

# Phoenix Management Services “Lending Climate in America” Survey



**1<sup>st</sup> Quarter 2017  
Summary, Trends and Implications**

PHOENIX  
“LENDING CLIMATE IN AMERICA”

1<sup>st</sup> Quarter 2017

SUMMARY, TRENDS AND IMPLICATIONS

**1. Of the following, which do you feel is the most important factor in determining the health of the U.S. economy?**

The majority of lenders (65%) agree that an increase in private sector job growth will be the most important factor in determining the health of the U.S. economy. Garnering the second highest amount of responses of 24% were the lenders that believe reduced federal debt is the most important factor in determining the health of the U.S. economy. 8% of lenders agreed that reduced income inequality will be the most important factor, while 3% believe that a reduced trade imbalance with China will be the most important factor in determining the health of the U.S. economy.

**2. The Dow Jones industrial average, the S&P 500, and the NASDAQ composite have all hit record highs the past few weeks. Which factor has the greatest potential (measured by both likelihood and impact) to stop the rally in the markets in 2017?**

The answer that received the highest percentage response, 46%, were the lenders that believe corporate profits falling short of expectations has the greatest potential to stop the rally in the markets throughout 2017. Lenders that believe a delay or watering down of President Trump’s promised tax reform garnered 35% of the responses, while 11% of lenders believe that continued chaos in the Trump Administration will have the greatest potential to stop the rally in the markets. Only 8% of lenders believe that an interest hike in March will have the greatest potential to stop the rally in the markets.

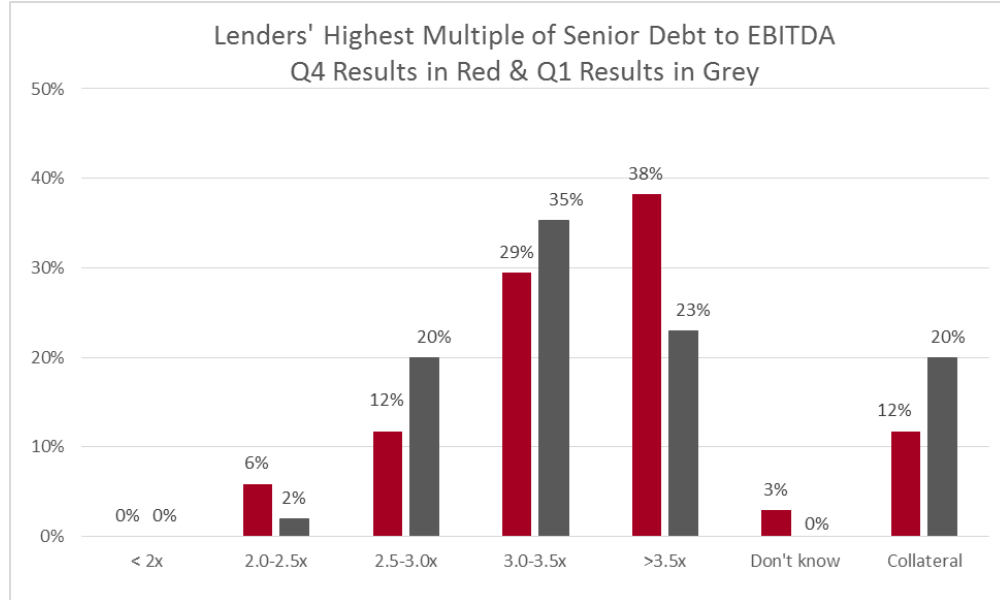
**3. With the hopes of domesticating previously outsourced production and manufacturing workforces, the Trump Administration has openly stated that it plans to review and renegotiate many of the United States’ international trade treaties and agreements. If successful, which of the following do you think will benefit the most?**

The majority of lenders, garnering 54% of responses, think that new U.S.-based job creation will benefit from the Trump Administration’s plan to review and renegotiate the United States international trade treaties. Garnering the second highest amount of responses of 17% were the lenders that think GDP growth will benefit the most. Additionally, 17% of lenders selected the option of “other” as their response. Only 12% of lenders think domestic stock index growth will benefit the most from a successful review and negotiation of the United States’ international trade treaties.

