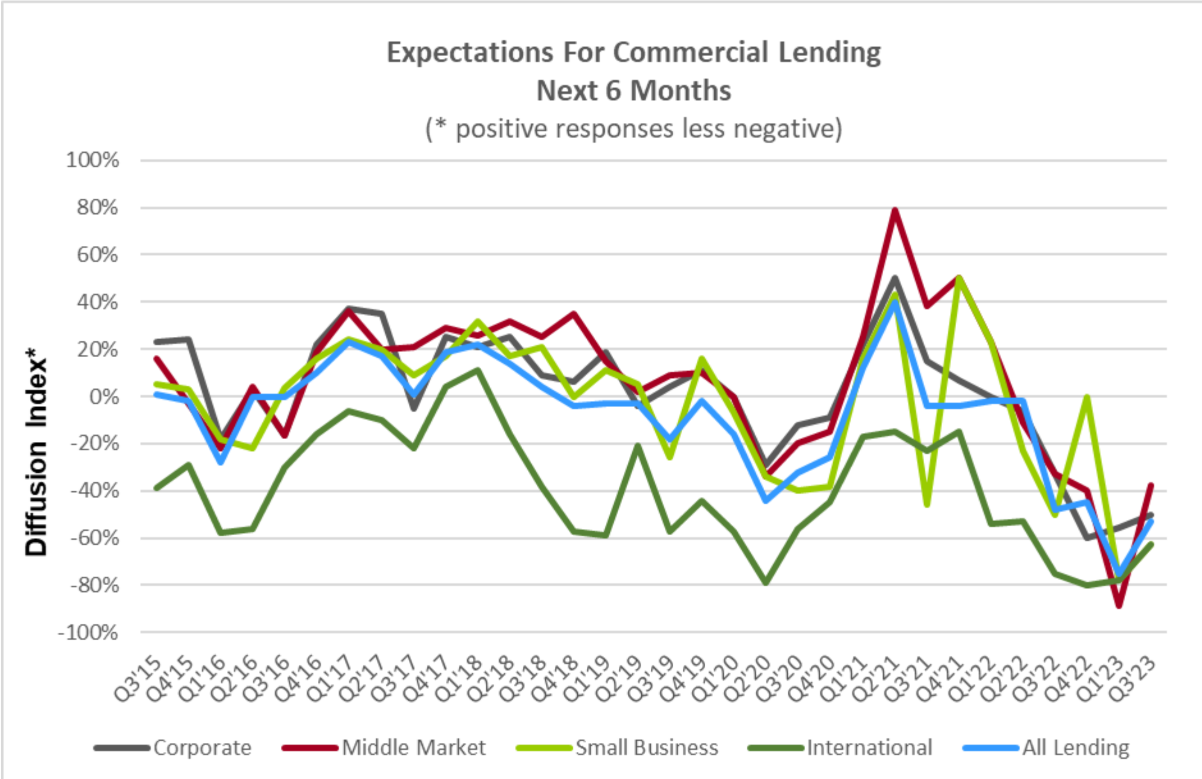
- In Q1 2023, lenders optimism decreased in all lending markets.

1Q/2023

	Up	Down	Same	Diffusion Index
Corporate Lending	0%	56%	44%	-56%
Middle Market Lending	0%	89%	11%	-89%
Small Business Lending	11%	89%	0%	-78%
International Lending	0%	78%	22%	-78%

3Q/2023

	Up	Down	Same	Diffusion Index
Corporate Lending	0%	50%	50%	-50%
Middle Market Lending	13%	50%	38%	-38%
Small Business Lending	0%	63%	38%	-63%
International Lending	0%	63%	38%	-63%



- In Q3 2023, there was a decrease in the all non-lending diffusion indices from Q4 2022 by varying degrees. All lending diffusion indices (Corporate, Middle Market, Small Lending, International) increased in Q3 2023 by 6-15% outside of middle market lending, which increased by 51%.

