

# Phoenix Management Services “Lending Climate in America” Survey



4<sup>th</sup> Quarter 2021  
Summary, Trends, and Implications

**PHOENIX**  
**“LENDING CLIMATE IN AMERICA”**  
**4<sup>th</sup> Quarter 2021**

**SUMMARY, TRENDS AND IMPLICATIONS**

(Survey results were tabulated on November 24<sup>th</sup>, 2021)

- 1. In Q3, real gross domestic product (GDP) dropped to an annual increase of 2% – the slowest pace since June 2020 (according to the advanced estimate released on 10/28 by the U.S. Bureau of Economic Analysis (BEA). Economists explained that majority of the slowdown was due to disruptions caused by an uptick in COVID-19 cases from the delta variant and supply-chain bottlenecks. The reaction from the Federal Reserve to lackluster economic growth would typically be to consider lowering interest rates. Economists explained, however, that the third quarter’s low GDP is not due to a lack of consumer spending but rather a lack of supply. How do you believe the Fed will respond in respect to interest rates?**

The majority of lenders, (79%), believe the Fed will increase interest rates after Q1 2022. Twenty-one percent of the lenders surveyed believe the Fed will hold rates through 2021 and begin increasing in Q1 2022.

- 2. What do you see as the biggest challenge borrowers will face heading into 1H 2022?**

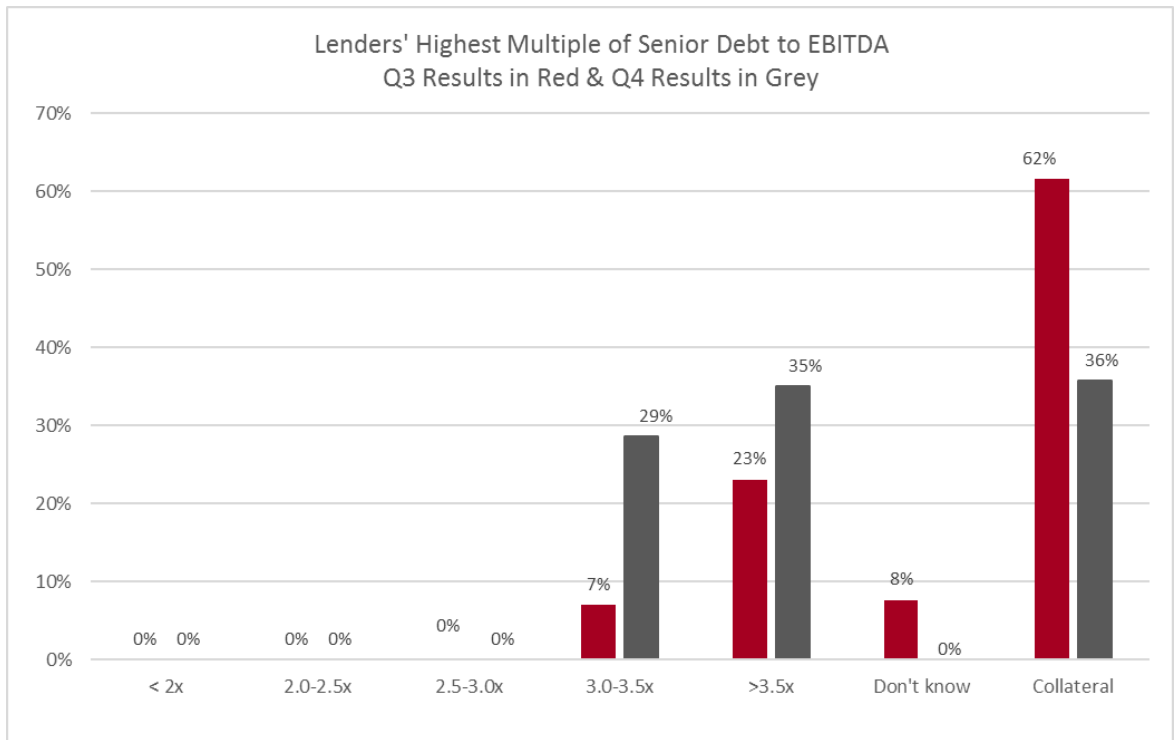
Half of the lenders surveyed, 50%, believe supply chain constraints will be the biggest challenge that borrowers will face heading into 2022. Of the lenders surveyed, 43% cited labor costs as a concern, while 7% believe the increasing cost of capital will be the biggest challenge for borrowers. None of the lenders surveyed predict COVID-19 related constraints to be a challenge.

