PAYNET®

2017 Q1

Small Business Credit Outlook

Confidence Is Fleeting

Other than a brief bump after the election, private companies still are holding back on investments. They never went all-in on investments post-election like the stock market did, and now, they seem to be firmly entrenched in a "show me" position.

The further policy uncertainty persists, the longer the private companies are likely to remain on hold. In retrospect, it seems that the public equity markets like the S&P 500 miscalculated both the speed and likelihood of passage on legislative initiatives related to health care, tax reform, and infrastructure, among others.

Business Cycle

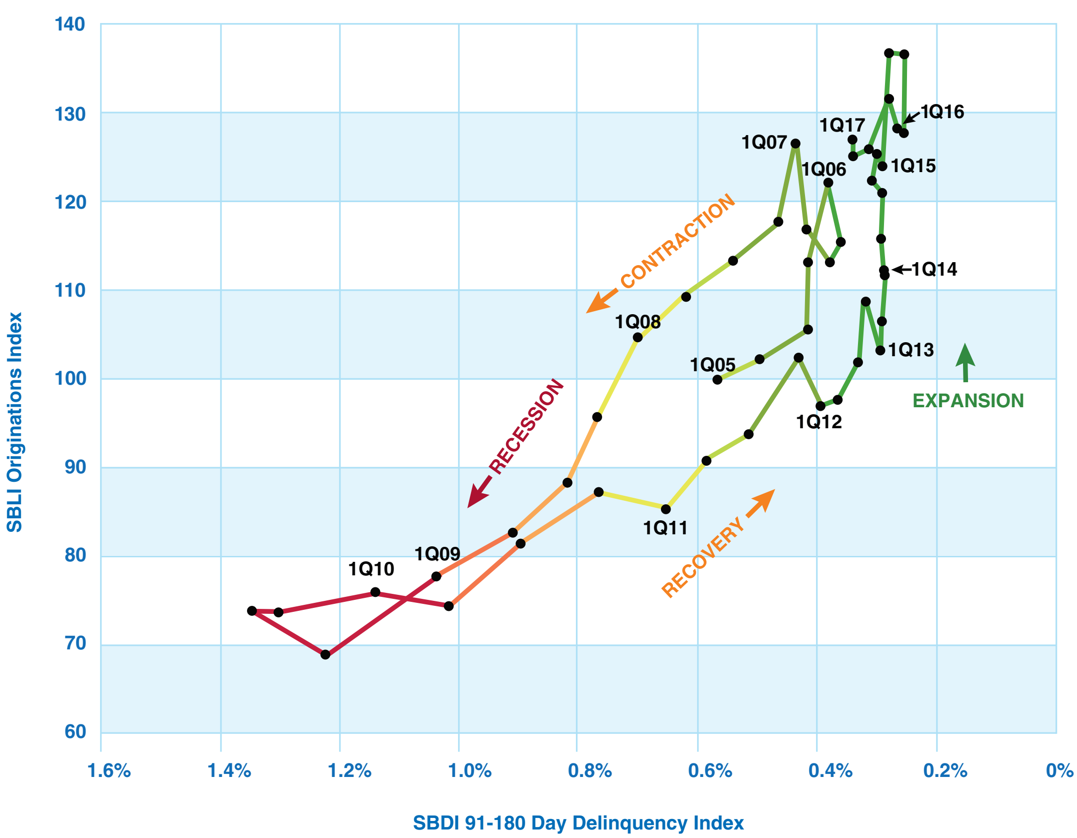
The business cycle skirts the edge of an inflection point. Contracting investment remains the mode for small businesses. In part, this is due to a broken credit market and fear post Great Recession. The supply of small business credit is transitioning to new actors after the Big Four banks retrenched during and after the global financial crisis, and community banks continue to consolidate, so, no doubt that lack of access is part of the problem holding back economic growth.

Businesses, however, continue to fear expanding at a time of uncertainty. This is no doubt a backlash from the Great Recession (similar to our grandparent's economic conservatism post-Depression). Fear and uncertainty seem to be the dominant issues holding back expansion, and this fear is bringing the business cycle to the edge of contraction. Could small business by itself send this economy in recession?

Based on its sheer size relative to the total U.S. economy, it's possible if continued investment weakness translates into a consumer spending pullback amongst small business employees. While not in recession, we are getting uncomfortably close to the edge.

The reason that no inflection point in the business cycle will become reality now, or during the next few quarters, is the stellar financial health of private companies. Tom Sullivan of the U.S. Chamber of Commerce just published their new index, and his research shows the majority of business owners say their companies are in good health - close to the edge, flirting with disaster, too close for comfort, but no change in the business cycle into contraction and higher risk for now.

