Phoenix Management Services
"Lending Climate in America" Survey

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1st Quarter 2019
Summary, Trends and Implications

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"LENDING CLIMATE IN AMERICA"

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SUMMARY, TRENDS AND IMPLICATIONS

1. **U.S. GDP growth in 2018 was near 3%, and economists forecast 2.3% in 2019. Economists believe headwinds such as trade tensions, effects of previous Fed rate increases, and slowing global growth are facing the U.S. economy in 2019. Other economic indicators such as U.S. unemployment remain strong. Where do you believe GDP Growth will go in 2019?**

   Garnering the highest percentage of responses (59%), were lenders that expect GDP growth to be in line with the forecasted 2.3% in 2019. Of the lenders surveyed, 26% expect GDP growth will be greater than the forecasted 2.3%, and 15% of lenders surveyed expect GDP growth to be lower than the forecasted 2.3% in 2019.

2. **Despite a shaky economic outlook in both Europe and China, and a government shutdown periling the U.S. economy over the last month, employers added 304,000 jobs in January 2019, the largest monthly total in nearly a year. Do you believe that these negative factors in the global marketplace, among others, will inhibit U.S. economic growth in 2019?**

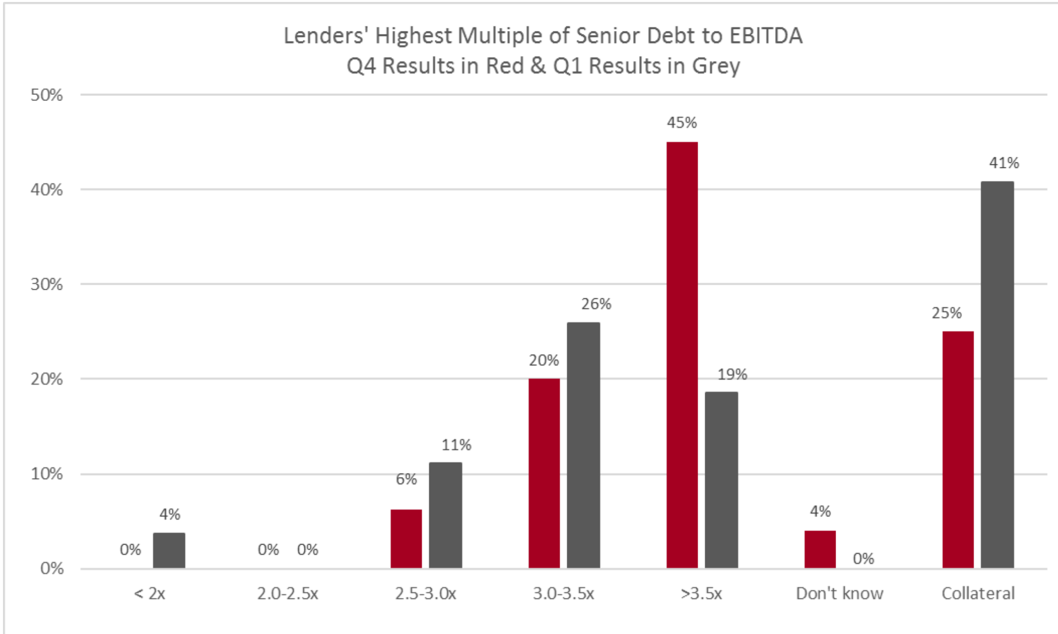
   The answer that received the highest percentage response, 56%, were the lenders that believe shaky outlooks both abroad and domestically are concerning, and therefore 2019 will be a year of economic volatility and uncertainty. Of the lenders surveyed, 33% believe despite shaky outlooks in both Europe and China and government policy uncertainty at home, the U.S. economy is still poised to grow and add jobs in 2019. 11% of lenders believe that shaky outlooks in both Europe and China and government uncertainty at home, will noticeable inhibit U.S. economic growth in 2019.

3. **The U.S. retail market will likely experience an increase in retail bankruptcies during Q1'19. This trend comes after Amazon reported $232.9 billion in total revenue for fiscal year 2018. How do you expect the retail industry to react during the remainder of 2019?**

   Lenders garnering 52% of responses expect many brick-and-mortar retailers to file for bankruptcy due to their struggle to stay afloat amid the rise of e-commerce competitors and changing customer sentiment. Of the lenders surveyed, 44% expect minimal bankruptcy filings, and 4% of lenders expect a minimal change in the retail industry.

