2nd Order solutions

AUGUST 2026

2026 Q2 Credit and Lending

Trends and Risk Indicators in SMB

Executive Summary

Small Business Lending conditions improved in Q2, but the credit picture remains mixed.

Four key themes stood out in Q2 2026:

1) SMB sentiment and business formation strengthened in Q2, but the broader operating environment remains uneven

   Optimism rebounded and business formation moved back toward 2025 highs. However, hiring intentions remain below late-2025 levels and business bankruptcies continued to rise, suggesting the improvement remains uneven.

2) Credit remains available, but lenders continue to prioritize disciplined underwriting

   Bank-reported demand improved modestly while lending standards remained tight. Approval rates have remained relatively stable and SBA approvals remain elevated, suggesting credit remains available despite continued lender selectivity.

3) New lending activity remains soft, even as credit availability has held up

   Application dollars and average origination sizes have declined, while PayNet continues to show a broader post-2023 lending slowdown. Existing balances remain relatively stable, pointing to softer new credit formation rather than a broad contraction in credit.

4) Aggregate credit performance remains healthy, though certain segments (sectors, states) are showing signs of weakness

   Bank-reported applicant credit quality continues to decline, but realized delinquency and default measures remain contained. Stress is increasingly differentiated, with transportation and select states showing the clearest signs of weakness.

