

Small Business Lending Shifts into High Gear

U.S. Small Business Lending Expands for the Fifth Straight Month

CHICAGO – (April 4, 2018) – Small business lending improved again in February, according to the latest [Strategic Insights Report](#) from [PayNet](#), the leading provider of small business credit data and analysis. The [Thomson Reuters / PayNet Small Business Lending Index](#) (SBLI) rose to 144.8 in February, its second-highest reading in history and fifth consecutive monthly increase. The SBLI is up 1.0% from January and up more than 12% over the last 12 months. The SBLI 3-month moving average also rose and is now nearly 10% above its year-ago level.

The majority of industries experienced growth in February, led by Construction (+7.4% Y/Y), Public Administration (+7.3% Y/Y), and Transportation & Warehousing (+7.2% Y/Y). Notably, the Agriculture sector saw lending increase on an annual basis for the fourth straight month after falling consistently for over three years. A similar development may be taking place in Manufacturing, which was up slightly in February (+0.3% Y/Y) after 12 consecutive months of year-over-year declines. Regionally, nine of the 10 largest states experienced year-over-year lending growth, with North Carolina and Michigan climbing to all-time highs.

“At this time last year, small businesses were generally still hunkered down and unwilling to borrow in great amounts to invest and expand,” said William Phelan, president of PayNet, Inc. “But it looks like the switch finally flipped last fall, and we’re now seeing the small business community getting back in the game with aggressive increases in borrowing and investment.”

As the business cycle matures and interest rates rise, small businesses are showing modest increases in financial stress. The [Thomson Reuters / PayNet Small Business Delinquency Index](#) (SBDI) 31–90 Days Past Due edged up to 1.39% in February and is up five basis points over the last 12 months. Most industries saw delinquencies rise in February, led by Construction (+16bp Y/Y) and Retail (+8bp Y/Y), though Transportation delinquencies fell to the lowest level in nearly two years (-35bp Y/Y). Regionally, delinquencies rose in seven of the 10 largest states on an annual basis, led by Florida (+21bp Y/Y), but remain low by historical standards.

The [PayNet Small Business Default Index](#) (SBDFI) ticked down one basis point to 1.82% in February and is down 4 basis points compared to a year ago. On an annual basis, roughly half of the major industries experienced higher defaults, led by the Information sector (+64bp Y/Y) which has seen defaults rise consistently over the past 12 months. Meanwhile, Mining (-242bp Y/Y) and Transportation (-76bp Y/Y) continued to improve. Of note, both Manufacturing and Agriculture saw year-over-year defaults fall in February after 3.5 years of increases, which is clearly a positive sign for these two industries.

“Elevated confidence levels among small businesses indicate an optimistic outlook for the year ahead, and a healthy economy should continue to support lending activity moving forward,” added Phelan. “In our view, the biggest question is not whether the current trend of small business expansion will continue, but whether banks and other lenders are prepared to respond to increased small business demand for C&I loans.”

About PayNet

[PayNet, Inc.](http://www.paynet.com), 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.