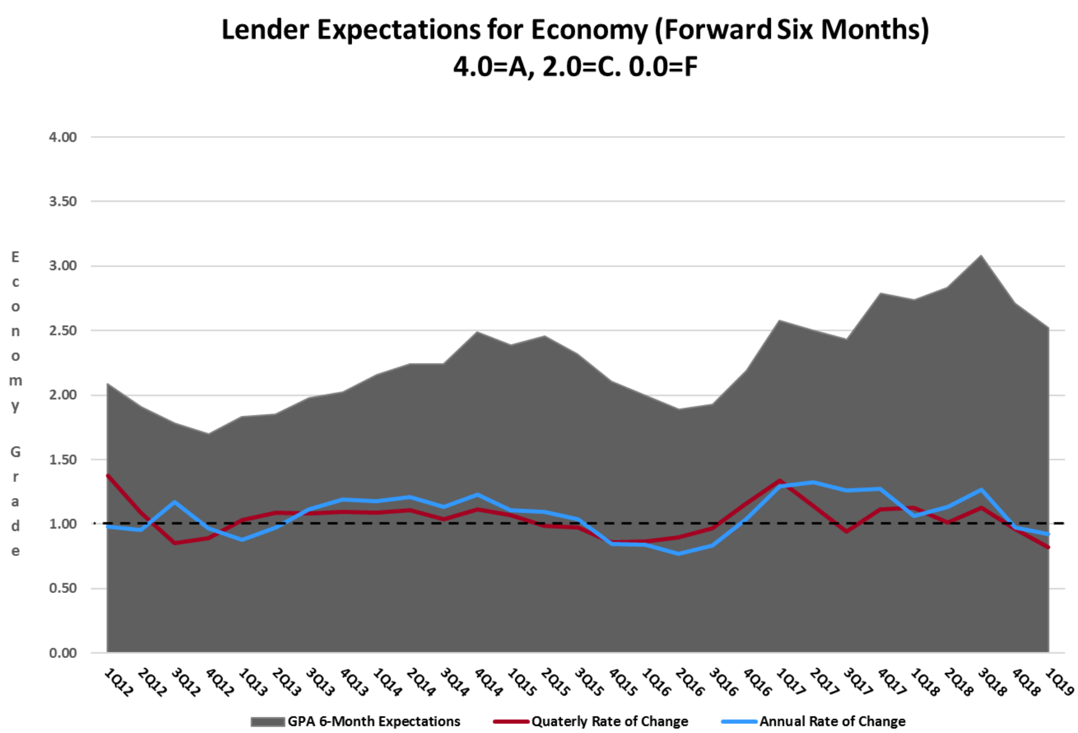
4. **Leverage multiples decreased this quarter.**

   Leverage multiples decreased in 1Q 2019 with 19% of lenders indicating that the >3.5x range would be the highest EBITDA ratio they would consider versus 45% in 4Q 2018. The percentage of respondents who would consider a debt to EBITDA ratio of 3.0-3.5x increased to 26% from the previous quarter's results of 20%. The percentage of lenders who indicated the highest ratio they would consider is between 2.5-3.0x increased 5 percentage points to 11%, and 41% of lenders responded that they were collateral lenders and therefore do not make decisions based on cash flow/leverage multiples.