**4. Leverage multiples shifted this quarter versus the prior quarter.**

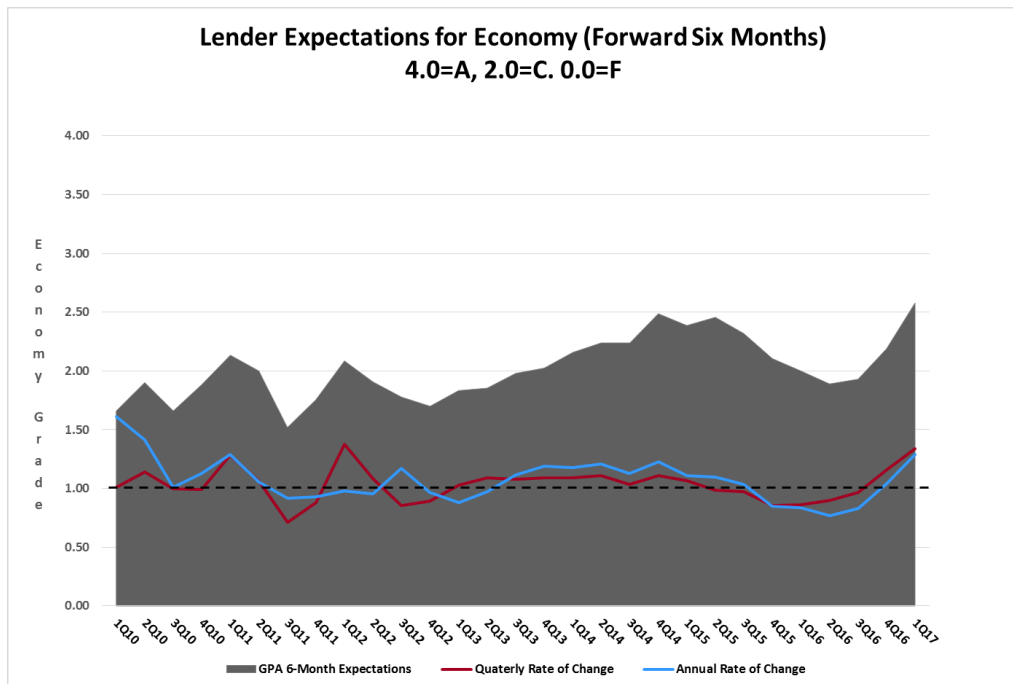
Multiples have shifted in 1Q 2017. 23% of lenders indicated the >3.5x range would be the highest EBITDA ratio they would consider, a 15 percentage point decrease from the prior quarter. The percentage of respondents who would consider a debt to EBITDA ratio of 3.0-3.5x increased 6 percentage points to 35%. The percentage of lenders who indicated the highest ratio they would consider is between 2.5-3.0x saw an increase of 8 points to 20%. 2% percent of respondents stated their institutions highest multiple is in the 2.0-2.5x range, a 4 percentage point decrease from the prior quarter’s 6%. Zero lenders surveyed continue to indicate less than 2.0x is their institutions

highest multiple. In addition, 20% of lenders responded that they were collateral lenders and therefore do not make decisions based on cash flow/leverage multiples.



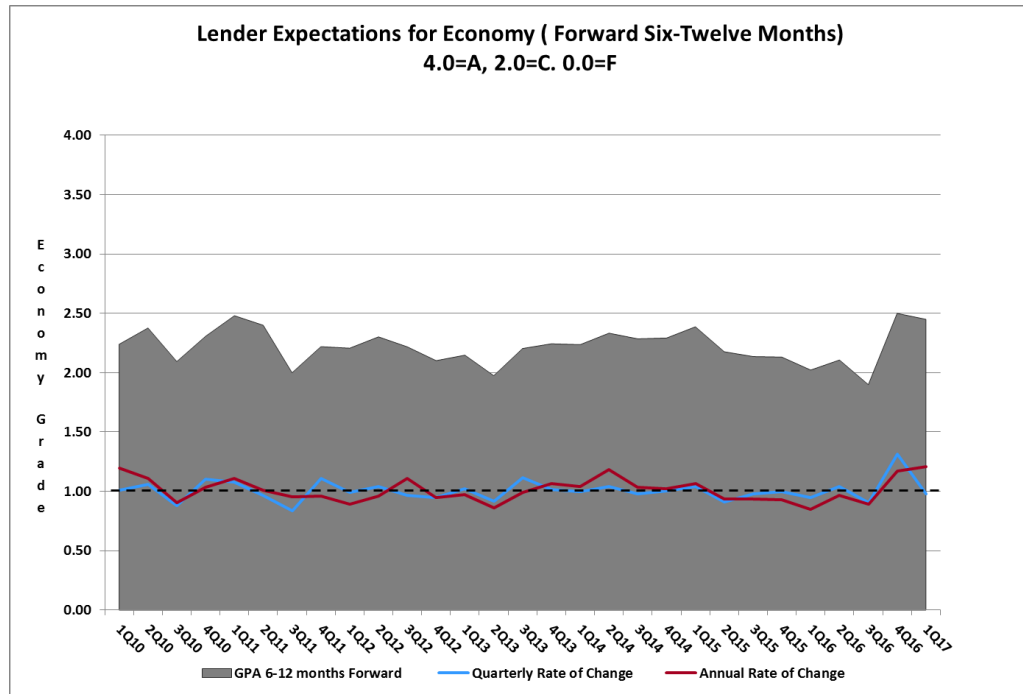
### 5. Economic performance expectations continue to increase in this quarter's survey.

