# SMALL BUSINESS LENDING TRENDS

4th Quarter, 2021

# Overall Observations

On the surface 2021 could have been described as a tumultuous year, although the metrics SBFE tracks were fairly stable in comparison to 2020. Delinquency, which remained artificially deflated for most of the year, due to a combination of government funding and lender deferrals, did increase in the fourth quarter. While an increase in past due percentages would normally be seen as a negative for small businesses, in this case, the metric may just be returning to a level closer to a "normal state". Charge-offs continued to decline during the quarter, but if utilization and delinquency continue to increase towards "normal state," this metric may follow with increases in the future.

While certain metrics continue to slowly move towards pre-pandemic levels , they still have not reached the percentages seen prior to March 2020. And while low utilization can be seen as a positive, signifying strong cash reserves for small businesses, in this environment, it more likely illustrates the struggle businesses are having returning to operation at full capacity. It is clear that continued supply chain disruptions and ongoing labor shortages remain as significant obstacles for small business owners.

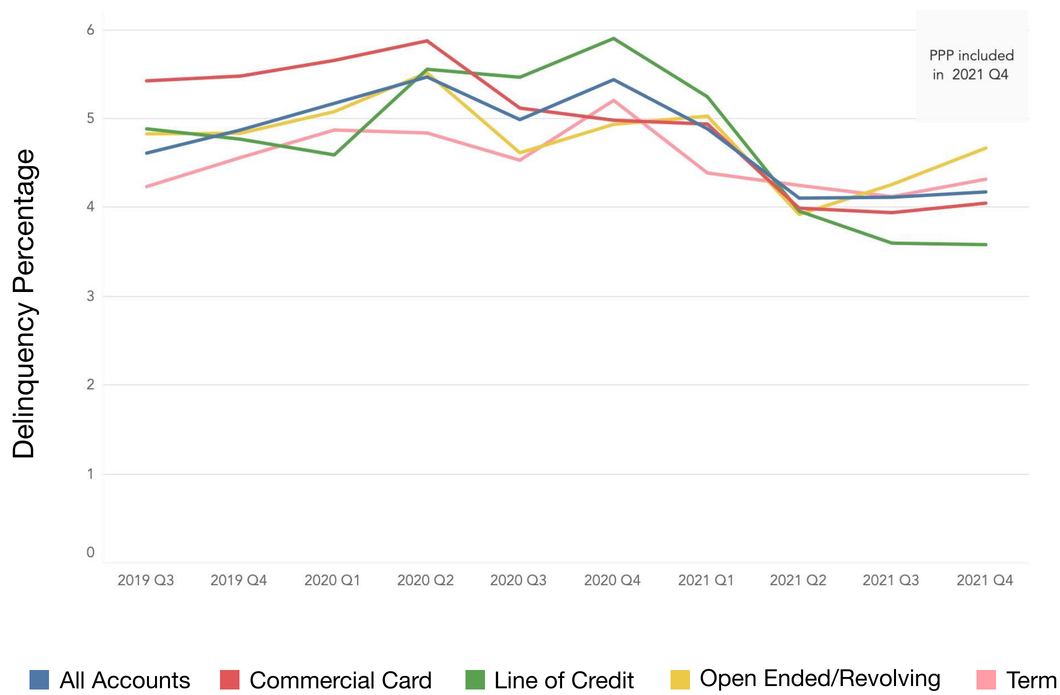
As we look forward to 2022 results, we expect continued impact from supply chain and labor issues. New pressures from historic levels of inflation, which are continuing to rise, interest rate hikes to combat inflation, and global geopolitical volatility will likely have a negative effect on an already restrained small business ecosystem.

# Methodology

The base of the Small Business Lending Trends is data reported to the Small Business Financial Exchange™ (SBFE®). The SBFE Data™ includes information on small businesses and their payment performance on commercial credit accounts contributed by SBFE member organizations. SBFE's membership includes banks, credit unions, alternative lenders, captive finance companies, independent finance companies, leasing companies and more. The methodology for each metric is included in the narrative for each respective report.

