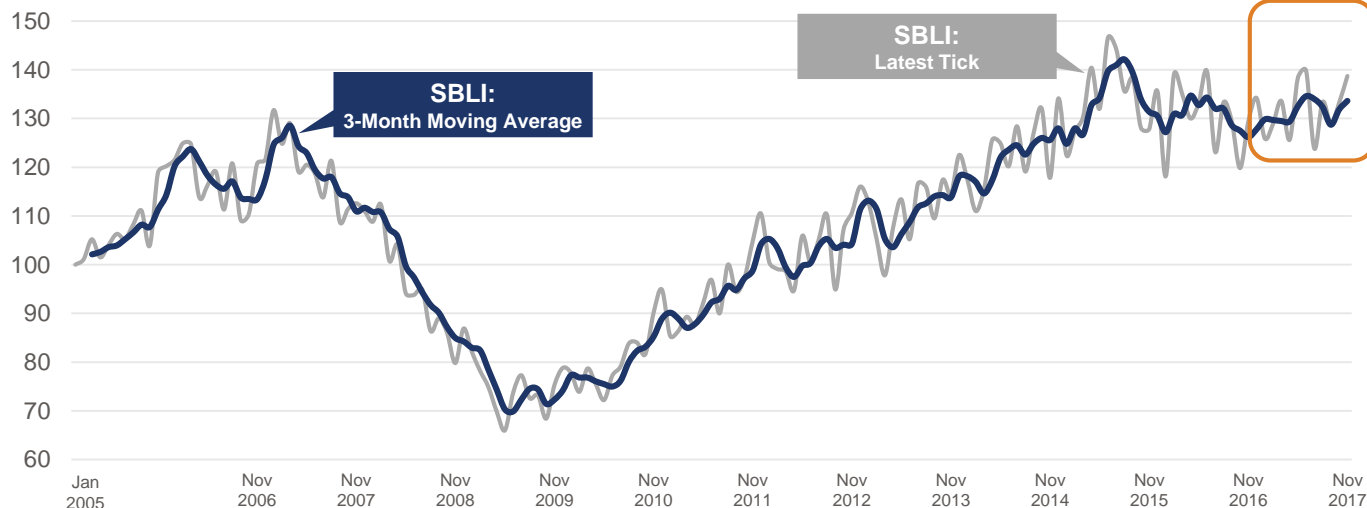


PayNet® U.S. Small Business Credit Monthly Report

January 2018

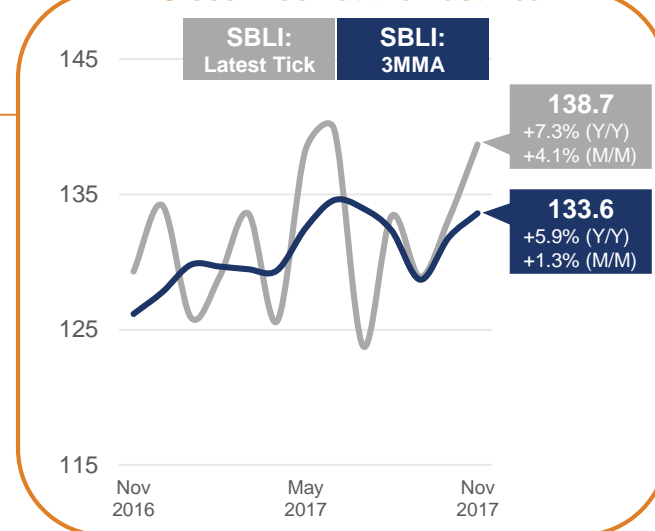
Big Momentum Taking Hold

Thomson Reuters / PayNet Small Business Lending Index (SBLI)*



*Volume of New Commercial Loans & Leases to Small Businesses, Seasonally Adjusted Index (January 2005 = 100)

A Closer Look at the Past Year



Index Analysis

The Thomson Reuters / PayNet Small Business Lending Index (SBLI) increased to 138.7 in November, up from 133.2 (revised) last month, and is now more than 7% above year-ago levels. The SBLI 3-month moving average also rose in November and is up nearly 6% over the last 12 months.

Regional Story: Nine of the ten largest states saw their monthly SBLI rise in November, with the strongest growth occurring in Texas (+1.8%), Georgia (+1.4%), and North Carolina (+1.0%). Over the past year, the SBLI expanded in seven of the largest states, led by North Carolina (+8.6%) which climbed to an all-time high in November. Lending conditions also improved in Texas, Georgia, and Florida over the past three months as they continue to recover from hurricane damage.

Industry Story: Most industries performed reasonably well in November, led by Mining (+2.9% M/M), Real Estate (+1.1% M/M), and Construction (+1.1% M/M). Over the last 12 months, the strongest-performing industries have been Arts & Entertainment (+7.0% and near an all-time high), Accommodation & Food Services (+6.6%), Wholesale Trade (+5.5%), and Construction (+5.3%), while the weakest have been Health Care (-8.8%) and Finance & Insurance (-3.6%).