Lenders optimism on the U.S. economy for the short term increased to an overall “B” grade this quarter; the index GPA increased to 2.58 from the 4Q 2016 results of 2.19. The majority of lenders (55%) believe the economy will perform at a “B” level over the next six months, compared to 25% in the previous survey. However, 39% of lenders surveyed believe the economy will perform at a “C” grade, compared to 69% in the previous survey. Lenders that believe that the economy will perform at a “D” level decreased 3 points from the previous quarter to 3% in 1Q 2017. This survey reversed the recent trend in which a higher percentage of lenders believe the economy will perform in the “C” grade level versus a “B” level over the next six months.



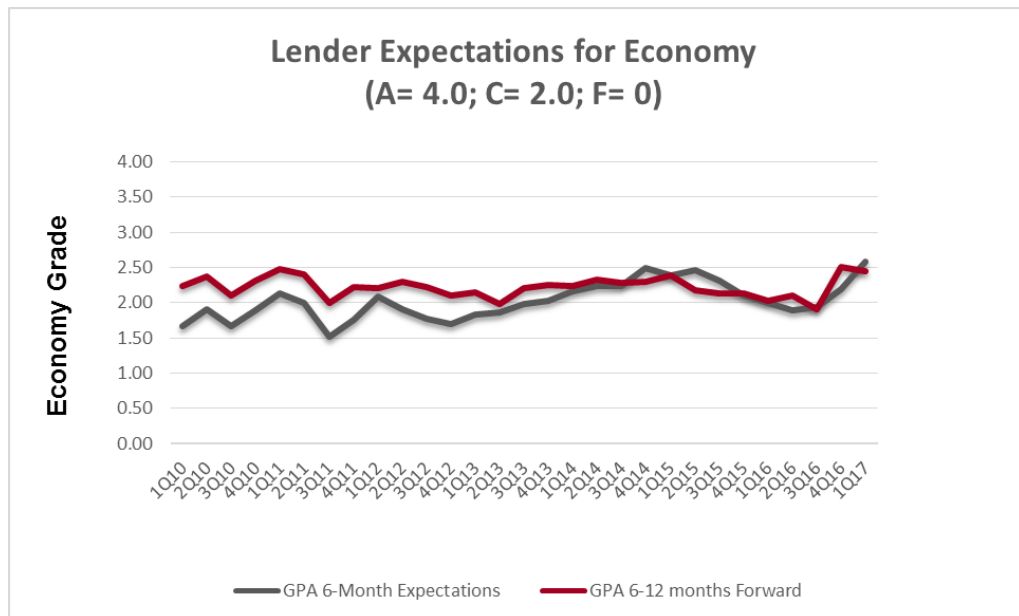
\* Rate of Change of 1.0 is at equilibrium and signifies “no change” from the corresponding prior period of comparison.

Lenders growth expectations for the U.S. economy beyond six months continued to remain at an overall “B” grade this quarter. The weighted average decreased 5 points to a 2.45 GPA from 2.50 in the previous quarter. 52% of lenders believe the economy will perform at a “B” level in the next six to twelve months, which is 5 percentage points lower than the previous quarter. The percent of lenders (33%) that believe the economy will perform at a “C” level decreased 8 percentage points from the previous quarter. The percentage of respondents who believe the economy will perform at a “D” level beyond the next six months slightly increased 6 percentage points to 12%, when compared to the previous quarter.



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

The 1Q 2017 survey reversed the previous quarter’s results of a higher long term GPA than near term GPA. However, the “B” level representation indicates a positive outlook of lender’s long term and near term expectations for the economy.



