

# Phoenix Management Services “Lending Climate in America” Survey



**1st Quarter 2023  
Summary, Trends, and Implications**

**PHOENIX**  
**“LENDING CLIMATE IN AMERICA”**  
**1<sup>st</sup> Quarter 2023**

**SUMMARY, TRENDS AND IMPLICATIONS**

(Survey results were tabulated on April 3, 2023)

**1. How concerned are you that the recent collapse of Silicon Valley Bank and Signature Bank will cause a ripple effect through the broader economy?**

The majority of lenders, forty-four percent, believe there will not be a risk of a broader ripple effect, due to the recent collapses being related to banks that take on riskier investments (cryptocurrency, start-ups, etc.). Another twenty-two percent believe the Federal Reserve and the FDIC will backstop customer deposits to prevent any potential ripple effect. The other thirty-three percent of the lenders surveyed are concerned that this will lead to more regulation and restrict availability to capital (22%) or be the final blow to the US economy that is already dealing with inflation and high interest rates (11%).

**2. How are borrowers allocating excess cash (if any)?**

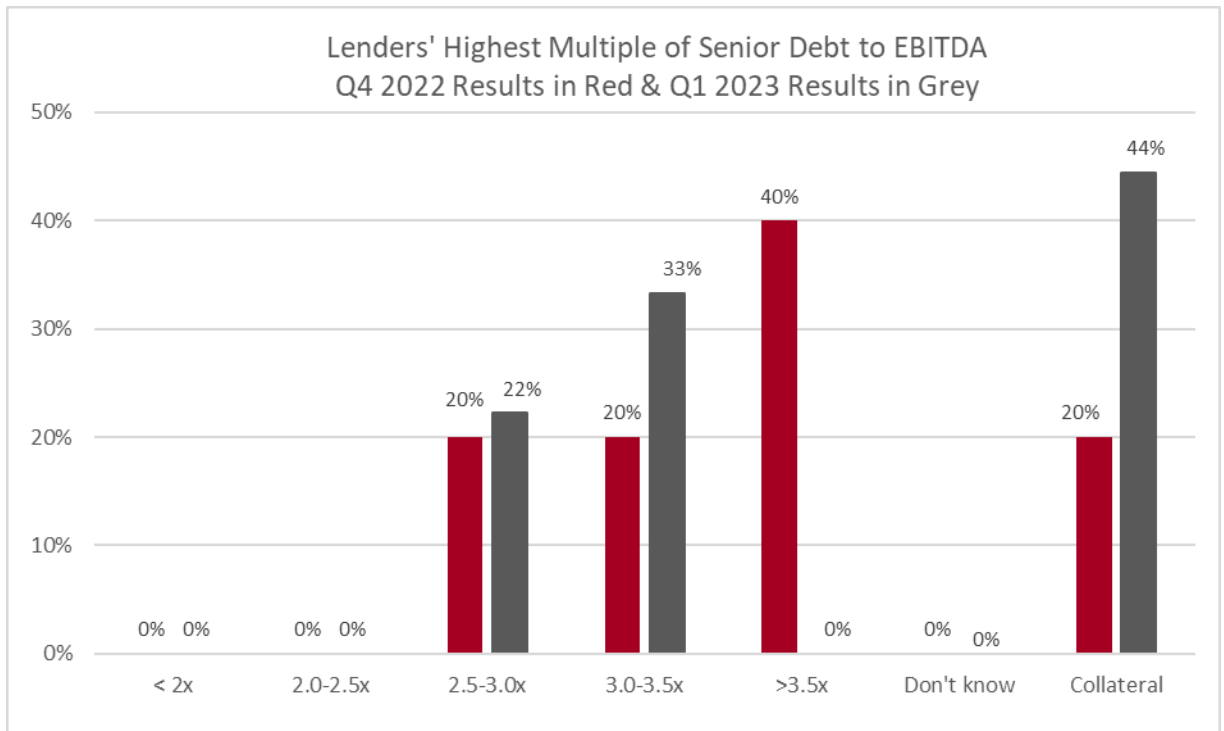
When asked how their borrowers are allocating any excess cash, forty-four percent of lenders expect any excess to go towards building a cash reserve to defend against any further downturn. However, thirty-three percent of lenders believe their borrowers will use excess cash to catch up on paying down floating rate debt, while the last twenty-two percent believe their borrowers will use excess cash to invest in growth initiatives.