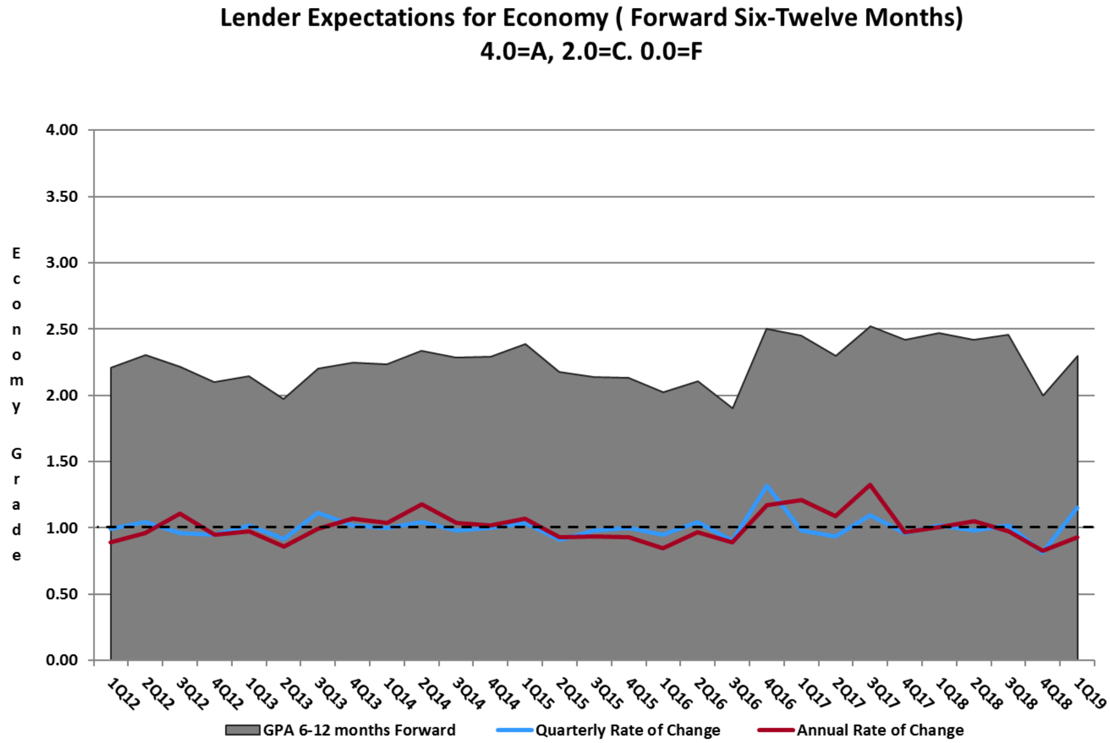
5. **Economic performance expectations decrease for the near term in this quarter's survey.**

Lenders optimism in the U.S. economy for the near term decreased this quarter but remains at an overall "B" grade; the index GPA decreased to 2.52 from the 4Q 2018 results of 2.71. 48% of the lenders believe the economy will perform at a "B" level over the next six months, compared to 71% in the previous survey. Of the lenders surveyed, 44% expect the U.S. economy to perform at a "C" grade, compared to 29% in the previous survey, and 4% of the lenders surveyed believe that the economy will perform at a "D" level.



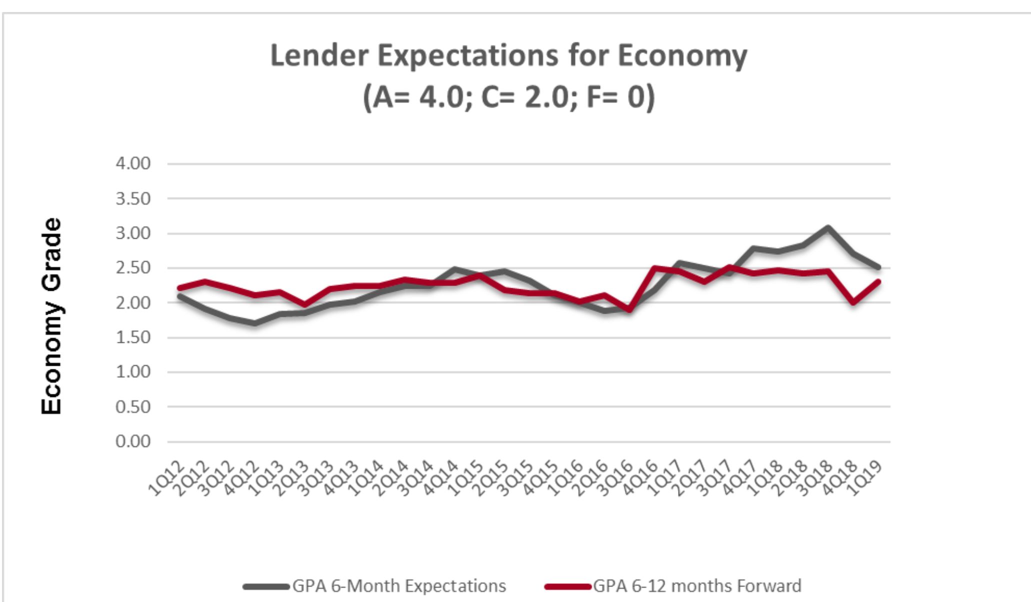
** Rate of Change of 1.0 is at equilibrium and signifies "no change" from the corresponding prior period of comparison.*

