EQUIFAX®

Understanding Recession Impact on Your Portfolio

As of 06/30/2022

Executive Summary

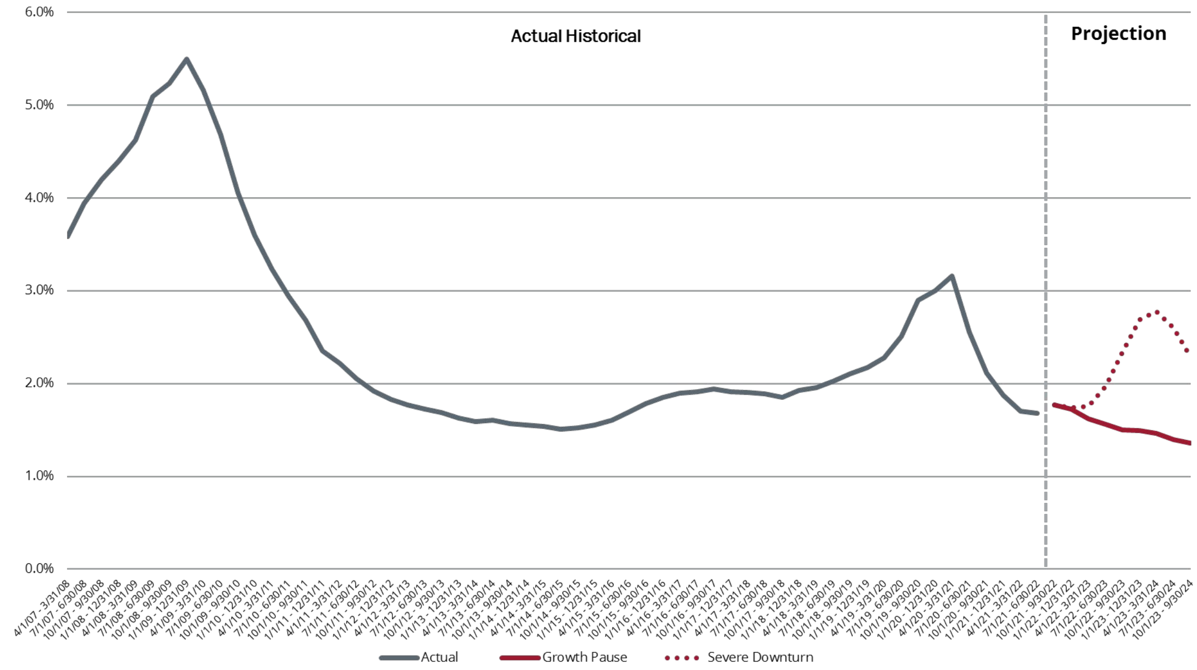
Small businesses that survived the pandemic now face a volatile recovery. Supply shortages and low unemployment have driven inflation significantly higher, despite sharp interest rate increases. In an effort to better understand the impact of prolonged severe conditions on small businesses, Equifax Commercial performed a stress test on a broad portfolio of companies to predict financial default rates.

Equifax modeled two scenarios. A milder “Growth Pause” scenario represents a year of near zero GDP growth, a modest increase in unemployment, and moderating inflation. The “Severe Downturn” scenario modeled continued sharp interest rate increases paired with double-digit inflation through much of 2023, in addition to negative 2022 and 2023 GDP growth, 10% unemployment peak, and real estate market decline. These combined factors would represent one of the worst recessions in recent history, comparable to the early 1980’s.

We found that despite similar or worse projected conditions, portfolios performed better than the recent Pandemic-induced recession and significantly better than the 08-09 “Great Recession”. Lower present day delinquency and default rates suggest small businesses are in a position of relative strength compared to prior recessions. The Severe Downturn produced a peak annual default rate of 2.8%, with cumulative defaults reaching 5% over nine projected quarters. The Transportation segment showed the highest annual default rate of 4.4%, and Construction peaked at 2.4%, the low end of the industry range.

Equifax Commercial recommends that small business creditors maintain a robust account management process to identify customer-level risk early and minimize financial loss, especially in periods of increased uncertainty. Creditors in higher risk / higher Loss-Given-Default industries should be especially proactive managing this risk. Contact Equifax Commercial to learn how its tools help minimize portfolio losses.

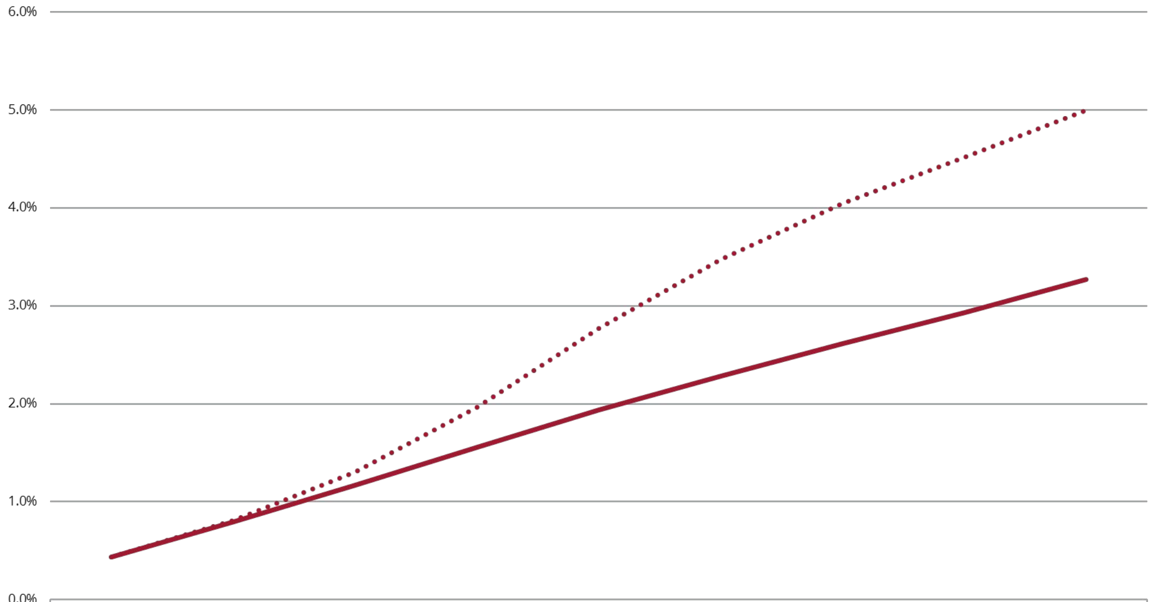
Default Rate Projections



Note: Default rates for Actual Historical time periods are based on the current portfolio (number of borrowers) as of the beginning of that time period, and so each succeeding period includes new originations booked after the prior period; whereas, the projected default rates are based on the portfolio as of the beginning of the projection period only (i.e., no new originations).

All Segments Exposures Under $2.5mm, Count Basis

Cumulative Projected Default Rate



	Q1	Q2	Q3	Q4	Q5	Q6	Q7	Q8	Q9
Growth Pause	0.44%	0.80%	1.17%	1.56%	1.93%	2.28%	2.61%	2.93%	3.27%
Severe Downturn	0.44%	0.81%	1.30%	1.97%	2.77%	3.48%	4.04%	4.52%	4.99%

Growth Pause Severe Downturn

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