PayNet Small Business Cycle®



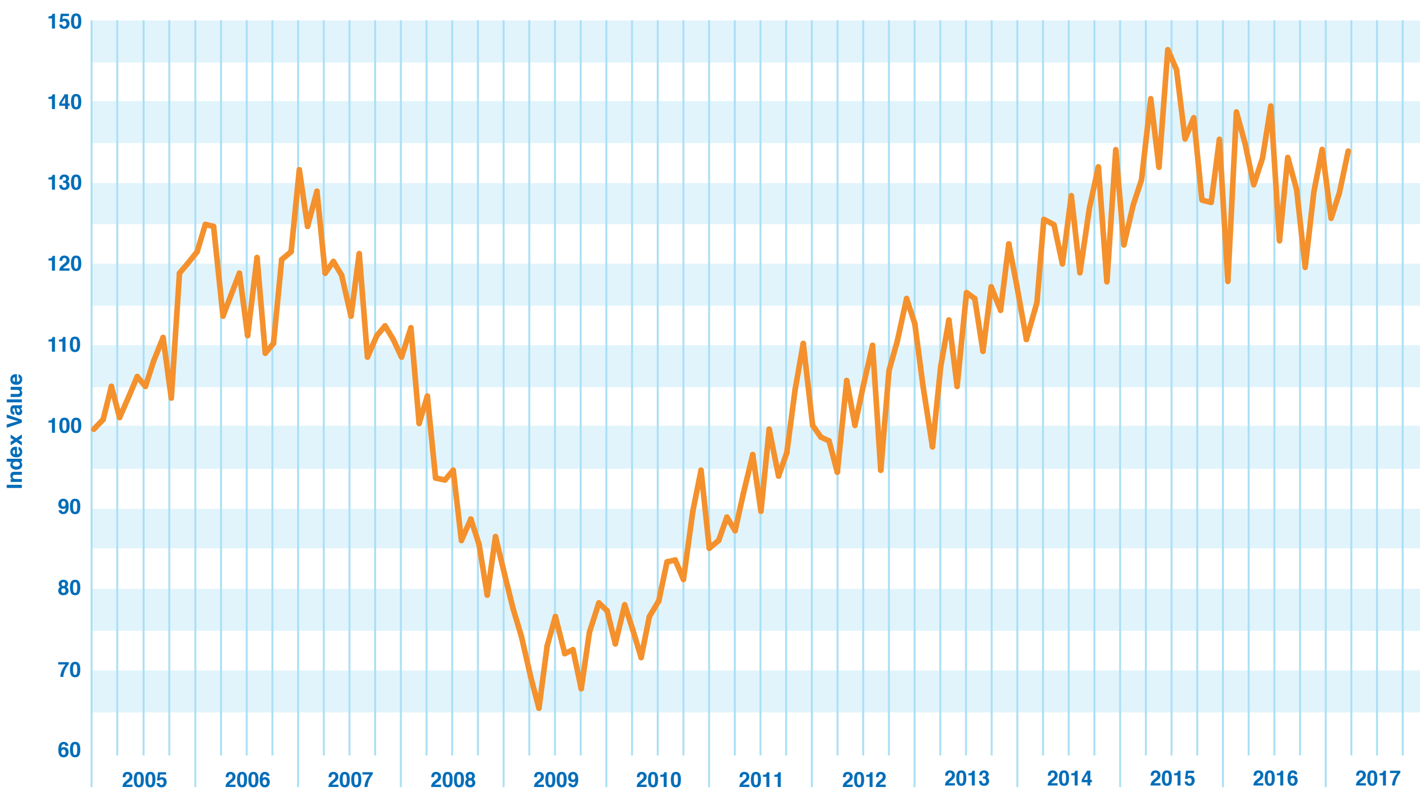
Recent Investment Activity

The Thomson Reuters/PayNet Small Business Lending Index (SBLI) seasonally adjusted originations increased 4% from 128.9 in February 2017 to 134.0 in March 2017. The February 2017 index value was restated downward from 132.9 to 128.9. Compared to March 2016, the index is down 1%.

The rolling three-month index is basically flat compared to February 2017, but is down by 1% when compared to March 2016. The rolling three-month index has decreased year-over-year for ten of the last eleven months.

Thomson Reuters/PayNet Small Business Lending Index (SBLI)

(January 2005 - March 2017)



Credit Risk

Private companies are keeping their financial powder dry. The Thomson Reuters/PayNet Small Business Delinquency Index (SBDI) 31-90 days past due stayed flat at 1.34% from February 2017 to March 2017. As compared to one year ago, delinquency increased by 13 bps (11%).