Lenders growth expectations for the U.S. economy beyond six months remained at an overall "B" grade this quarter. The weighted average increased 30 points to a 2.30 GPA from 2.00 in the previous quarter. 30% of lenders believe the economy will perform at a "B" level in the next six to twelve months. The percent of lenders (59%) that believe the economy will perform at a "C" level increased 16 percentage points from the previous quarter. However, the percentage of respondents who believe the economy will perform at a "D" level beyond the next six months decreased from 29% to 7%.



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

The 1Q 2019 survey continues the trend of a higher near-term GPA than long term GPA, however, lenders are still pessimistic about the U.S. economy in the near term as the GPA continues to decrease.



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Survey Results

1. The majority of Lenders expect GDP growth in 2019 to go in line with the forecasted 2.3%.

Lenders were asked: U.S. GDP growth in 2018 was near 3%, and economists forecast 2.3% in 2019. Economists believe headwinds such as trade tensions, effects of previous Fed rate increases, and slowing global growth are facing the US economy in 2019. Other economic indicators such as U.S. unemployment remain strong. Where do you believe GDP Growth will go in 2019?

In line with the forecasted 2.3%	59%
Greater than the forecasted 2.3%	26%
Lower than the forecasted 2.3%	15%

2. Lenders believe that shaky outlooks both abroad and domestically are concerning, and 2019 will be a year of economic volatility and uncertainty.

Lenders were asked: Despite a shaky economic outlook in both Europe and China, and a government shutdown periling the US economy over the last month, employers added 304,000 jobs in January 2019, the largest monthly total in nearly a year. Do you believe that these negative factors in the global marketplace, among others, will inhibit U.S. economic growth in 2019?

Neither Agree nor Disagree: Shaky outlooks both abroad and at home are concerning, and 2019 will be a year of economic volatility and uncertainty.	56%
Strongly Disagree: Despite shaky outlooks in both Europe and China and government policy uncertainty at home, the U.S. economy is still poised to grow and add jobs in 2019.	33%
Strongly Agree: Shaky outlooks in both Europe and China and government policy uncertainty at home, will noticeably inhibit U.S. economic growth in 2019.	11%

3. Lenders expect many brick-and-mortar retailers to file for bankruptcy in 2019 due to their struggle to stay afloat amid the rise of e-commerce competitors.

Lenders were asked: The U.S. retail market will likely experience an increase in retail bankruptcies during Q1'19. This trend comes after Amazon reported $232.9 billion in total revenue for fiscal year 2018. How do you expect the retail industry to react during the remainder of 2019?

There will be many brick-and-mortar retailers filing for bankruptcy due to their struggle to stay afloat amid the rise of e-commerce competitors and changing customer sentiment.	52%

There will be minimal bankruptcy filings, but there will be many retailers reducing their footprint to focus investing in their product, in-store experience, and branding.	44%
There will be minimal change in the retail industry, and the brick-and-mortar retailers will show strong performance in 2019.	4%

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	4Q 2018	1Q 2019
Greater than 3.5x	45%	19%
Between 3.01x and 3.50x	20%	26%
Between 2.51x and 3.00x	6%	11%
Between 2.01x and 2.50x	0%	0%
Less than 2.0x	0%	3%
Collateral lenders	25%	41%
N/A	4%	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	4Q 2018	1Q 2019
Increase greater than 0.5x	0%	0%
Increase less than 0.5x	0%	4%
Decrease less than 0.5x	0%	0%
Decrease greater than 0.5x	0%	0%
No change	69%	70%
Collateral lenders	25%	26%
N/A	6%	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	4Q 2018	1Q 2019
Stability of Stock Market	75%	44%
Sluggish Housing Market	31%	37%
U.S. Budget Deficit	25%	22%
Constrained Liquidity in Capital Markets	0%	22%
Unstable Energy Prices	38%	18%
Other	19%	33%

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	4Q 2018	1Q 2019
Retail Trade	80%	82%
Construction	40%	33%
Manufacturing	27%	26%
Accommodation and Food Service	13%	22%
Finance and Insurance	13%	19%
Real Estate and Rental/Leasing	13%	19%
Healthcare and Social Assistance	27%	15%