- 3. Going into COVID, there was an industry shortage of about 60,000 truckload carriers. Since then, COVID has only amplified the shortage causing major supply-chain issues. There is major concern this holiday season will make the economic situation worse. As we move towards the holiday season, do you expect the labor/supply chain issues to negatively impact the current economic situation?**

The majority of lenders (71%) expect supply chain disruptions will lead to lower consumer spending and further hinder the efforts to bolster economy. Of the lenders surveyed, 29% expect consumers will learn to navigate this post-pandemic environment, and holiday spending will keep the economic recovery constant to combat supply chain impact.

- 4. Leverage multiples slightly shifted in Q4 2021.**

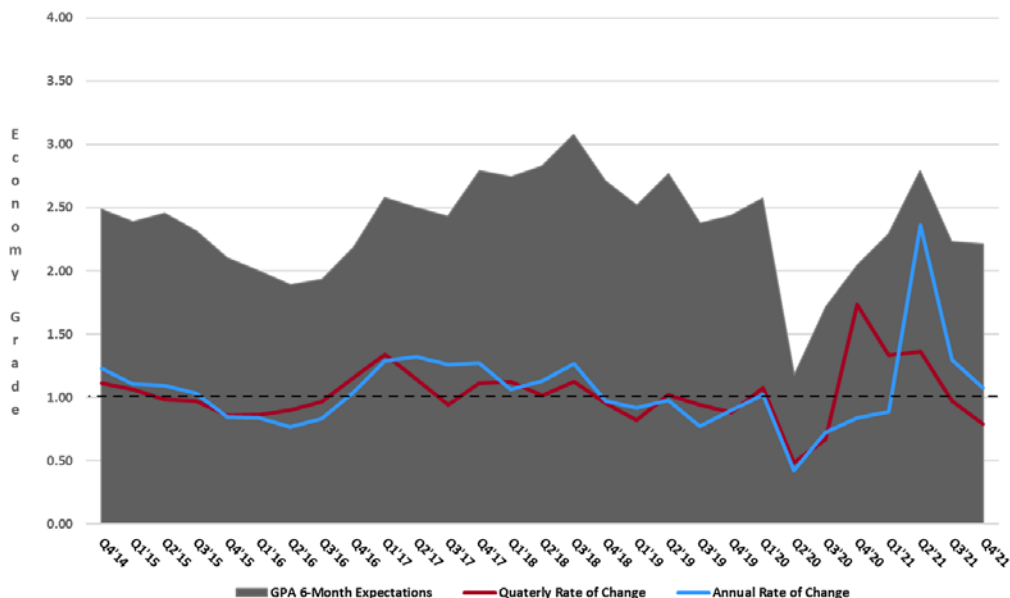
Leverage multiples decreased in Q4 2021 with 35% of lenders indicating that the >3.5x range would be the highest EBITDA ratio they would consider versus 23% in Q3 2021. The percentage of respondents who would consider a debt to EBITDA ratio of 3.0-3.5x increased to 29%. Thirty-six percent of lenders responded that they were collateral lenders and therefore do not make decisions based on cash flow/leverage multiples.



**5. Near-term and long-term economic performance expectations decrease in this quarter's survey.**

Lenders' optimism in the near-term U.S. economy slightly decreased to a 2.21 GPA from 2.23 the previous. Thirty-six percent of the lenders believe the economy will perform at a 'B' level over the next six months, and 50% believe the economy will perform at a 'C' level. Of the lenders surveyed, 14% expect the U.S. economy to perform at a 'D' grade.