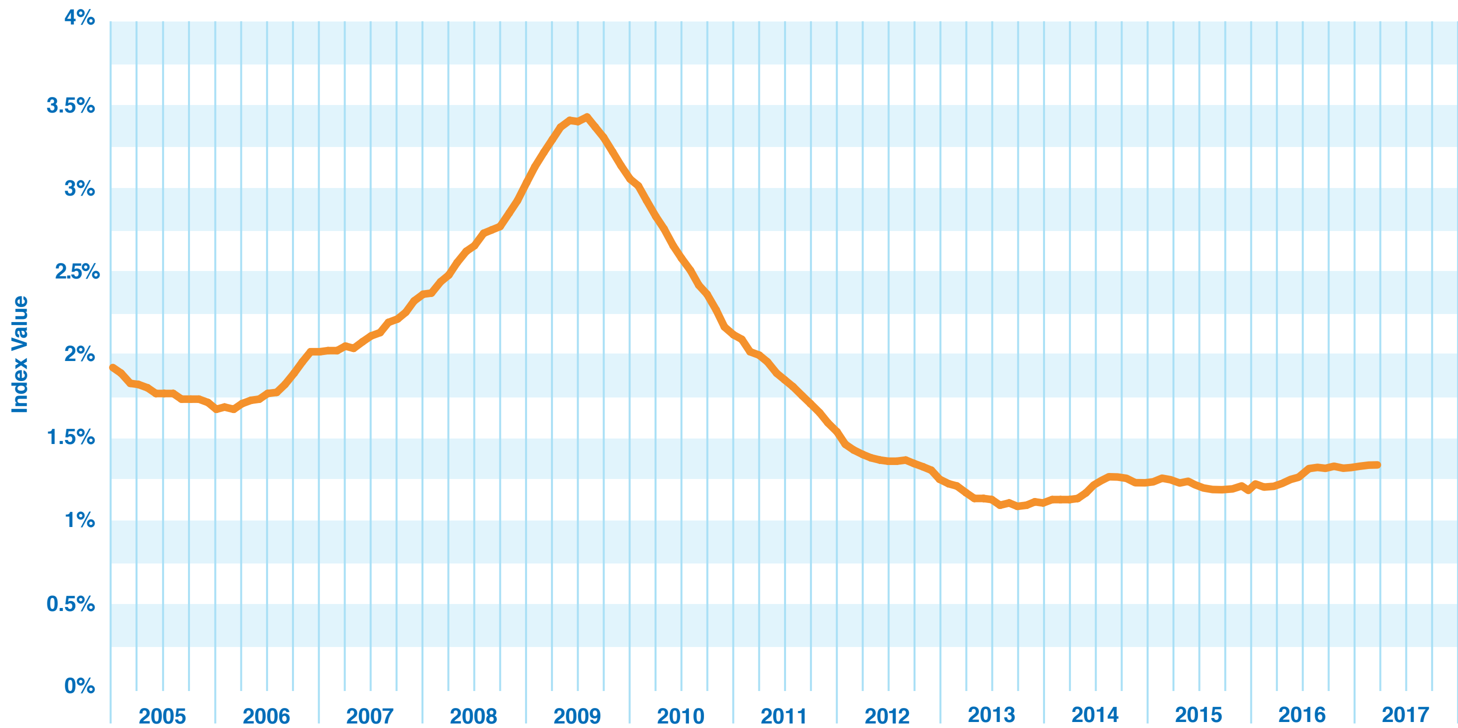
Construction, Health Care, and Transportation all showed increases of 2 bps. Retail and General both showed 1 bp decreases.

The Thomson Reuters/PayNet Small Business Delinquency Index SBDI 91-180 days past due remained flat at 0.34% from February 2017 to March 2017. The Index is up 7 bps (27%) from one year ago - the tenth straight year-over-year increase. Retail showed a 2 bps increase in delinquency. Health Care and Transportation both showed 2 bp decreases in delinquency, and Construction showed a 1 bp decrease. Agriculture and General remained flat.

Thomson Reuters/PayNet Small Business Delinquency Index (SBDI)

(31 - 90 Days Past Due)

(January 2005 - March 2017)



Industry Analysis

Nationwide, the industry sectors showing growth momentum underway include Arts & Entertainment, Administrative & Support & Waste Management Services, and Information. The sectors holding back the economy are in traditionally strong ones: Agriculture and Transportation.

Indicative of the policy paralysis is the Health Care sector which decreased 13.1% compared to one year ago. This is a further 4.6% decrease from earlier months and indicates the dampening effects on the economy from lack of certainty on policies and Washington, DC's outsized impact on the economy.

