PHOENIX MANAGEMENT

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Lending Climate

IN AMERICA

For more than 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.**

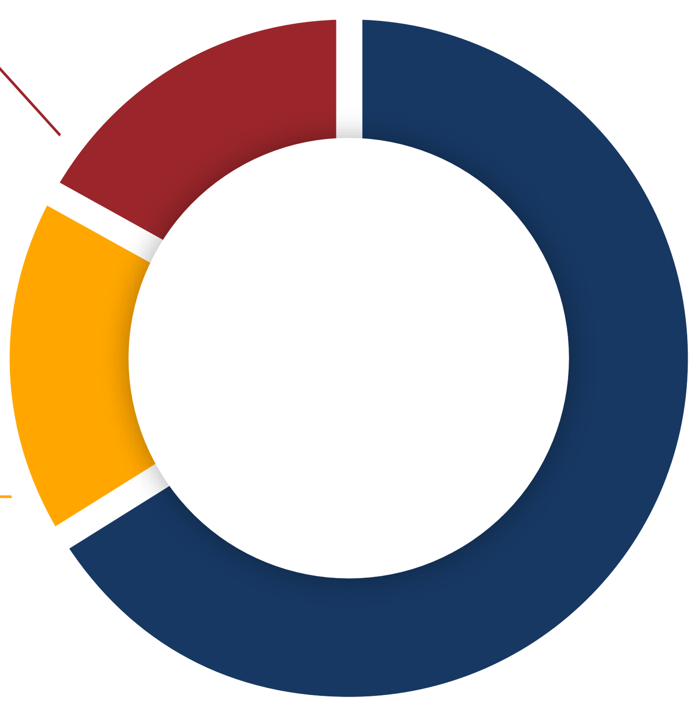
Top 5 Takeaways from the Fourth Quarter 2023

*Survey results tabulated December 29th, 2023

1 Change of Credit Ratings

17% Credit ratings have declined more than slightly

17% No material changes



67% Credit ratings have declined slightly

0% Credit ratings have improved

Respondents were asked how the credit ratings in their portfolio have changed between Q3 and Q4, **a staggering 84% reported a decline in ratings, while none of them reported an improvement in rating.**

2 Interest Rate Expectations

100%

of the lenders expect the Fed will begin cutting interest rates in 2024.

42% of the respondents expect the rate cuts to begin in H1 and 58% expect them to begin in H2.

3 Macroeconomic Headwind

Looming Debt Crisis	33%
U.S. Recession	25%
Policy Risk (Interest Rates)	17%
2024 Election/Political Uncertainty	17%
Geopolitical Risk/War	8%

When asked which macroeconomic headwind is most concerning heading into 2024, **the leading answer (33%) was the looming debt crisis.** One quarter of respondents think that a U.S recession is the most troubling.

4 U.S. Economic Performance Grade

Lender optimism in the U.S. economy in the near term decreased slightly this quarter compared to Q3, with 100% of lenders believing the economy will perform at a "C" or "D" level during the next six months. Lenders' expectations for the economy's performance in the long term, however, declined dramatically—the average GPA declined 42 points from 2.50 in Q3 2023 to 2.08 in Q4 2023. 75% of lenders think the economy will perform at either a "C" or "D" level beyond the next six months.