**3. A survey from Bankrate found that about 75% of adults who expect to receive a tax refund this year believe the money is important to their overall financial situation. About 43% said the refund is "very important," and 32% described it as "somewhat important." The IRS has warned Americans to brace for smaller refunds this year. There are no extra tax credits or pandemic-related stimulus payments delivered by the federal government in 2022. As the economy transitions to more than a full year from pandemic-related restrictions and liquidity support, how do you think the average consumer will react?**

Seventy-eight percent of lenders expect consumer spending to dramatically decrease as pandemic-related liquidity and tax benefits have calmed after inflating their normal cash inflow and spending availability. Twenty-two percent of lenders believe consumer spending will remain at current levels, as the government's liquidity supports' ending will have no impact on spending habits.

**4. Leverage multiples slightly shifted in Q1 2023.**

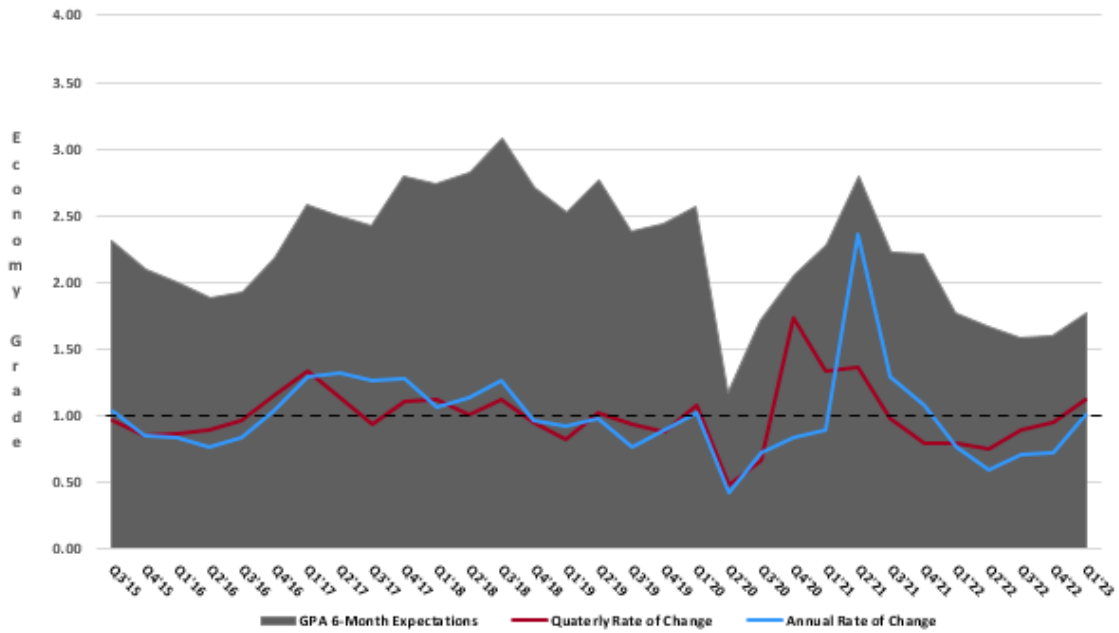
Leverage multiples slightly shifted in Q1 2023, with 33% of lenders indicating that the 3.01-3.5x range would be the highest EBITDA ratio they would consider versus 20% in Q3 2022. The percentage of respondents who would consider a debt to EBITDA ratio of 2.5-3.0x slightly increased to 22%. Forty-four percent of lenders responded that they were collateral lenders and therefore do not make decisions based on cash flow/leverage multiples.



**5. Long-term economic performance expectations decrease in this quarter's survey while Near-term performance expectations receives slight bump.**

Lenders' optimism in the near-term U.S. economy increased by 18 points this quarter from 1.60 in Q4 2022 to 1.78 in Q1 2023. In this current quarter, 44% of lenders believe the economy will perform at a "D" level during the next six months. Of the lenders surveyed, 33% believe the economy will perform at a "C" level, while 22% believe the economy will perform at a "B" or "A" level.