Economic Context

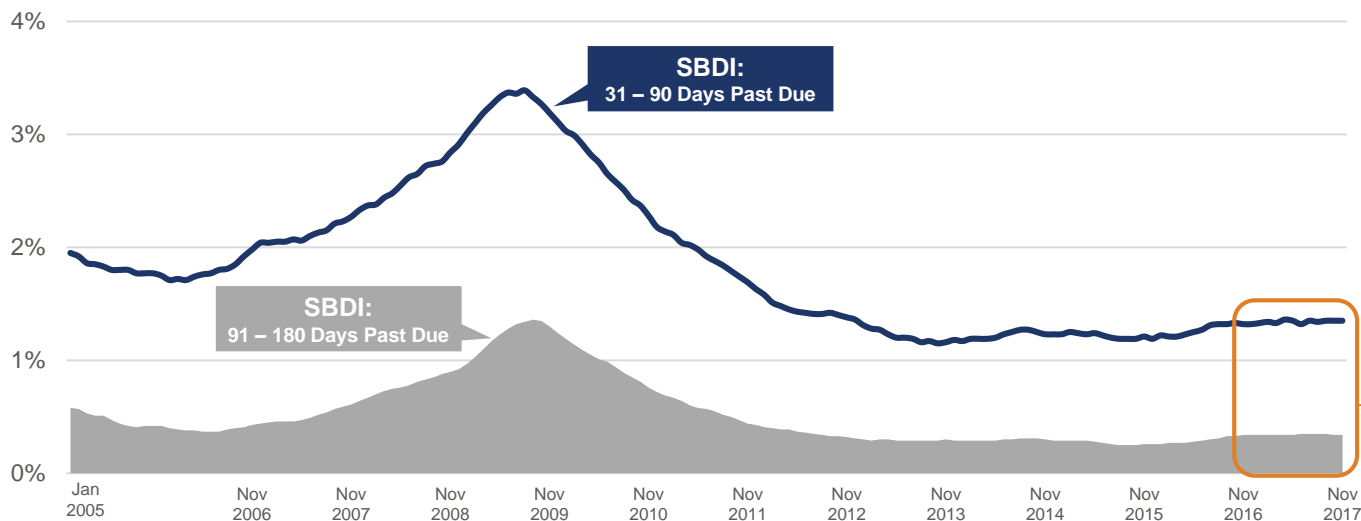
The U.S. economy has expanded at a solid pace over the last nine months, and the combination of lower tax rates, lighter-touch regulation, and a cyclical upswing in the global economy continue to boost small business confidence. The NFIB Small Business Optimism Index reached its second-highest reading ever in November, suggesting that small business owners are likely to increase their hiring, invest in new equipment, and expand their operations in the months ahead. Banks are responding to this increased demand by easing standards and term restrictions for commercial and industrial (C&I) loans to small firms, according to the Federal Reserve. After treading water for much of 2017, the annual growth rate for the SBLI's 3-month moving average is now solidly positive, and we expect continued improvement in the months ahead.

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Positioned for Growth

Thomson Reuters / PayNet Small Business Delinquency Index (SBDI)*



*Delinquent Percentage of Small Business Loans, Seasonally Adjusted Index

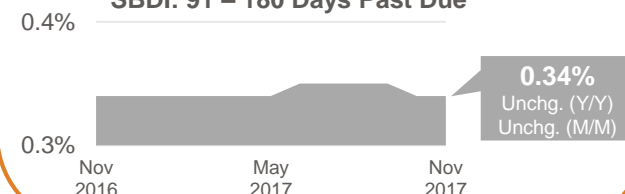
A Closer Look at the Past Year

SBDI: 31 - 90 Days Past Due



1.35%
+0.03pp (Y/Y)
Unchg. (M/M)

SBDI: 91 - 180 Days Past Due



0.34%
Unchg. (Y/Y)
Unchg. (M/M)

Index Analysis

The Thomson Reuters / PayNet Small Business Delinquency Index (SBDI) 31–90 Days Past Due (DPD) held steady at 1.35% in November and is up three basis points compared to a year ago. The SBDI 91–180 DPD remained at 0.34% in November and is unchanged from year-ago levels.

Regional Story: In November, seven of the ten largest states experienced an increase in 31–90 day delinquencies, including Illinois (+8bp), Florida (+6bp), California (+6bp), and Ohio (+5bp). However, over the last 12 months, a majority of large states have seen delinquency rates fall, led by Illinois (-16bp) — though Florida (+27bp) and Ohio (+11bp) have seen double-digit increases. Regarding defaults, most large states experienced a monthly decline, led by Texas (-9bp).

Industry Story: Short-term delinquencies were largely unchanged from October for most large industries, though some have seen increases over the past year, including Construction (+16bp), Health Care (+7bp), Retail (+7bp), and Agriculture (+7bp). Regarding defaults, the industry experience is mixed. The Information industry has seen the largest Y/Y increase (+73bp), while Mining defaults have declined 172bp over the last year — five times larger than any other industry.

Economic Context

Small businesses continue to exhibit little financial stress. Across all industries and regions, delinquency and default rates are essentially unchanged on the year, and while both measures have slowly risen since bottoming out in late 2015, this movement is consistent with tightening Fed policy and is not yet cause for concern. However, the prospect of multiple Fed rate hikes in 2018 may put additional upward pressure on delinquencies and defaults in the second half of 2018. Moreover, states affected by Hurricanes Harvey and Irma (i.e., Florida, Georgia, and Texas) are already experiencing more delinquencies since the storms, and this effect may worsen in the months ahead. Specifically, short-term delinquencies have increased noticeably in Florida since August (+27bp) and have also ticked up in Georgia (+5bp) and Texas (+2bp).