



TAKING THE RISK OUT OF
SMALL BUSINESS LENDING

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U.S. Small Business Lending Decreases ***Investment by Small Businesses Signals Weaker GDP Growth***

(May 4, 2016) —The March 2016 data release of the Thomson Reuters/PayNet Small Business Lending Index (SBLI), which is a leading economic indicator of GDP, decreased from 138.9 in February 2016 to 135.3 in March 2016. Compared to the same month one year ago, the index is up 4%.

The small decrease in the SBLI comes one month after a 17% jump in February, the largest monthly increase in the Index's history.

“March data confirms the economic stall. Private companies aren’t willing to take on risks right now,” states William Phelan, president of PayNet, Inc. “In this risk-off posture, GDP will remain moderate and below its long-term potential.”

In the aggregate, private companies are maintaining production capacity by investing in replacement levels. However, most industry sectors are reducing investment reflecting their bearish outlook for the economy. Construction remains the only major sector driving this economy at 9.2%.

Finances for private companies mirror the modest investment activity. The Thomson Reuters/PayNet Small Business Delinquency Index (SBDI) 31-90 days past due held steady at 1.21% from February 2016 to March 2016. As compared to one year ago, delinquency decreased 3 bps; this is the 10th consecutive month of year-over-year decreases after 12 straight months of increases.

Transportation delinquency is up 5 bps to 1.28%, its 13th consecutive monthly increase and its highest level since April 2013. Agriculture delinquency is up 3 bps to 0.63%, its sixth consecutive monthly increase and its highest level since August 2011. Health Care and General delinquencies each decreased 1 bp.

Credit quality, which we had predicted to worsen somewhat in 2016, may remain unusually high due to this risk-off mentality, so business defaults will likely remain lower than previously forecasted.

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About

PayNet Inc. 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 over \$1.3 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. For more information, visit paynetonline.com and sbinsights.net.

Thomson Reuters/PayNet Small Business Lending Index (SBLI)

The Small Business Lending Index (SBLI) is based on new commercial loan and lease originations by major U.S. lenders in PayNet’s proprietary database. This index measures the volume of loans to small businesses normalized to January 2005. Small businesses generally respond to changes in economic conditions more rapidly than do larger businesses, so this statistic is a leading indicator of the economy and predicts changes in GDP between 2-5 months.

Thomson Reuters/PayNet Small Business Delinquency Index (SBDI)

The Small Business Delinquency Index (SBDI) measures the financial stress of small businesses with \$1mm or less in credit outstanding.



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PayNet Small Business Default Index (SBDFI)

The PayNet Small Business Default Index (SBDFI) measures small business defaults and signal insolvency across multiple sectors of the economy at the national, state and industry levels. Default is a point-in-time measurement of borrowers that have failed to remain current and as such is a vital piece of information to assess risk exposure and evaluate the health of the overall economy.