	1Q/2022					**3Q/2023**			
	Up	Down	Same	Diffusion Index		Up	Down	Same	Diffusion Index
Loan Losses	89%	0%	11%	89%	Loan Losses	75%	0%	25%	75%
Bankruptcies	100%	0%	0%	100%	Bankruptcies	63%	0%	38%	63%
Interest Rates	78%	0%	22%	78%	Interest Rates	38%	50%	13%	-13%
Unemployment	67%	0%	33%	67%	Unemployment	38%	50%	13%	-13%
Bank Failures	56%	0%	44%	56%	Bank Failures	0%	100%	0%	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.

- Lender optimism on the U.S. economy decreased 3 points this quarter from 1.78 in Q1 2023 to 1.75 in Q3 2023. In this current quarter, a larger portion of lenders (50%) believe the economy will perform at a “C” level during the next six months. Of the lenders surveyed, 38% believe the economy will perform at a “D” level, while 13% believe the economy will perform at a “B” or “A” level.

Grade	1Q/2023	3Q/2023
A	0%	0%
B	22%	13%
C	33%	50%
D	44%	38%
F	0%	0%
Weighted Average Grade	1.78	1.75

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 increased greatly from the prior quarter. The weighted average GPA increased 72 points from a 1.78 in Q1 2023 to 2.50 in Q3 2023. Of the lenders surveyed, 50% feel as though the U.S. economy will perform at a “C” level beyond the next six months, while the other 50% expect the economy to perform at a “B” level, a level not expected in Q1 2023.

Grade	1Q/2023	3Q/2023
A	0%	0%
B	0%	50%
C	78%	50%
D	22%	0%
F	0%	0%
Weighted Average Grade	1.78	2.50

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 4 percentage points to 63%. In Q3 2023, there was no change in the percentage of lenders that ascribed to (very) strong growth (0%). Thirty-seven percent of lenders ascribed to no growth.

Indication	1Q/2023	3Q/2023
Very Strong	0%	0%
Strong	0%	0%
Moderate	67%	63%
No Growth	33%	37%

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.

A majority of the surveyed lenders (67%) plan to maintain their current loan structure. In Q3 2023, the minority (33%) of lenders plan to tighten their loan structure and 0% plan to relax their loan structure.

	1Q/2023			3Q/2023		
	Tighten	Maintain	Relax	Tighten	Maintain	Relax
Loans> $25 million	57%	43%	0%	17%	83%	0%
$15 – 25 million	57%	43%	0%	33%	67%	0%
$5-15 million	71%	29%	0%	43%	57%	0%
Under $5 million	63%	38%	0%	38%	63%	0%
Overall Average	62%	38%	0%	33%	67%	0%

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 (72%) plan to maintain their interest rate spreads and fee structures. In Q3 2023, the percentage of lenders that plan to increase their interest rate spreads decreased to 21%, and 8% plan to reduce their interest rate spreads.

	1Q/2023			3Q/2023		
	Reduce	Maintain	Increase	Reduce	Maintain	Increase
Loans > $25 million	0%	43%	57%	17%	83%	0%
$15 – 25	0%	29%	71%	0%	83%	17%
$5-15 million	0%	14%	86%	14%	57%	29%
Under $5 million	0%	50%	50%	0%	63%	38%
Overall Average	0%	34%	66%	8%	72%	21%

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.

13% of respondents in Q3 2023 believe the Fed will increase interest rates by + 1/2 point or more, while another 63% believe the interest rates will be increased by + 1/4 points. 25% of lenders believe the Fed will decrease interest rates by – 1/4 points.

Bps Change	1Q/2023	3Q/2023
+ 1/2 point or more	56%	13%
+ 1/4 point	44%	63%
Unchanged	0%	0%
- 1/4 point	0%	25%
- 1/2 point or more	0%	0%
Weighted Average	0.42bps	0.16bps

16. Current Competition

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

- Commercial Finance Companies place at the top of the survey, garnering 63% of responses. Regional Banks garnered the next highest amount of responses with 25%.

	1Q/2023	3Q/2023
Regional Bank	33%	25%
Commercial Finance Co.	22%	63%
Local Community/Commercial Bank	22%	13%
Money Center Banks	11%	0%
Other	11%	0%
Factors	0%	0%