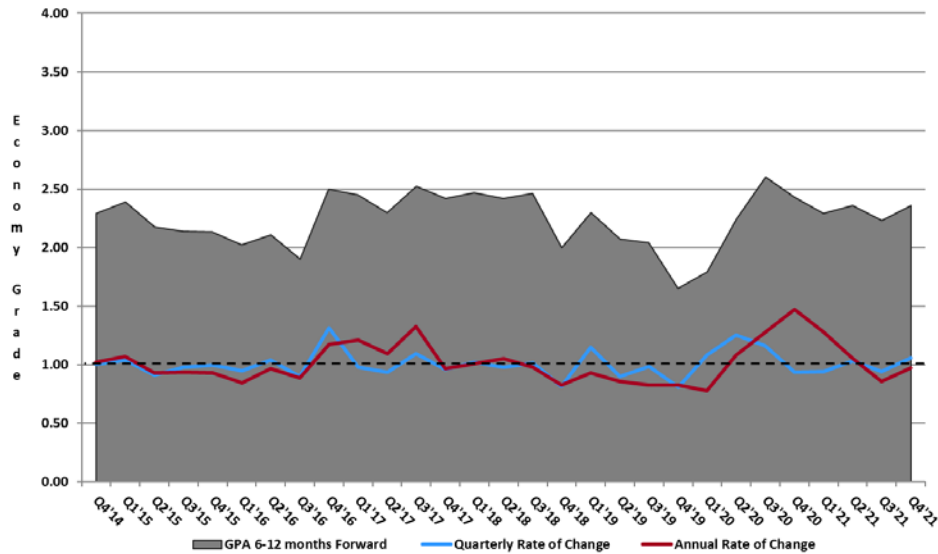
**Lender Expectations for Economy (Forward Six Months)  
4.0=A, 2.0=C, 0.0=F**



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

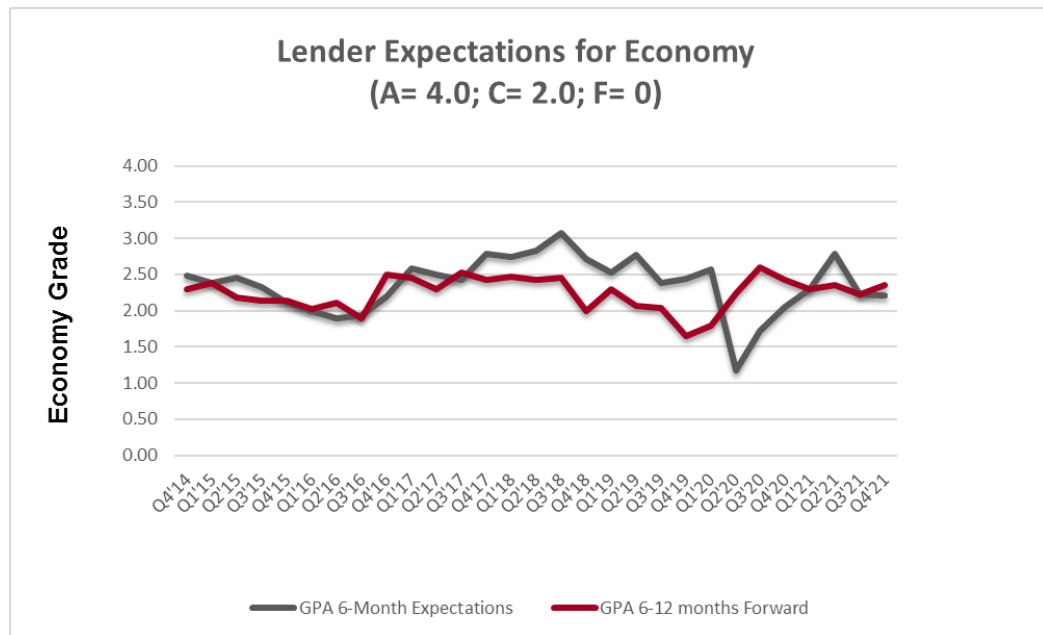
Lenders' growth expectations for the U.S. economy beyond six months increased this quarter to a 2.36 GPA from 2.23 the previous quarter. 36% of lenders believe the economy will perform at a 'B' level in the next six to twelve months. The percent of lenders (43%) that believe the economy will perform at a 'C' level decreased 12-percentage points from Q3 2021. Seven percent of lenders believe the economy will perform at an 'A' over the next twelve months.

**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.

As we enter Q1/22 and the new year, it seems lenders are more pessimistic about the U.S. economy in the near-term versus the long-term.



