



Lending Climate

IN AMERICA

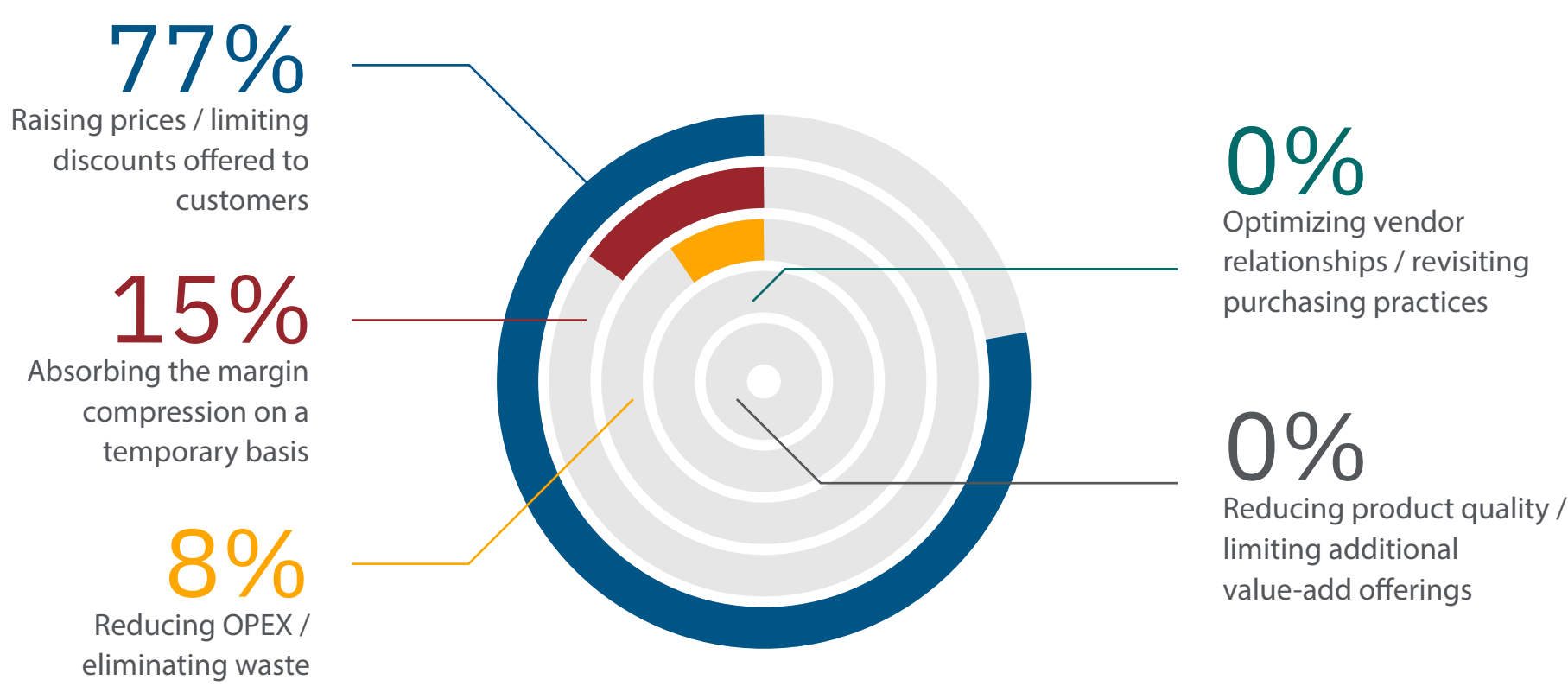
For 25 years, Phoenix Management Services has administered a quarterly survey to lenders from commercial banks, finance companies, credit funds, and other lending institutions **to identify the latest economic issues, business drivers, and credit trends impacting lending in America.**

Top 5 Takeaways from the Third Quarter 2021

*Survey results tabulated October 6, 2021.

Mitigating Inflationary Pressure

The vast majority of lenders believe borrowers are currently combatting inflationary pressures by **raising their prices and limiting discounts offered to customers**. No lenders said that they think borrowers are trying to revisit purchasing practices or reduce product quality.



Job Market Outlook

77%



of lenders think that as the holiday season approaches, **normalcy will return** which should lead to jobs being added across industries.

The majority of lenders believe that even with the delta variant, **the job market will likely bounce back**. Just 23% said they thought the surge of the delta variant will lead to hiring freezes as a precaution for a potential shutdown.

Economic Indicators: Loan Losses and Bank Failures

42% of lenders expect an increase in loan losses in Q3 2021 versus only 29% in Q2, representing a diffusion index of +25 percentage points. **23% of lenders expect an increase in bank failures** in Q3 2021, compared to 0% in Q2, representing a diffusion index of +15.

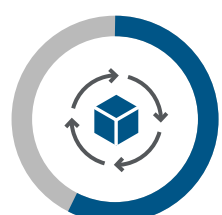
Loan Losses				
	Up	Down	Same	Diffusion Index
2Q 2021	29%	29%	42%	0%
3Q 2021	42%	17%	41%	25%

Bank Failures				
	Up	Down	Same	Diffusion Index
2Q 2021	0%	29%	71%	-29%
3Q 2021	23%	8%	69%	15%

Most Challenging Factors for Borrowers

The majority of lenders expect **supply chain management to be the most challenging factor** for borrowers through the first quarter of 2022, followed by increased labor costs.

Supply chain management



62%

Labor costs



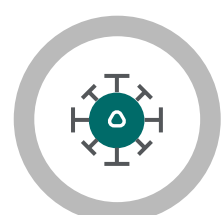
38%

General economic cooldown



0%

Pandemic-related uncertainty



0%

Interest Rate Changes

Lenders believe that interest rates will increase in the coming six months. Only 25% of respondents this quarter believe the federal government will leave interest rates unchanged in the near-term—while nearly 80% said the same in Q2 2021. **Of the lenders surveyed, 50% of respondents believed there would be an increase of +1/4 points, while 25% said there could be an increase of +1/2 points or more.**

2Q 2021	Bps Change	3Q 2021
0%	+ 1/2 point or more	25%
14%	+ 1/4 point	50%
79%	Unchanged	25%
7%	- 1/4 point	0%
0%	- 1/2 point or more	0%

Confidence in the job market has grown, with the vast majority of lenders believing that more jobs will be added through Q4 2021—even with the continued effects of the COVID-19 delta variant. Lenders also believe that interest rates will increase in the near-term, with 75% of respondents predicting there would be an increase of at least +1/4 points. Supply chain management was deemed the most challenging factor for borrowers through Q1 2022.

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ABOUT PHOENIX

For over 35+ years, Phoenix Management Services has provided smarter, operationally focused solutions for middle market companies in transition. Phoenix Management Services® provides turnaround, crisis and interim management, specialized advisory and operational implementation services for both distressed and growth oriented companies. Phoenix Transaction Advisory Services® provides quality of earnings, management/organizational review, business integration, sell-side business preparation and other transaction related support. Phoenix Capital Resources® provides seamless investment banking solutions including M&A advisory, complex restructurings and capital placements. Phoenix Capital Resources is a U.S. registered broker-dealer and member of FINRA and SIPC. Proven. Results.®
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