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

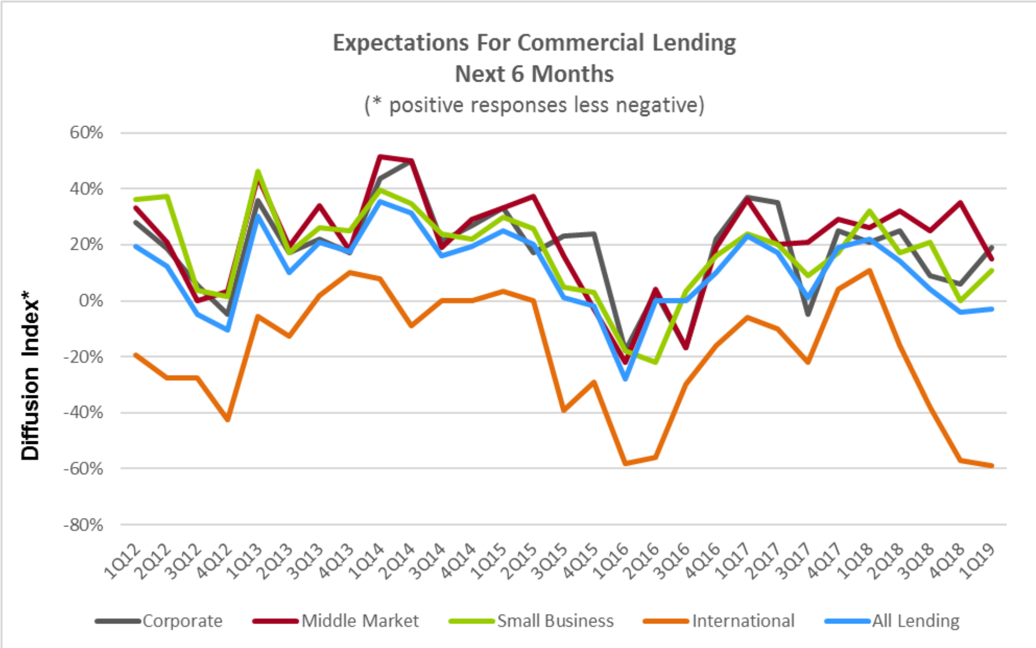
Respondents were asked which of the following actions their customers planned in the next six to twelve months. Lenders were asked to designate all potential customer actions that applied.

Customers' Plans	4Q 2018	1Q 2019
Hiring New Employees	79%	63%
Capital Improvements	79%	59%
Introducing New Products or Services	57%	59%
Making an Acquisition	64%	56%
Raising Additional Capital	50%	56%
Entering New Markets	36%	48%
"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 Q1 2019, lenders optimism increased in large corporate (19%) and small business (11%). However, expectations decreased slightly for middle market in Q1 2019 with a diffusion index of 15%, a 20-percentage point difference from the previous quarter of 35%. The diffusion index for the average for all domestic lending slightly remained unchanged at 14%.



	4Q/2018 Up	4Q/2018 Down	4Q/2018 Same	4Q/2018 Diffusion Index		1Q/2019 Up	1Q/2019 Down	1Q/2019 Same	1Q/2019 Diffusion Index
Corporate Lending	13%	7%	80%	6%	Corporate Lending	26%	7%	67%	19%
Middle Market Lending	53%	18%	29%	35%	Middle Market Lending	22%	7%	71%	15%
Small Business Lending	41%	41%	8%	0%	Small Business Lending	22%	11%	67%	11%
International Lending	18%	75%	7%	-57%	International Lending	0%	59%	41%	-59%

- The loan losses diffusion index significantly decreased 51 percentage points to 40% in Q1 2019 compared to 91% in Q4 2018. In addition, the bankruptcies diffusion index decreased 4 percentage points to 67% in Q1 2019, and the interest rate diffusion index decreased from a 99% in Q4 2018 to 48%.