**Phoenix Management Services**  
**“Lending Climate in America”**  
**4<sup>th</sup> Quarter 2021**  
**Survey Results**

(Survey results were tabulated on November 24<sup>th</sup>, 2021)

**1. The majority of lenders believe the Fed will increase interest rates after Q1'22.**

Lenders were asked: In Q3, real gross domestic product (GDP) dropped to an annual increase of 2% – the slowest pace since June 2020 (according to the advanced estimate released on 10/28 by the U.S. Bureau of Economic Analysis (BEA). Economists explained that majority of the slowdown was due to disruptions caused by an uptick in COVID-19 cases from the delta variant and supply-chain bottlenecks. The reaction from the Federal Reserve to lackluster economic growth would typically be to consider lowering interest rates. Economists explained, however, that the third quarter’s low GDP is not due to a lack of consumer spending but rather a lack of supply. How do you believe the Fed will respond in respect to interest rates?

Increase rates after Q1'22	79%
Hold rates thru 2021, begin increasing in Q1'22	21%

**2. The majority of lenders believe supply chain constraints will be the biggest challenge borrowers will face heading into 1H 2022.**

Lenders were asked: What do you see as the biggest challenge borrowers will face heading into 1H 2022?

Supply chain constraints	50%
Labor costs	43%
Increasing cost of capital	7%
COVID-19 related constraints or restrictions	0%

**3. The majority of lenders expect supply chain will lead to lower consumer spending and will further hinder the efforts to bolster the economy in this post-pandemic time.**

Lenders were asked: Going into COVID, there was an industry shortage of about 60,000 truckload carriers. Since then, COVID has only amplified the shortage causing major supply-chain issues. There is major concern this holiday season will make the economic situation worse. As we move towards the holiday season, do you expect the labor/supply chain issues to negatively impact the current economic situation?

Yes - Supply chain disruptions will lead to lower consumer spending and will further hinder the efforts to bolster the economy in this post-pandemic time	71%
No – As consumers learn to navigate this post-pandemic environment, holiday spending will keep the economic recovery constant to offset the supply-chain/labor impact	29%

#### 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>3Q 2021</u>	<u>4Q 2021</u>
Greater than 3.5x	23%	35%
Between 3.01x and 3.50x	7%	29%
Between 2.51x and 3.00x	0%	0%
Between 2.01x and 2.50x	0%	0%
Less than 2.0x	0%	0%
Collateral lenders	62%	36%
N/A	8%	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>3Q 2021</u>	<u>4Q 2021</u>
Increase greater than 0.5x	8%	0%
Increase less than 0.5x	0%	7%
Decrease less than 0.5x	0%	7%
Decrease greater than 0.5x	8%	0%
No change	34%	50%
Collateral lenders	50%	36%
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>3Q 2021</u>	<u>4Q 2021</u>
Unstable Energy Prices	46%	71%
Sluggish Housing Market	8%	43%
U.S. Budget Deficit	54%	36%
Other	38%	36%
Stability of Stock Market	38%	7%
Constrained Liquidity in Capital Markets	15%	7%

#### 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>3Q 2021</u>	<u>4Q 2021</u>
Retail Trade	46%	64%

Accommodation and Food Services	69%	57%
Manufacturing	8%	36%
Arts, Entertainment, and Recreation	31%	29%