**Phoenix Management Services**  
**“Lending Climate in America”**  
**1<sup>st</sup> Quarter 2017**

**Survey Results**

**1. The majority of Lenders agree that an increase in private sector job growth will be the most important factor in determining the health of the U.S. economy.**

Lenders were asked: Of the following, which do you feel is the most important factor in determining the health of the U.S. economy?

- 65% of lenders surveyed agree that an increase in private sector job growth will be the most important factor in determining the health of the U.S. economy
- 24% of lenders agree that reduced federal debt will be the most important factor in determining the health of the U.S. economy.
- 8% of lenders agreed that reduced income inequality will be the most important factor in the U.S. economy’s health.
- 3% of lenders surveyed believe that a reduced trade imbalance in China will be the most important factor in determining the health of the U.S. economy.

**2. Leaders believe that corporate profits falling short of expectations has the greatest potential to stop the rally in the markets in 2017.**

Lenders were asked: The Dow Jones industrial average, the S&P 500, and the NASDAQ composite have all hit record highs the past few weeks. Which factor has the greatest potential (measured by both likelihood and impact) to stop the rally in the markets in 2017?

- 46% of lenders believe corporate profits falling short of expectations has the greatest potential to stop the rally in the markets throughout 2017.
- 35% of lenders believe that a delay or watering down of President Trump’s tax reform has the greatest potential to stop the rally in the markets.
- 11% of the lenders surveyed believe that continued chaos in the Trump Administration has the greatest potential.
- 8% of lenders believe that an interest rate hike in March will have the greatest potential to stop the rally in the markets in 2017.

**3. Lenders think that new U.S.-based job creation will benefit the most from a successful review and renegotiate the United States international trade treaties.**

Lenders were asked: With the hopes of domesticating previously outsourced production and manufacturing workforces, the Trump Administration has openly stated that it plans to review and renegotiate many of the United States’ international trade treaties and agreements. If successful, which of the following do you think will benefit the most?

- 54% of lenders think that new U.S.-based job creation will benefit the most from a successful review and renegotiation of the United States international trade treaties.
- 17% of lenders believe that GDP growth will benefit the most.
- 12% of respondents think domestic stock index growth will benefit the most from a successful review and renegotiation of the U.S. international trade treaties.
- 17% of lenders surveyed selected “other”.

**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.

<u>EBITDA Level</u>	<u>4Q 2016</u>	<u>1Q 2017</u>
Greater than 3.5x	38%	23%
Between 3.01x and 3.50x	29%	35%
Between 2.51x and 3.00x	12%	20%
Between 2.01x and 2.50x	6%	2%
Less than 2.0x	0%	0%
Collateral lenders	12%	20%
N/A	3%	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.

<u>Change in Senior Debt to EBITDA Level</u>	<u>4Q 2016</u>	<u>1Q 2017</u>
Increase greater than 0.5x	6%	0%
Increase less than 0.5x	12%	6%
Decrease less than 0.5x	3%	6%
Decrease greater than 0.5x	0%	0%
No change	65%	67%
Collateral lenders	12%	20%
N/A	2%	1%

## 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.

<u>Factors Affecting Near-Term Economy</u>	<u>4Q 2016</u>	<u>1Q 2017</u>
Unstable Energy Prices	58%	42%
Stability of Stock Market	45%	58%
U.S. Budget Deficit	33%	39%
Sluggish Housing Market	21%	27%
Other	21%	18%
Constrained Liquidity in Capital Markets	15%	15%

## 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.

<u>Industries Experiencing Most Volatility</u>	<u>4Q 2016</u>	<u>1Q 2017</u>
Retail Trade	73%	82%
Healthcare and Social Assistance	52%	49%
Mining	36%	33%
Finance and Insurance	18%	24%
Educational Services	6%	18%
Real Estate and Rental/Leasing	15%	15%
Manufacturing	12%	15%

