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PayNet Sees Main Street Close Q1 in Expansion Mode

Main Street U.S. Small Business Lending Shows Big Investment, Low Risk

CHICAGO – (May 15, 2018) – The latest Quarterly Credit Outlook from PayNet, the leading provider of small business credit data and analysis, shows Main Street closing Q1 2018 with a healthy increase in investment and relatively moderate risk. As a result, the business cycle looks healthy from a risk-reward standpoint, and expansion at the low-risk phase of the business cycle is alive and well.

"Notable in Q1 is the pace of expansion – neither too fast nor too slow," said PayNet President William Phelan. "After years of low risk low growth, we are seeing a decided change towards higher growth coupled with higher credit risk. How high and far this expansion, propelled by Main Street, will last remains to be seen, but we are sure that a return to more normal and higher levels of credit risk will follow."

On a monthly basis, the Thomson Reuters / PayNet Small Business Lending Index (SBLI) decreased slightly from 144.5 in February to 143.9 in March. Compared to the same month one year ago, the index is up 8%, representing the sixth continuous month of increases. The expansion phase of the business cycle gained momentum in Q1 2018, with investment exceeding 140 for the first time. Risk remained relatively modest, with loans severely past due increasing just 12 basis points to 0.37% from their low point of 0.25% in 2015.

Results show solid investment support from several sectors in March, with year-over-year increases in Mining (13.4%), Transportation (9.9%), and Construction (6.9%). Weaknesses are primarily in the services sector with declines from March 2017 in Information Services (-11.1%), Accommodation and Food Services (-5.2%), and Professional Services (-2.3%). Regionally, expansion is becoming more broad-based, with eight of the ten largest states experiencing material growth compared with March 2017. North Carolina (12.8%), Texas (10.8%) and Ohio (8.5%) led the largest ten states. California (-0.2%) was the only one of the ten that declined. The quarter-to-quarter change for the U.S. overall was 1%.

The Thomson Reuters/PayNet Small Business Delinquency Index (SBDI) 31-90 days past due increased 3 bps from 1.41% in February 2018 to 1.44% in March 2018, marking its highest level since April 2012. Compared to one year ago, delinquency increased by 10 bps (8%).

Default rates remained flat month-over-month with the PayNet Small Business Default Index (SBDFI) at 1.84% for March 2018. Compared to a year ago, the index is down four basis points. Information Services defaults rose swiftly (+19 bps) since February 2018. Conversely, default rates continue to fall rapidly in the Transportation (-19 bps) and Mining, Oil, and Gas (-14bps) sectors compared with February 2018, as both industries continue to benefit from turnarounds in economic conditions in their respective industries.

"A clear shift to risk-taking is underway for Main Street," notes Bill Phelan. "Main Street businesses have shifted out of lack-luster growth to record levels of investment."

About PayNet

PayNet, Inc., is the leading provider of credit ratings on small businesses enabling lenders to manage credit risk, grow earning assets and operate credit at lower cost. PayNet maintains the largest proprietary database of small business loans, leases and lines of credit encompassing over 24 million contracts worth over $1.6 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 www.paynet.com.

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.

PayNet Small Business Default Index (SBDFI)

The PayNet Small Business Default Index (SBDFI) measures small business defaults and signals 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.