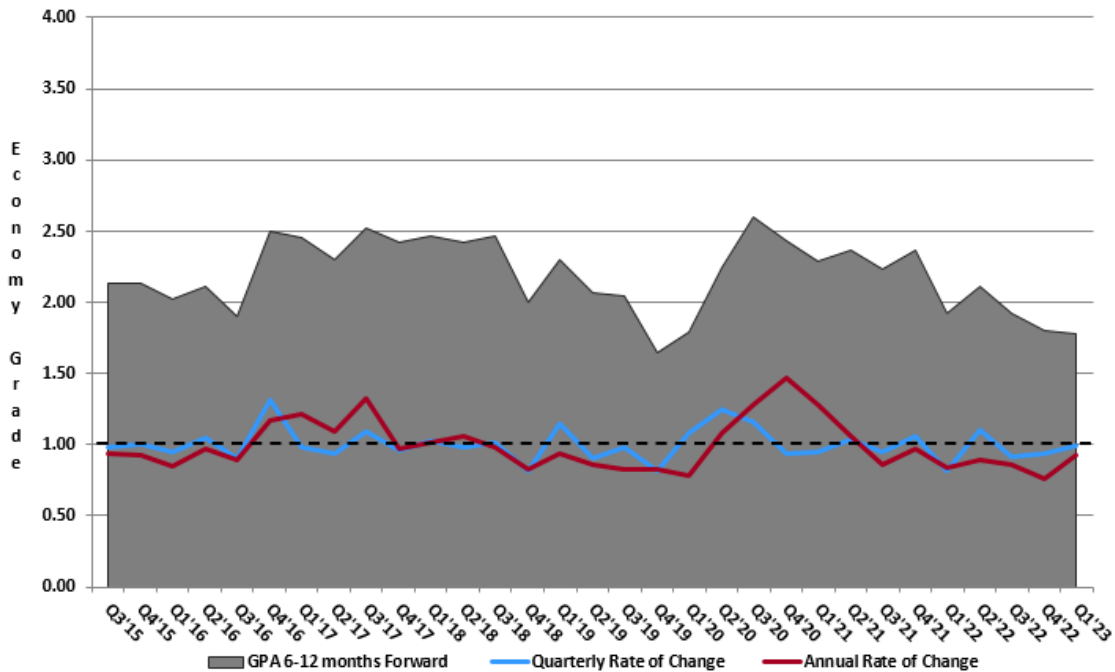
**Lender Expectations for Economy (Forward Six Months)**  
4.0=A, 2.0=C. 0.0=F



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

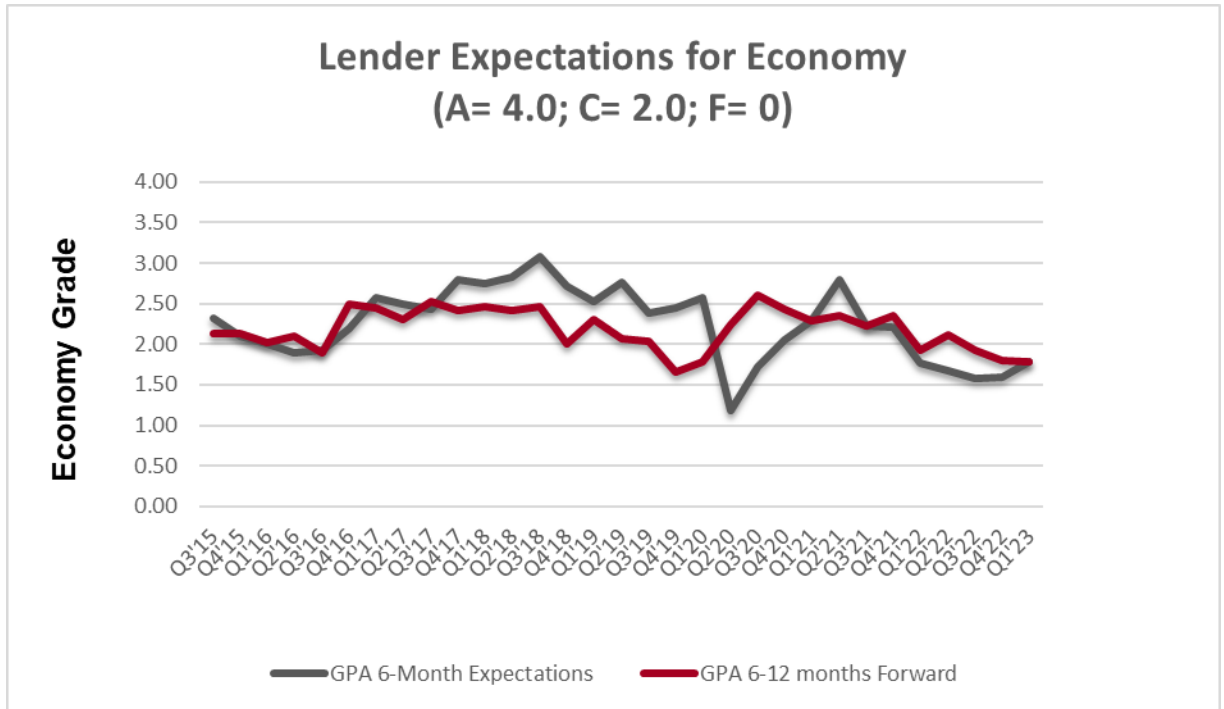
Lenders' growth expectations for the U.S. economy beyond six months decreased from the prior quarter. The weighted average GPA decreased 2 points from a 1.80 in Q4 2022 to 1.78 in Q1 2023. Of the lenders surveyed, 78% feel as though the U.S. economy will perform at a "C" level beyond the next six months, while 22% expect the economy to perform at a "D" level, an increase of 2 percentage points from Q4 2022.