## 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.

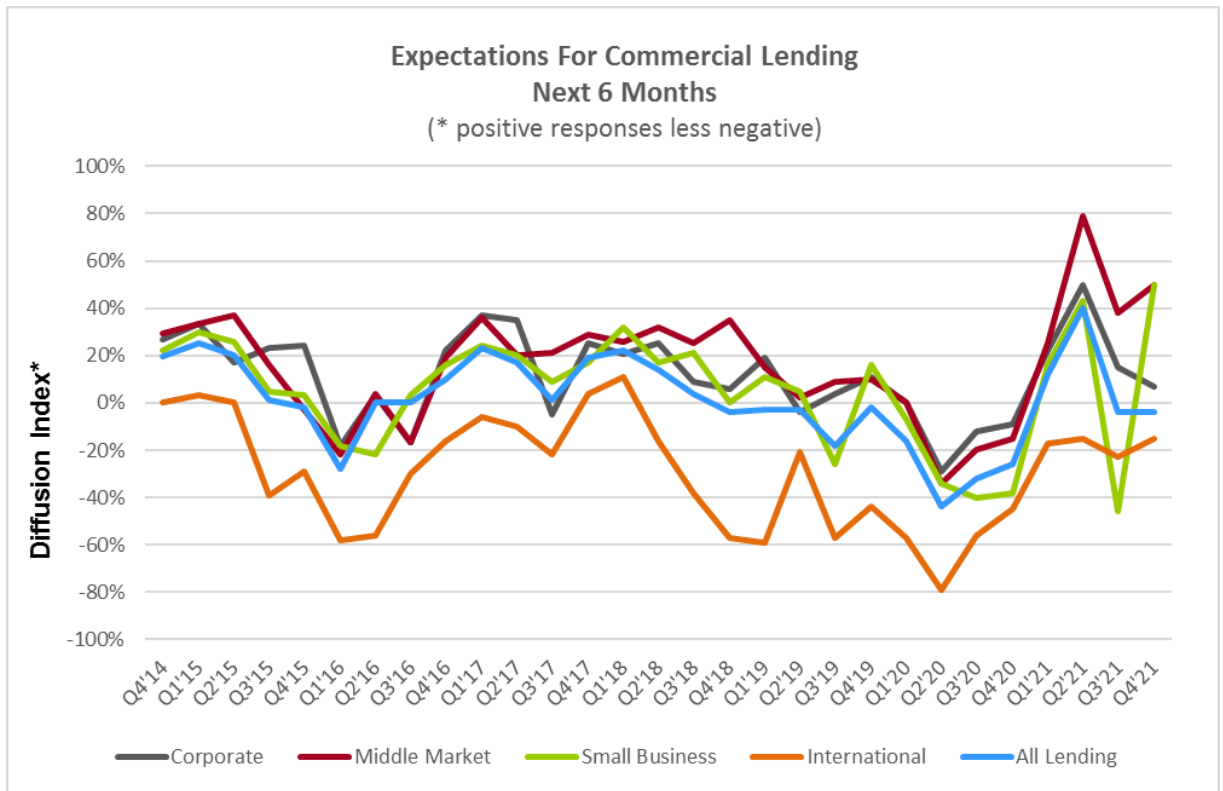
Customers' Plans	3Q 2021	4Q 2021
Hiring New Employees	85%	79%
Making an Acquisition	38%	71%
Capital Improvements	15%	50%
Raising Additional Capital	54%	29%
Introducing New Products or Services	23%	29%
Entering New Markets	23%	14%
"Other" Initiatives	8%	0%

## 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 Q4 2021, lenders optimism decreased in large corporate (7%) and increased in middle market (50%), small business lending (50%), and international lending (-15%).

	<u>3Q/2021</u>					<u>4Q/2021</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	23%	8%	69%	15%	Corporate Lending	14%	7%	79%	7%
Middle Market Lending	46%	8%	46%	38%	Middle Market Lending	50%	0%	50%	50%
Small Business Lending	8%	54%	38%	-46%	Small Business Lending	57%	7%	36%	50%
International Lending	8%	31%	61%	-23%	International Lending	14%	29%	57%	-15%



- In Q4 2021, there was an increase in the bankruptcies diffusion index from 17% in Q3 2021 to 22%. The unemployment diffusion index decreased to -36% in Q4 2021 compared to -16% in Q3 2021. In addition, the loan losses diffusion index decreased to 8% in Q4 2021, and the bank failures diffusion index decreased from 15% in Q3 2021 to -29%.

	<u>3Q/2021</u>					<u>4Q/2021</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	42%	17%	41%	25%	Loan Losses	29%	21%	50%	8%
Bankruptcies	42%	25%	33%	17%	Bankruptcies	36%	14%	50%	22%
Interest Rates	75%	0%	25%	75%	Interest Rates	64%	7%	29%	57%
Unemployment	15%	31%	54%	-16%	Unemployment	7%	43%	50%	-36%
Bank Failures	23%	8%	69%	15%	Bank Failures	0%	29%	71%	-29%

## 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 slightly decreased in points this quarter from 2.23 in Q3 2021 to 2.21 in Q4 2021. In this current quarter, the majority of lenders (50%) believe the economy will perform at a “C” level during the next six months. This represents a decrease of 12 points from the previous quarter. Of the lenders surveyed, 36% believe the economy will perform at a “B” level which represents an increase of 5 points from the previous quarter.



