U.S. Small Business Borrowing Declines
Small Business Lending Index Signals Economic Growth to Weaken

(February 4, 2016) —The December 2015 data release of the Thomson Reuters/PayNet Small Business Lending Index (SBLI), which is a leading economic indicator of GDP, registered 132.4, up from a downwardly revised November value of 127.3 but below the December 2014 reading of 134.1.

"The U.S. small business economy started at a full gallop in 2015, and ended at a slow trot," states William Phelan, president of PayNet, Inc. "In what is becoming a trend rather than an outlier, small businesses are consistently shrinking capital investment in a sign of uncertainty over the many political, economic and terrorist events unfolding."

The Thomson Reuters/PayNet Small Business Delinquency Index fell 2 basis points in December to 1.18%. This new level is near the all-time low of 1.15% reached in the aftermath of the recession. Unusually strong financial health is one sign that a recession is not imminent.

"When investment falls, less risk taking is evident, and that lower risk taking is expressed in lower delinquencies. Higher delinquencies would accompany more investment which translates to more GDP, more jobs, and more tax paying. But this release shows the opposite and provides further confirmation of the *hunker down* mentality," Phelan added.

Sectors depressing the Lending Index are Mining and Agriculture. In a surprise, Wholesale Trade went negative and remains the third largest decreasing industry, as fewer goods are moving through the economy. Sectors that carried the economy such as Transportation, Construction and Real Estate slowed appreciably to the +6-8% range.

Geographically Florida, California, Ohio and Pennsylvania lead expansion in the 5-6% range while Illinois and Texas are the laggards at -1%.

One positive sign of this economy is low business default rates. PayNet's Small Business Default Index stands at only 1.6% for all of 2015 which represents a good sign for bank loan loss reserves. This data illustrates continued economic malaise, as low defaults mean less risk taking. This data reveals that Agriculture and Mining showed the largest increases in business defaults, +0.60% and +0.90% respectively.

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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.

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.

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