**Lender Expectations for Economy (Forward Six-Twelve Months)**  
4.0=A, 2.0=C. 0.0=F



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

In Q1'23, it seems lenders are still feeling pessimistic about the U.S. economy in both the near and longer-term.



**Phoenix Management Services**  
**“Lending Climate in America”**  
**1<sup>st</sup> Quarter 2023**  
**Survey Results**

(Survey results were tabulated on April 3, 2023)

**1. How concerned are you (as a lender) that the recent collapse of Silicon Valley Bank and Signature Bank will cause a ripple effect through the broader economy?**

Lenders were asked: As the holiday season approaches, how do you think the average consumer will approach their spending?

Not overly concerned as these Banks are outliers due to their high level of exposure to start ups and companies related to cryptocurrency.	44%
Not overly concerned as the Federal Reserve and FDIC will backstop customer deposits.	22%
Concerned that this may be the straw that breaks the camel’s back for an already fragile U.S. economy dealing with inflation and high interest rates.	11%
Concerned that this will lead to more regulation and ultimately restrict availability of capital to businesses.	22%

**2. How are borrowers allocating excess cash (if any)?**

Building cash reserves	44%
Catching up on delayed CAPEX	0%
Paying down floating rate debt	33%
Investing in growth initiatives	22%

3. **A survey from Bankrate found that about 75% of adults who expect to receive a tax refund this year believe the money is important to their overall financial situation. About 43% said the refund is "very important," and 32% described it as "somewhat important." The IRS has warned Americans to brace for smaller refunds this year. There are no extra tax credits or pandemic-related stimulus payments delivered by the federal government in 2022.**

Lenders were asked: As the economy transitions to more than a full year from pandemic-related restrictions and liquidity support, how do you think the average consumer will react?

Consumer spending will dramatically decrease as the pandemic-related liquidity and tax benefits inflated their normal cash inflow and spending availability.	78%
Consumer spending will remain at current levels- the end to the government's liquidity support during the last two years will have little impact on consumer spend going forward.	22%

#### 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 2022</u>	<u>1Q 2023</u>
Greater than 3.5x	40%	0%
Between 3.01x and 3.50x	20%	33%
Between 2.51x and 3.00x	20%	22%
Between 2.01x and 2.50x	0%	0%
Less than 2.0x	0%	0%
Collateral lenders	20%	44%
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.

<u>Change in Senior Debt to EBITDA Level</u>	<u>4Q 2022</u>	<u>1Q 2023</u>
Increase greater than 0.5x	20%	0%
Increase less than 0.5x	0%	11%
Decrease less than 0.5x	20%	22%
Decrease greater than 0.5x	0%	0%
No change	40%	22%
Collateral lenders	20%	44%
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.

<u>Factors Affecting Near-Term Economy</u>	<u>4Q 2022</u>	<u>1Q 2023</u>
Unstable Energy Prices	40%	22%
Other	60%	22%
Stability of Stock Market	20%	89%
Constrained Liquidity in Capital Markets	40%	56%
U.S. Budget Deficit	20%	11%
Supply Chain	20%	0%
Sluggish Housing Market	0%	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.

<u>Industries Experiencing Most Volatility</u>	<u>4Q 2022</u>	<u>1Q 2023</u>
Retail Trade	60%	67%
Finance and Insurance	0%	44%
Construction	80%	11%
Transportation & Warehousing	0%	11%
Real Estate & Rental/Leasing	60%	78%
Accommodation & Food Service	20%	22%
Mining	0%	11%
Manufacturing	20%	0%
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.