<u>Grade</u>	<u>3Q/2021</u>	<u>4Q/2021</u>
A	0%	0%
B	31%	36%
C	62%	50%
D	8%	14%
F	0%	0%
Weighted Average Grade	2.23	2.21

## 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 from the prior quarter. The weighted average GPA increased 13 points from a 2.23 in Q3 2021 to 2.36 in Q4 2021. Of the lenders surveyed, 36% feel as though the U.S. economy will perform at a “B” level beyond the next six months, while 43% expect the economy to perform at a “C” level, an increase of 12 percentage points from Q3 2021. In addition, the lenders (7%) who believe the economy will perform at an “A” over the next twelve months increased.

<u>Grade</u>	<u>3Q/2021</u>	<u>4Q/2021</u>
A	0%	7%
B	46%	36%
C	31%	43%
D	23%	14%
F	0%	0%
Weighted Average Grade	2.23	2.36

## 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 79%. In Q4 2021, there was an increase in the percentage of lenders that ascribed to strong growth (21%).

<u>Indication</u>	<u>3Q/2021</u>	<u>4Q/2021</u>
Very Strong	8%	0%
Strong	15%	21%
Moderate	69%	79%
No Growth	8%	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 (92%) plan to maintain their current loan structure. In Q4 2021, 4% of lenders plan to tighten their loan structure and 4% plan to relax their loan structure.

	<u>3Q/2021</u>			<u>4Q/2021</u>		
	<u>Tighten</u>	<u>Maintain</u>	<u>Relax</u>	<u>Tighten</u>	<u>Maintain</u>	<u>Relax</u>
Loans > \$25 million	0%	70%	30%	8%	75%	17%
\$15 – 25 million	0%	91%	9%	0%	100%	0%
\$5-15 million	17%	83%	0%	0%	100%	0%
Under \$5 million	31%	62%	8%	8%	92%	0%
Overall Average	12%	76%	12%	4%	92%	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 (76%) plan to maintain their interest rate spreads and fee structures. In Q4 2021, the percentage of lenders that plan to tighten their interest rate spreads increased to 16%, and 8% plan to reduce their interest rate spreads.

	<u>3Q/2021</u>			<u>4Q/2021</u>		
	<u>Reduce</u>	<u>Maintain</u>	<u>Increase</u>	<u>Reduce</u>	<u>Maintain</u>	<u>Increase</u>
Loans > \$25 million	9%	82%	9%	17%	83%	0%
\$15 – 25	9%	82%	9%	8%	75%	17%
\$5-15 million	0%	100%	0%	0%	75%	25%
Under \$5 million	0%	62%	38%	7%	71%	21%
Overall Average	12%	76%	12%	8%	76%	16%

#### 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.

36% of respondents in Q4 2021 believe the Fed will leave interest rates unchanged in the next six months. Of the lenders surveyed, 28% of respondents favor an increase of +1/4 points, while 36% favor an increase of +1/2 points or more.

<u>Bps Change</u>	<u>3Q/2021</u>	<u>4Q/2021</u>
+ 1/2 point or more	25%	36%
+ 1/4 point	50%	28%
Unchanged	25%	36%
- 1/4 point	0%	0%
- 1/2 point or more	0%	0%
Weighted Average	0.27 bps	0.27 bps

## 16. Current Competition

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

- Regional Banks and Local Commercial/Community Banks place at the top of the survey, garnering 67% of responses. Commercial Finance Organizations saw a decrease with 17% of respondents, and Money Center Banks saw an increase of respondents with 17% in Q4 2021.

	<u>3Q/2021</u>	<u>4Q/2021</u>
Regional Bank	36%	42%
Local Community/Commercial Bank	19%	25%
Commercial Finance Co.	36%	17%
Money Center Banks	9%	17%
Other	0%	0%
Factors	0%	0%