# DELINQUENCY

## Delinquency Percentages: All Accounts and Account Types




Data source: SBFE Data from the Small Business Financial Exchange

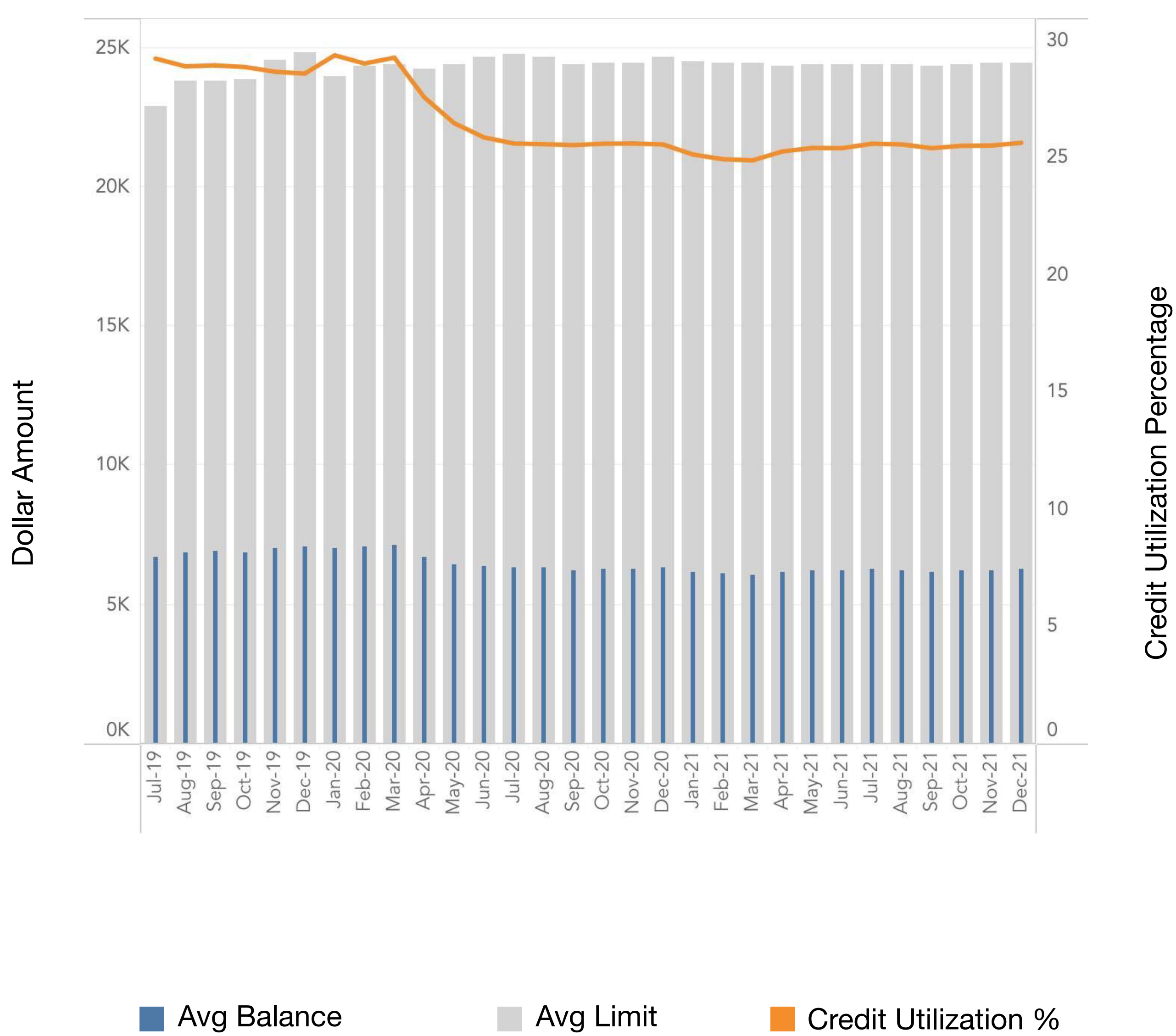
- Delinquency increased slightly for most account types in the most recent quarter.
- This quarter is the first increase since the 2nd round of PPP as there were 3 straight quarters of declining delinquency in 2021.
- PPP loans have been added to the analysis starting in the 4th quarter of 2021. This is the first quarter where delinquency was consistently reported for PPP loans and the delinquency rate for these accounts is consistent with other term loan types.