<u>Customers' Plans</u>	<u>4Q 2022</u>	<u>1Q 2023</u>
Hiring New Employees	20%	44%
Introducing New Products or Services	40%	44%
Raising Additional Capital	80%	33%
Capital Improvements	20%	44%
Making an Acquisition	20%	33%
Entering New Markets	60%	22%
"Other" Initiatives	20%	11%

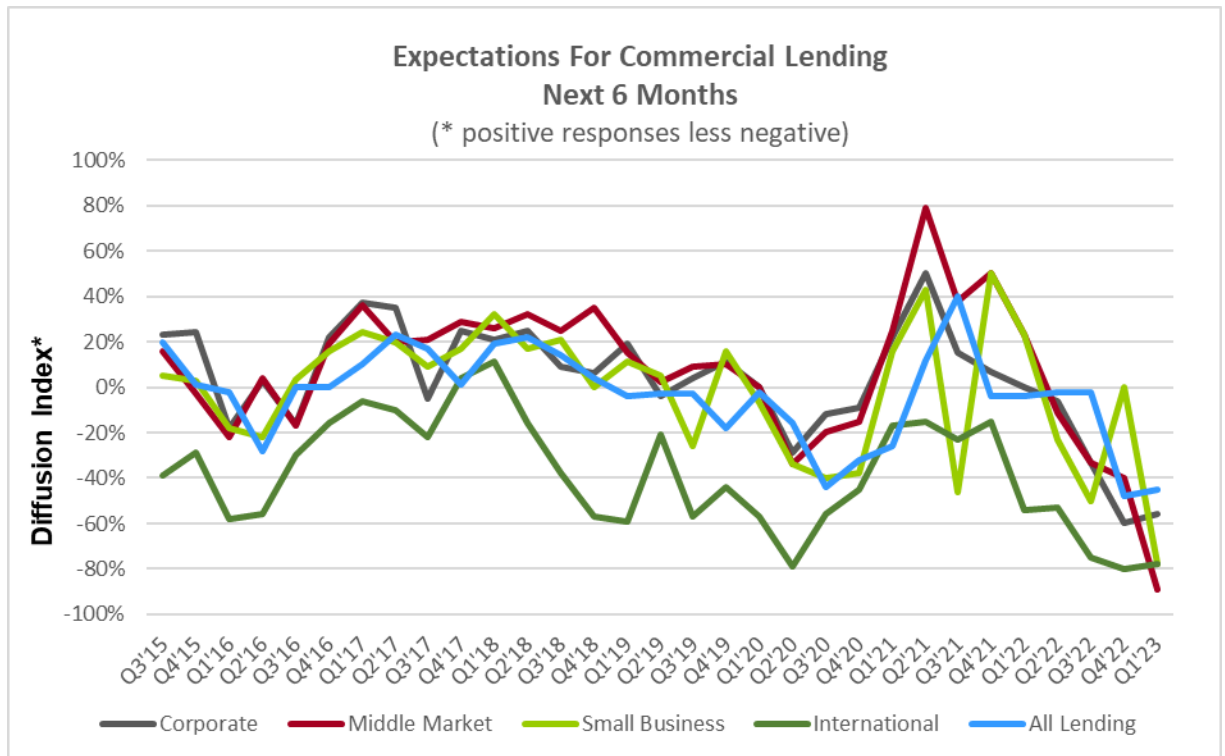


## 9. Economic Indicators

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.

	<u>4Q/2022</u>					<u>1Q/2023</u>			
	<u>Up</u>	<u>Down</u>	<u>Same</u>	<u>Diffusion Index</u>		<u>Up</u>	<u>Down</u>	<u>Same</u>	<u>Diffusion Index</u>
Corporate Lending	0%	60%	40%	-60%	Corporate Lending	0%	56%	44%	-56%
Middle Market Lending	0%	40%	60%	-40%	Middle Market Lending	0%	89%	11%	-89%
Small Business Lending	20%	20%	60%	0%	Small Business Lending	11%	89%	0%	-78%
International Lending	0%	80%	20%	-80%	International Lending	0%	78%	22%	-78%



- In Q1 2023, there was an increase in the bank failures diffusion index from 20% in Q4 2022 to 56%. All other diffusion indices (loan losses, interest rates, unemployment) decreased in Q1 2023 by 11-33% outside of bankruptcies, which remained constant at 100%.