	4Q/2018 Up	4Q/2018 Down	4Q/2018 Same	4Q/2018 Diffusion Index		1Q/2019 Up	1Q/2019 Down	1Q/2019 Same	1Q/2019 Diffusion Index
Loan Losses	91%	0%	9%	91%	Loan Losses	48%	8%	44%	40%
Bankruptcies	71%	0%	29%	71%	Bankruptcies	67%	0%	33%	67%
Interest Rates	99%	0%	1%	99%	Interest Rates	48%	0%	52%	48%
Unemployment	20%	7%	73%	13%	Unemployment	7%	15%	78%	-21%
Bank Failures	0%	67%	33%	-67%	Bank Failures	4%	15%	81%	-11%

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 decreased this quarter from 2.71 in 4Q 2018 to 2.52 in 1Q 2019, which continues to remain at an overall "B" grade. In the current quarter, 48% of respondents believe the economy will perform at a "B" level, which represents a decrease of 23 points from the previous quarter. There was an increase of lenders (44%) that believe the economy will perform at an "C" level, and an increase of lenders (4%) that believe that economy will perform at an "A" or "D" level.

Grade	4Q/2018	1Q/2019
A	0%	4%
B	71%	48%
C	29%	44%
D	0%	4%
F	0%	0%
Weighted Average Grade	2.71	2.52

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 30 points from a 2.00 in the previous quarter to 2.30. While 59% of lenders feel as though the economy will perform at a "C" level beyond the next six months (compared to 43% last quarter), lenders who believe the economy will perform at a "D" over the next twelve months decreased 22 percentage points to a 7%. There was also an increase of lenders (34%) that believe the economy will perform at a "B" grade or higher over the next six to twelve months.

Grade	4Q/2018	1Q/2019
A	0%	4%
B	28%	30%
C	43%	59%
D	29%	7%
F	0%	0%
Weighted Average Grade	2.00	2.30

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 10 percentage points to 74%. In Q1 2019, 22% of lenders ascribe "strong" growth for their borrower's in the next six months, a 14-percentage point decrease from Q4 2018.

Indication	4Q/2018	1Q/2019
Very Strong	0%	4%
Strong	36%	22%
Moderate	64%	74%
No Growth	0%	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 2019 we did see a slight increase, 4 percentage points, of lenders that plan to relax their loan structure.

	4Q/2018			1Q/2019		
	Tighten	Maintain	Relax	Tighten	Maintain	Relax
Loans> $25 million	0%	100%	0%	17%	79%	4%
$15 – 25 million	0%	100%	0%	4%	92%	4%
$5-15 million	23%	77%	0%	4%	91%	4%
Under $5 million	31%	69%	0%	26%	70%	4%
Overall Average	13%	87%	0%	13%	83%	4%

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 (83%) continue to maintain their interest rate spreads and fee structures. In Q1 2019, the percentage of lenders that plan to reduce their interest rate spreads decreased to 13%, and there was a 6-percentage point decrease (4%) that plan to increase their interest rate spreads.

	4Q/2018			1Q/2019		
	Reduce	Maintain	Increase	Reduce	Maintain	Increase
Loans > $25 million	42%	58%	0%	9%	79%	4%
$15 – 25 million	42%	58%	0%	4%	92%	4%
$5-15 million	8%	77%	15%	8%	91%	4%
Under $5 million	0%	77%	23%	26%	70%	4%
Overall Average	23%	68%	10%	13%	83%	4%

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.

58% of respondents in 1Q 2019 believe the Fed will raise interest rates in the next six months, with 19% of respondents favoring an increase of +1/2 point or more and 39% of respondents favoring +1/4 point increase. 42% of lenders surveyed believe interest rates will remain unchanged.

Bps Change	4Q/2018	1Q/2019
+ 1/2 point or more	57%	19%
+ 1/4 point	29%	39%
Unchanged	14%	42%
- 1/4 point	0%	0%
- 1/2 point or more	0%	0%
Weighted Average	0.38 bps	0.00 bps

16. Current Competition

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

- Regional Banks continue to place at the top of the survey, garnering 33% of responses. Commercial Financial, at 26% of respondents, saw a decrease of 10 percentage points. Local Community/Commercial Bank saw an increase with 15% of respondents, and Money Center Banks saw a significant increase in respondents (22%).

	4Q/2018	1Q/2019
Regional Bank	43%	33%
Commercial Finance Co.	36%	26%
Money Center Banks	7%	22%
Local Community/Commercial Bank	14%	15%
Factors	0%	0%
Other	0%	4%