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

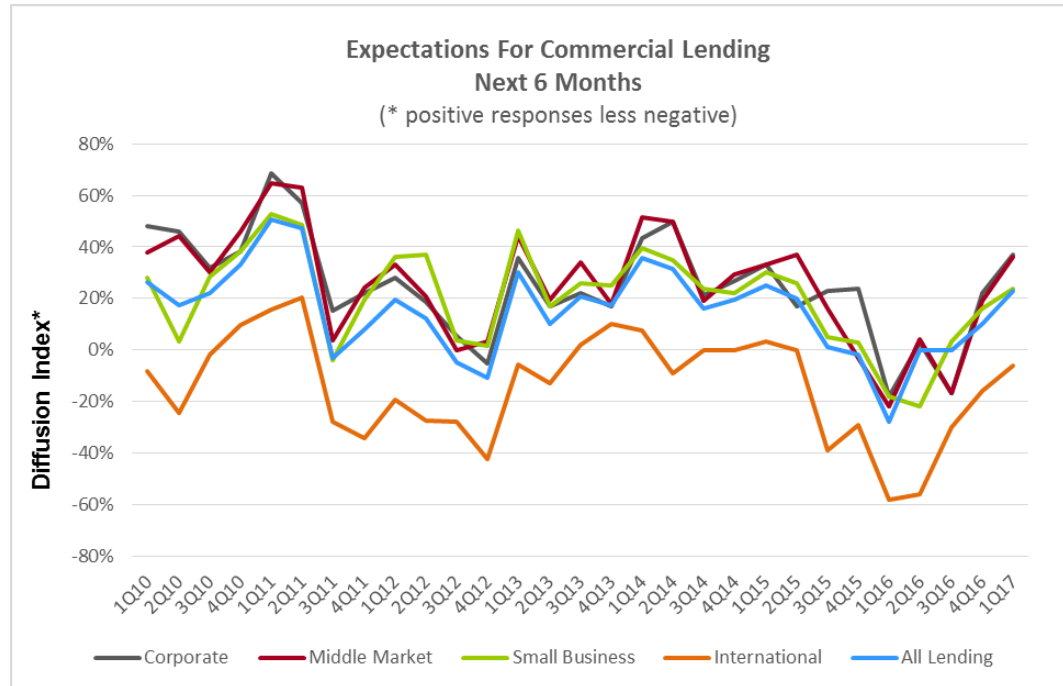
Respondents were asked which of the following actions their customers planned in the next six months. Lenders were asked to designate all potential customer actions that applied.

<u>Customers' Plans</u>	<u>4Q 2016</u>	<u>1Q 2017</u>
Capital Improvements	55%	61%
Making an Acquisition	45%	67%
Hiring New Employees	45%	52%
Raising Additional Capital	36%	48%
Introducing New Products or Services	33%	52%
Entering New Markets	33%	36%
"Other" Initiatives	9%	3%

## 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 1Q 2017, lenders optimism increased significantly in large corporate (37%) and middle market (36%). Additionally, expectations increased for small business in 1Q 2017 with a diffusion index of 24%, an 8 percentage point increase from the previous quarter of 16%. The diffusion index for international lending continued to stay in the negative territory, however decreasing to a negative 6% from negative 16% in the previous quarter. The diffusion index for the average for domestic lending significantly increased from 19% in 4Q 16 to 33% in 1Q 17, and the diffusion index for all lending increased to 23%.



	<u>4Q/2016</u>			<u>1Q/2017</u>		
	<u>Up</u>	<u>Down</u>	<u>Same</u>	<u>Up</u>	<u>Down</u>	<u>Same</u>
Corporate Lending	28%	6%	66%	37%	0%	63%
Middle Market Lending	25%	6%	69%	39%	3%	58%
Small Business Lending	22%	6%	72%	36%	12%	52%
International Lending	13%	29%	58%	15%	21%	64%

- The interest rate diffusion index increased to 91% compared to 88% the previous quarter. Loan losses diffusion index increased slightly to 15% in Q1 2017 compared to 10% in Q4 2016. The bankruptcies diffusion index increased dramatically to 18% from a negative 22% in the previous quarter.

	<u>4Q/2016</u>			<u>1Q/2017</u>		
	<u>Up</u>	<u>Down</u>	<u>Same</u>	<u>Up</u>	<u>Down</u>	<u>Same</u>
Loan Losses	19%	9%	72%	27%	12%	61%
Bankruptcies	31%	53%	16%	33%	15%	52%
Interest Rates	88%	0%	12%	94%	3%	3%
Unemployment	9%	13%	78%	3%	15%	82%
Bank Failures	6%	16%	78%	9%	21%	70%



## 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 this quarter from 2.19 in 4Q 2016 to 2.58 in 1Q 2017, which is a “B” grade. In the current quarter, 55% of respondents believe the economy will perform at a “B” level, which represents an increase of 30 points from the previous quarter. There was a significant decrease of lenders (39%) that believe the economy will perform at a “C” level, a 30 point decrease from the 4Q 2016 results, while 3% believe the economy will perform at a “D” level, a 3 point decrease. 0% of lenders continue to believe the economy will perform at an “F” level.