	<u>4Q/2022</u>					<u>1Q/2023</u>			
	<u>Up</u>	<u>Down</u>	<u>Same</u>	<u>Diffusion Index</u>		<u>Up</u>	<u>Down</u>	<u>Same</u>	<u>Diffusion Index</u>
Loan Losses	100%	0%	0%	100%	Loan Losses	89%	0%	11%	89%
Bankruptcies	100%	0%	0%	100%	Bankruptcies	100%	0%	0%	100%
Interest Rates	100%	0%	0%	100%	Interest Rates	78%	0%	22%	78%
Unemployment	100%	0%	0%	100%	Unemployment	67%	0%	33%	67%
Bank Failures	20%	0%	80%	20%	Bank Failures	56%	0%	44%	56%

## 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 increased 18 points this quarter from 1.60 in Q4 2022 to 1.78 in Q1 2023. In this current quarter, a larger portion of lenders (44%) believe the economy will perform at a “D” level during the next six months. Of the lenders surveyed, 33% believe the economy will perform at a “C” level, while 22% believe the economy will perform at a “B” or “A” level.

<u>Grade</u>	<u>4Q/2022</u>	<u>1Q/2023</u>
A	0%	0%
B	0%	22%
C	60%	33%
D	40%	44%
F	0%	0%
<b>Weighted Average Grade</b>	<b>1.60</b>	<b>1.78</b>

## 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 decreased from the prior quarter. The weighted average GPA decreased 2 points from a 1.80 in Q4 2022 to 1.78 in Q1 2023. Of the lenders surveyed, 78% feel as though the U.S. economy will perform at a “C” level beyond the next six months, while 22% expect the economy to perform at a “D” level, an increase of 2 percentage points from Q4 2022.

<u>Grade</u>	<u>4Q/2022</u>	<u>1Q/2023</u>
A	0%	0%
B	0%	0%
C	80%	78%
D	20%	22%
F	0%	0%
<b>Weighted Average Grade</b>	<b>1.80</b>	<b>1.78</b>

## 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 7 percentage points to 67%. In Q1 2023, there was no change in the percentage of lenders that ascribed to (very) strong growth (0%). Thirty-three percent of lenders ascribed to no growth.

<u>Indication</u>	<u>4Q/2022</u>	<u>1Q/2023</u>
Very Strong	0%	0%
Strong	0%	0%
Moderate	60%	67%
No Growth	40%	33%

## 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 minority of the surveyed lenders (38%) plan to maintain their current loan structure. In Q1 2023, the majority (62%) of lenders plan to tighten their loan structure and 0% plan to relax their loan structure.

	<u>4Q/2022</u>			<u>1Q/2023</u>		
	<u>Tighten</u>	<u>Maintain</u>	<u>Relax</u>	<u>Tighten</u>	<u>Maintain</u>	<u>Relax</u>
Loans > \$25 million	40%	60%	0%	57%	43%	0%
\$15 – 25 million	40%	60%	0%	57%	43%	0%
\$5-15 million	60%	40%	0%	71%	29%	0%
Under \$5 million	60%	40%	0%	63%	38%	0%
Overall Average	50%	50%	0%	62%	38%	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 (66%) plan to increase their interest rate spreads and fee structures. In Q1 2023, the percentage of lenders that plan to maintain their interest rate spreads decreased to 34%, and 0% plan to reduce their interest rate spreads.

	<u>4Q/2022</u>			<u>1Q/2023</u>		
	<u>Reduce</u>	<u>Maintain</u>	<u>Increase</u>	<u>Reduce</u>	<u>Maintain</u>	<u>Increase</u>
Loans > \$25 million	20%	20%	60%	0%	43%	57%
\$15 – 25	0%	60%	40%	0%	29%	71%
\$5-15 million	0%	40%	60%	0%	14%	86%
Under \$5 million	0%	40%	60%	0%	50%	50%
Overall Average	5%	40%	55%	0%	34%	66%

## 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.

56% of respondents in Q1 2023 believe the Fed will increase interest rates by + 1/2 point or more, while the other 44% believe the interest rates will be increased by + 1/2 points.

<u>Bps Change</u>	<u>4Q/2022</u>	<u>1Q/2023</u>
+ 1/2 point or more	100%	56%
+ 1/4 point	0%	44%
Unchanged	0%	0%
- 1/4 point	0%	0%
- 1/2 point or more	0%	0%
Weighted Average	0.95bps	0.42bps

## 16. Current Competition

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

- Regional Banks place at the top of the survey, garnering 33% of responses. Commercial Finance Companies and Local Community/Commercial Banks garnered the next highest amount of responses with 22% each.

	<u>4Q/2022</u>	<u>1Q/2023</u>
Regional Bank	60%	33%
Commercial Finance Co.	0%	22%
Local Community/Commercial Bank	20%	22%
Money Center Banks	20%	11%
Other	0%	11%
Factors	0%	0%