Short Term

3Q 2023

1.75 Weighted Average Grade

A	B	C	D	F
0%	13%	50%	38%	0%

4Q 2023

1.75 Weighted Average Grade

A	B	C	D	F
0%	0%	75%	25%	0%

Long Term

3Q 2023

2.50 Weighted Average Grade

A	B	C	D	F
0%	50%	50%	0%	0%

4Q 2023

2.08 Weighted Average Grade

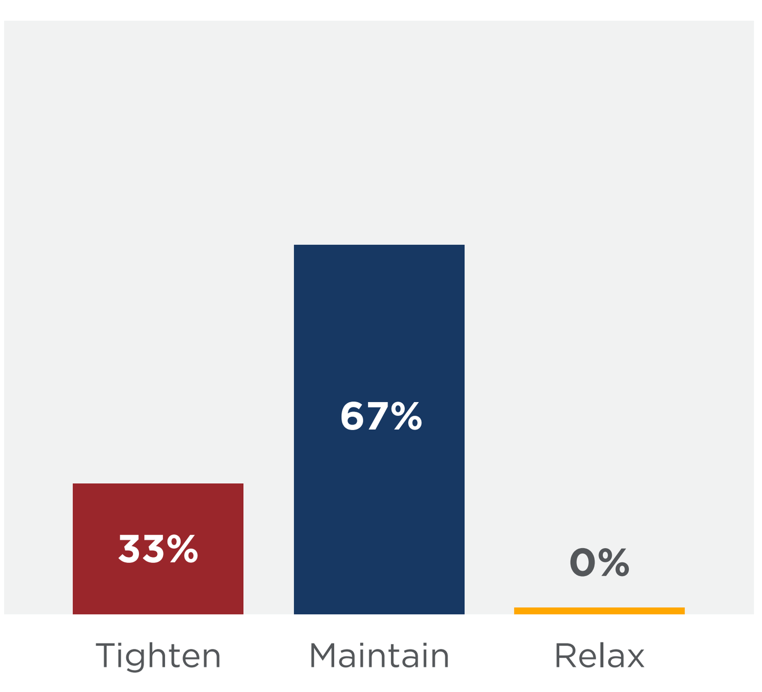
A	B	C	D	F
0%	25%	58%	17%	0%

5 Loan Structure

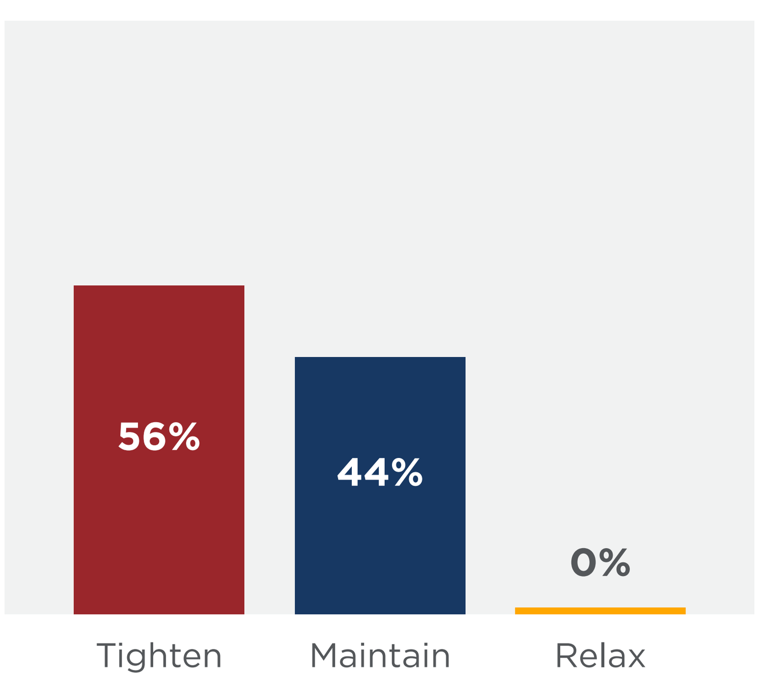
Respondents were asked whether their financial institutions planned to tighten, relax, or maintain their loan structures (collateral requirements, guarantees, advance rates, loan covenants, etc.).

A majority of the surveyed lenders (56%) plan to tighten their loan structure, a dramatic increase compared with the 33% in Q3 2023. In Q4 2023, the minority (44%) of lenders plan to maintain their loan structure and 0% plan to relax their loan structure.

3Q 2023 Overall Averages



4Q 2023 Overall Averages



Lender optimism has declined across all markets, with expectations for economic conditions worsening. Corporate, middle market, and small business lending saw particularly steep drops in the diffusion index, indicating a broad expectation of decline. **Comparatively, from Q3 2023 to Q4 2023, there was an increase in the expectation of loan losses and bankruptcies, with a complete consensus on the rise in bankruptcies.** Interest rates and unemployment diffusion indices also shifted negatively, while bank failures stayed consistently low, suggesting a stable view on bank stability despite other negative indicators.

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PARTICIPATE IN SURVEY

ABOUT PHOENIX MANAGEMENT, A PART OF J.S. HELD

For 36 years, Phoenix has provided smarter, operationally focused solutions for middle market companies in transition. Phoenix Management Services® provides turnaround, crisis and interim management, and specialized advisory for both distressed and growth-oriented companies. Phoenix Investor Services® provides quality of earnings, operational diligence, Quality of Enterprise®, business integration, sell-side business preparation, and other transaction related support. Phoenix IB® provides seamless investment banking solutions including M&A advisory, complex restructurings and capital placements.

As a part of J.S. Held, Phoenix works alongside more than 1500 professionals globally and assists clients – corporations, insurers, law firms, governments, and institutional investors. J.S. Held is a global consulting firm providing technical, scientific, financial, and strategic expertise across all assets and value at risk. Our professionals serve as trusted advisors to organizations facing high-stakes events demanding urgent attention, staunch integrity, clear-cut analysis, and an understanding of both tangible and intangible assets. The firm provides a comprehensive suite of services, products, and data that enable clients to navigate complex, contentious, and often catastrophic situations.

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