<u>Grade</u>	<u>4Q/2016</u>	<u>1Q/2017</u>
A	0%	3%
B	25%	55%
C	69%	39%
D	6%	3%
F	0%	0%
Weighted Average Grade	2.19	2.58

## 11. US 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 has slightly decreased from the prior quarter. The weighted average GPA decreased 5 points from 2.50 in the previous quarter to 2.45, which is a “B” grade. 52% of lenders feel as though the economy will perform at a “B” level beyond the next six months (compared to 50% last quarter). Lenders who believe the economy will perform at a “C” over the next twelve months decreased 8 percentage points to a 33%. There was also a slight increase of lenders (6%) that believe the economy will perform at a “D” grade over the next six to twelve months while the percentage of lenders that believe the economy will perform at an “F” grade remains unchanged at 0%.

<u>Grade</u>	<u>4Q/2016</u>	<u>1Q/2017</u>
A	3%	3%
B	50%	52%
C	41%	33%
D	6%	12%
F	0%	0%
Weighted Average	2.50	2.45

## 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 4 percentage points from 84% in Q4 2016 to 88% in Q1 2017. With a concentration remaining towards moderation, 0% of lenders ascribe “very strong growth”, and 12% of lenders ascribe “strong growth” for their borrower’s

growth in the next six months. Furthermore, 0% of lenders favor “no growth”, a 13 percentage point decrease from the previous quarter’s results of 13%. This continued belief of “moderate growth” is a positive signal from lenders on the U.S. economy.

<u>Indication</u>	<u>4Q/2016</u>	<u>1Q/2017</u>
Very Strong	0%	0%
Strong	3%	12%
Moderate	84%	88%
No Growth	13%	0%

### 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 1Q 2017 we did see a slight increase, 4 percentage points, with lenders that plan to relax their loan structure.

	<u>4Q/2016</u>			<u>1Q/2017</u>		
	<u>Tighten</u>	<u>Maintain</u>	<u>Relax</u>	<u>Tighten</u>	<u>Maintain</u>	<u>Relax</u>
Loans > \$25 million	7%	86%	7%	3%	84%	13%
\$15 – 25 million	7%	86%	7%	4%	88%	8%
\$5-15 million	6%	94%	0%	3%	94%	3%
Under \$5 million	20%	77%	3%	19%	74%	7%
Overall Average	10%	86%	4%	7%	85%	8%

### 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.

While a majority of lenders continue to maintain their interest rate spreads and fee structures, fewer lenders (4 percentage points less) expect to increase their interest rates spreads, and fewer lenders (6 percentage points less) expect to reduce their interest rate spreads in Q1 2017 versus Q4 2016.

	<u>4Q/2016</u>			<u>1Q/2017</u>		
	<u>Reduce</u>	<u>Maintain</u>	<u>Increase</u>	<u>Reduce</u>	<u>Maintain</u>	<u>Increase</u>
Loans > \$25 million	13%	83%	3%	10%	87%	3%
\$15 – 25 million	7%	83%	10%	7%	90%	3%
\$5-15 million	13%	71%	16%	0%	94%	6%
Under \$5 million	6%	74%	19%	0%	81%	19%
Overall Average	10%	78%	12%	4%	88%	8%

## 15. The Fed and Interest Rates

Respondents were asked in what direction the Fed would move interest rates and by how much in the coming six months.

1Q 2017 displayed a less proportionate dispersion between +1/4 point and +1/2 point with 61% of respondents continuing to favor +1/2 point or more and 36% of respondents favoring +1/4 points.

<b><u>Bps Change</u></b>	<b><u>4Q/2016</u></b>	<b><u>1Q/2017</u></b>
+ 1/2 point or more	44%	61%
+ 1/4 point	54%	36%
Unchanged	2%	3%
- 1/4 point	0%	0%
- 1/2 point or more	0%	0%
Weighted Average	0.26 bps	0.40 bps

## 16. Current Competition

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

- Regional Banks continues to place at the top in regards to respondents (55%) for the survey. Commercial Finance, at 21% of respondents, saw a slight decrease. Additionally, Local Community/Commercial Banks saw a slight decrease with 12% of respondents, and Money Center Banks saw a decrease in the number of respondents (9%) from the previous quarter's survey.

	<b><u>4Q/2016</u></b>	<b><u>1Q/2017</u></b>
Regional Bank	34%	55%
Commercial Finance Co.	25%	21%
Local Community/Commercial Bank	19%	12%
Money Center Banks	13%	9%
Factors	0%	0%
Other	9%	3%