PayNet Small Business Lending Index March 2017 vs. March 2016

Industry	YoY Change
Accommodation and Food	-1.1%
Administrative Services	4.8%
Agriculture	-7.8%
Entertainment	13.6%
Construction	4.2%
Education	1.6%
Finance	-3.7%
Health Care	-13.1%
Information	3.8%
Manufacturing	-1.9%
Mining, Quarrying, and Oil & Gas Extraction	-8.9%
Other Services	1.2%
Professional Services	-4.8%
Public Administration	7.2%
Real Estate	-3.0%
Retail	-3.0%
Transportation	-15.4%
Wholesale	-1.8%

Regional Analysis

Private businesses as a group pulled back on their investment in property, plant, equipment, tools, and services in all but 1 of the Big 10 states in 2017. California (-9.2%), Texas (-6.7%), Illinois (-5.2%) and Ohio (-4.4%) led the contraction. Pennsylvania, New York, Georgia, and Florida show falling investment in the -1% to -2% range.

Private businesses as a group are expanding investment in North Carolina but only at a paltry rate of +2.3%, which is basically replacement value. In real terms, the businesses in the Big 10 states as a group are shrinking their capital base. Part of this contraction is no doubt also a result of some business owners' views on the questionable state of the U.S. economy combined with uncertainty over key policy issues.

PayNet Small Business Lending Index March 2017 vs. March 2016

State	YoY Change
California	-9.2%
Texas	-6.7%
Illinois	-5.2%
Ohio	-4.4%
Michigan	-4.2%
Pennsylvania	-2.3%
New York	-2.3%
Georgia	-2.2%
Florida	-0.8%
North Carolina	2.3%

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Credit Risk Forecast

Private company defaults are forecasted to rise in 2017. A look at trends in loans past due, major industry sectors, and macro-economic factors provides the basis for a forecast for higher defaults. More recent and frequent loan delinquencies are evident with a +0.13% increase nationally to 1.34% as of this report versus 1.21% for the same time last year. Rising financial risk in industry sectors provides added evidence for higher defaults. Higher delinquencies in Transportation (+0.43%), Retail (+0.20%), and Agriculture (+0.17%) represent rising risks in major industry sectors.

For these reasons, we forecast the default rate of private businesses to climb to 2.1% in 2017 from 1.8% last year. While this is not the direction we would prefer to see, the uptick is moderate and marks a return to normalized credit conditions for private businesses after the all-time lows of recent years. This default forecast to 2.1% remains lower than the 2.5% that has been the longer term average for private company credit.

Historical and AbsolutePD® Forecast Default Rates

Industry Segment	Actual Historical Default Rates (1)		Forecast Default Rates (2)	
	2015	2016	2017*	2018
Mining	2.3%	4.9%	2.7%	2.3%
Transportation	2.6%	4.2%	4.7%	4.0%
Information	2.5%	2.2%	3.4%	3.0%
Professional Services	1.7%	2.1%	1.9%	1.8%
Agriculture	1.4%	2.1%	1.9%	1.7%
Construction	1.8%	2.1%	2.4%	2.4%
Accommodation and Food	1.6%	1.9%	2.6%	3.0%
Retail	1.8%	1.9%	2.2%	2.4%
Administrative Services	1.6%	1.8%	2.3%	2.2%
Manufacturing	1.5%	1.8%	2.0%	1.9%
Health Care	1.7%	1.8%	2.1%	2.2%
Other Services	1.2%	1.5%	1.7%	1.8%
Real Estate	1.0%	1.5%	1.8%	2.1%
Finance	1.2%	1.3%	1.7%	1.7%
Wholesale	1.3%	1.3%	1.6%	1.7%
Entertainment	0.9%	1.1%	1.3%	1.6%
Education	0.8%	0.9%	1.6%	1.8%
Public Administration	0.6%	0.9%	1.6%	2.3%
All Industries	**1.5%**	**1.8%**	**2.1%**	**2.1%**

Source:
(1) PayNet Small Business Default Index
(2) PayNet AbsolutePD®

$1.0mm or Less in Total Lease/Loan Exposure
*2017 Forecasts include 1 Quarter of actual defaults

Summary

Important issues such as health care, taxes, security, and the government budget are proving difficult to address. Unwinding the Federal Reserve's massive balance sheet ($4.5 trillion) will undoubtedly cause some form of market disruption.

The good mood among business owners post-election was never followed up with investment by private companies. They continue to be in a "show me" attitude. Uncertainties appear greater than clarity at this point. The further the uncertainty of policies goes on, the longer the private companies are on hold. Confidence can quickly turn to skepticism.

About PayNet, Inc.

PayNet is the leading provider of credit ratings on small businesses enabling lenders to achieve optimal risk management, growth, and operational efficiencies. PayNet maintains the largest proprietary database of small business loans, leases, and lines of credit encompassing over 23 Million contracts worth more than $1.5 Trillion.

Using state-of-the-art analytics, PayNet converts raw data into real-time marketing intelligence and predictive information that subscribing lenders use to make informed small business financial decisions and improve their business strategy.

PayNet's small business capabilities range from historic credit-reporting and automated credit-scoring to detailed strategic business reviews that include portfolio risk measurement, default forecasting, peer benchmarking, and critical industry trend analysis.

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