***Methodology:***

*Calculated using the total outstanding balances of all open accounts 30 days or more past due divided by the total outstanding balances of all open accounts reported. Delinquencies are calculated monthly then averaged quarterly. Delinquency trends also include delinquent accounts in a non-accrual status in order to provide an accurate reflection of all 30+ day delinquent activity and provide insight into the health of small businesses.*

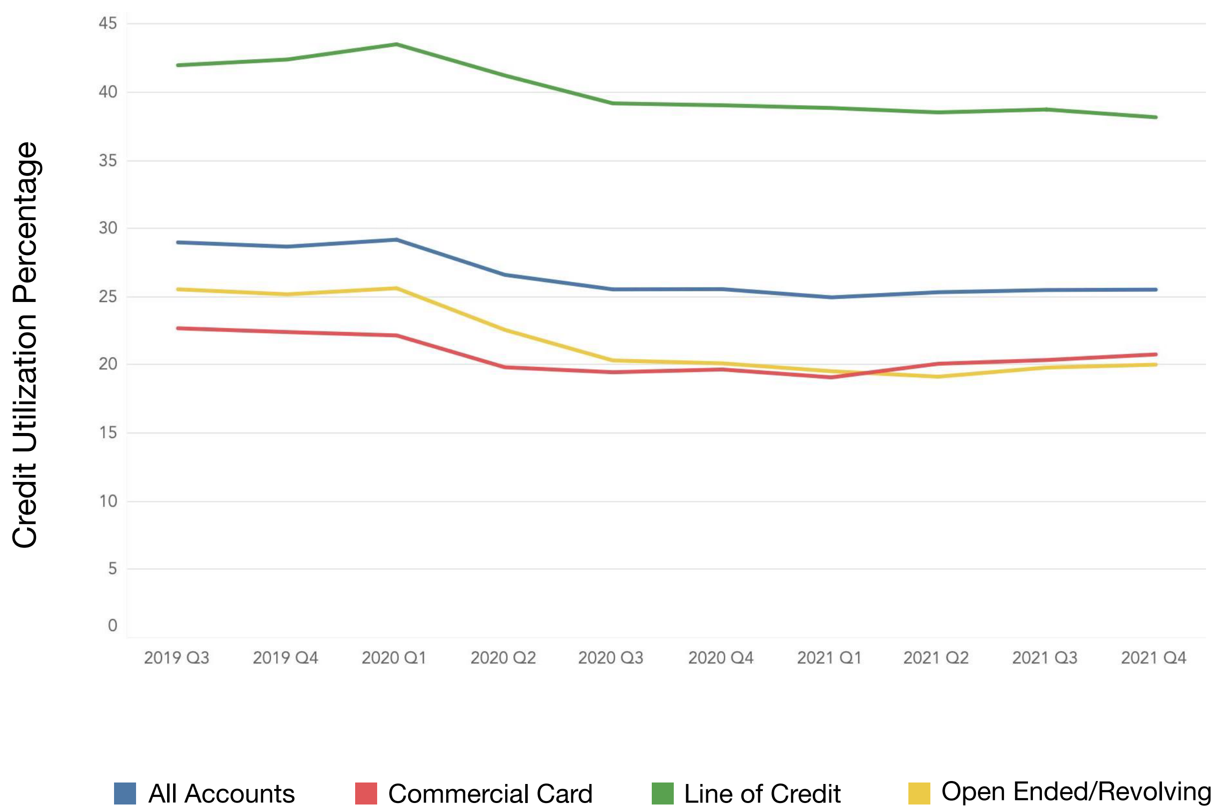
# UTILIZATION

## Credit Utilization Trend: All Revolving Account Types




Data source: SBFE Data from the Small Business Financial Exchange

## Credit Utilization Percentage: Revolving Account Types




Data source: SBFE Data from the Small Business Financial Exchange

- Utilization percentages continued to increase slightly from the low point in March 2021.
- This is driven by average balance increases, as average limits have grown at a slower pace over the past three quarters.
- Utilization is still trending far below pre-pandemic levels.
- SBFE had expected to see utilization increase closer to pre-pandemic levels as small businesses begin to operate closer to full capacity. This has yet to happen in a meaningful way.

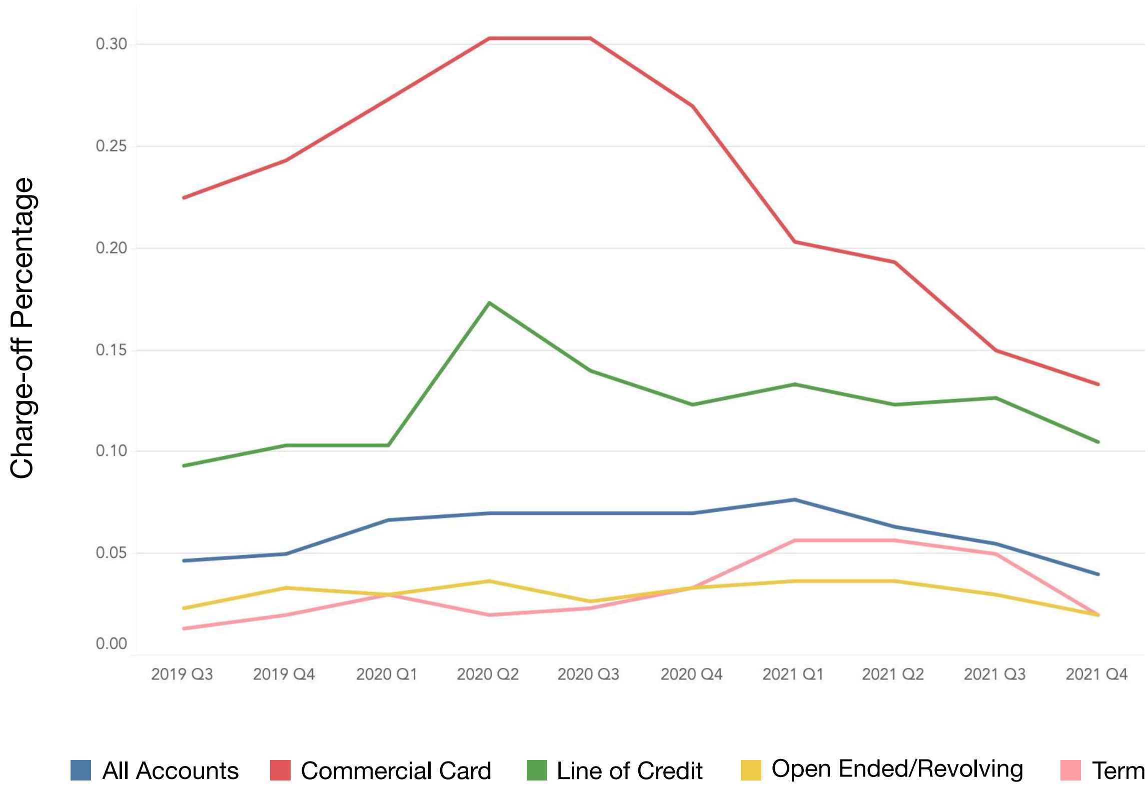
***Methodology:***

*Calculated using the outstanding balance of revolving account types divided by the credit limit for those accounts.*

*Utilization is calculated monthly then averaged quarterly.*

# CHARGE OFF

## Charge-off Percentages: All Accounts and Account Types



Data source: SBFE Data from the Small Business Financial Exchange

- Charge-offs continued to decline for all account types.
- Unsecured account types have leveled off after higher losses experienced during the pandemic.
- Note: PPP loans are not included in most recent quarter, although charge-off totals would be low for this specific product type.

***Methodology:***
*Calculated using the total balances of accounts charged-off during a given month divided by the total outstanding balances of all accounts reported. Charge-offs are calculated monthly then averaged quarterly.*

# CONTACT US

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The Small Business Financial Exchange, familiarly known as SBFE®, is a trade association for small business lenders striving to be the trusted advocate for the safe and secure growth of small businesses. We do this by gathering and protecting the largest aggregation of small business payment data in the US today and leveraging the power of that data to help the small business industry build a true and accurate picture of small business.

www.consumerbankers.com

The Consumer Bankers Association is the only national financial trade group focused exclusively on retail banking and personal financial services — banking services geared toward consumers and small businesses. As the recognized voice on retail banking issues, CBA provides leadership, education, research, and federal representation for its members. CBA members include the nation's largest bank holding companies as well as regional and super-community banks that collectively hold two-thirds of the total assets of depository institutions.