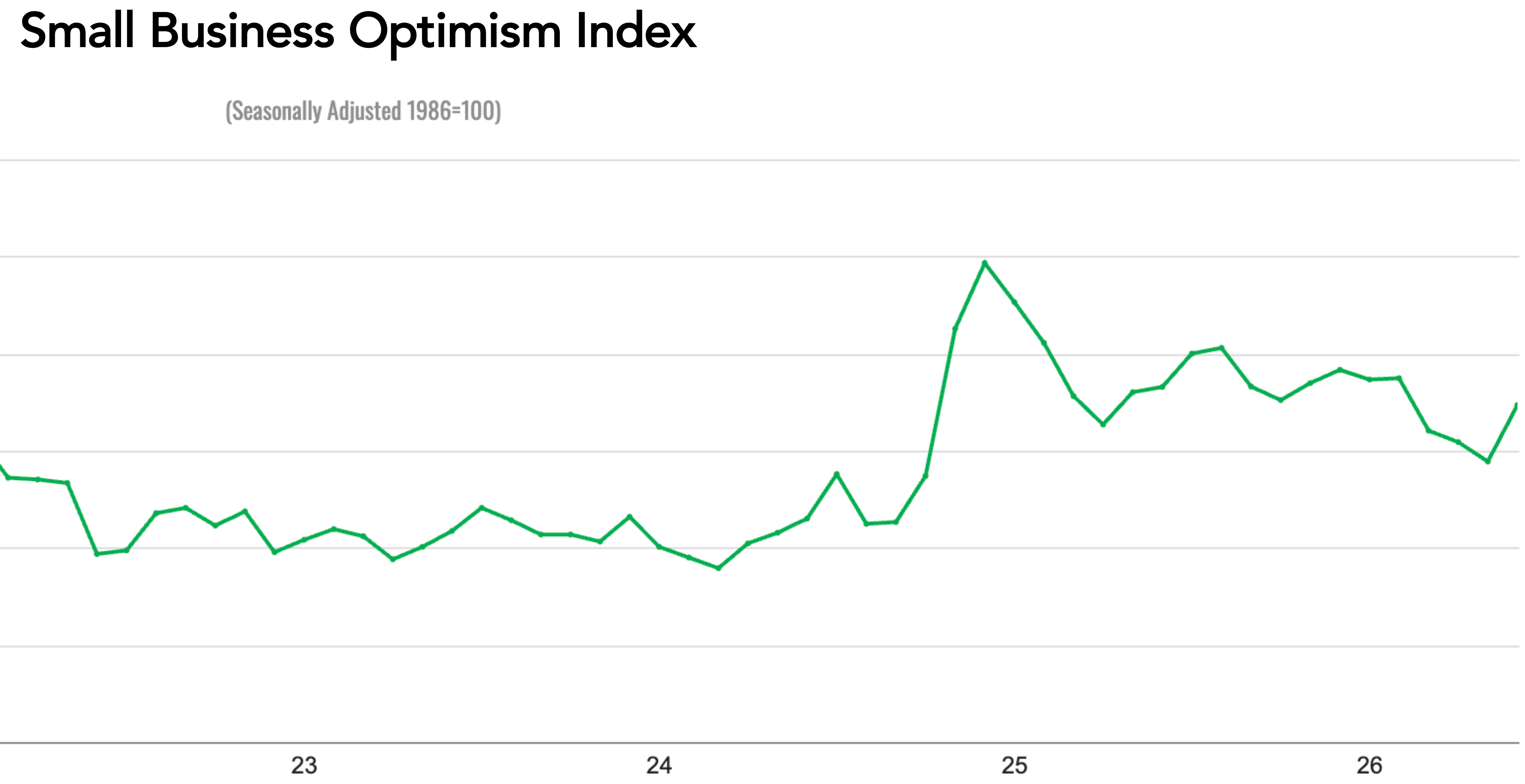
State of Small Business

SMB Lending Activity

SMB Loan Performance

Recent Developments

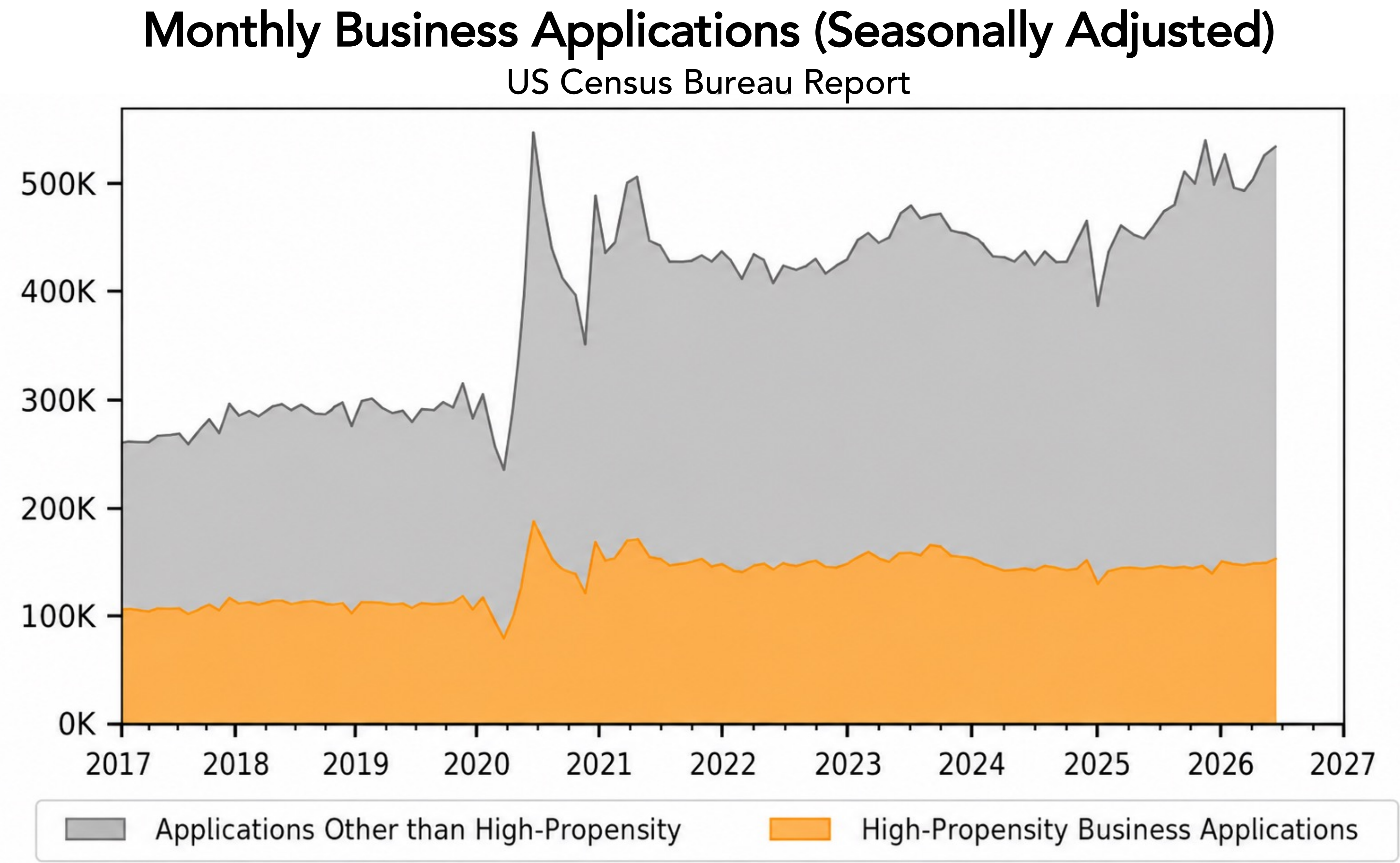
Small Business Macro Health:
SMB optimism rebounded in Q2, signaling a firmer demand backdrop



Note: National Federation of Independent Business Small Business Economics Trends survey is a monthly survey of small-business owners used to construct the Optimism Index.

Source: National Federation of Independent Business' Small Business Economics Trends report (https://www.nfib-sbet.org/MainPage.html)

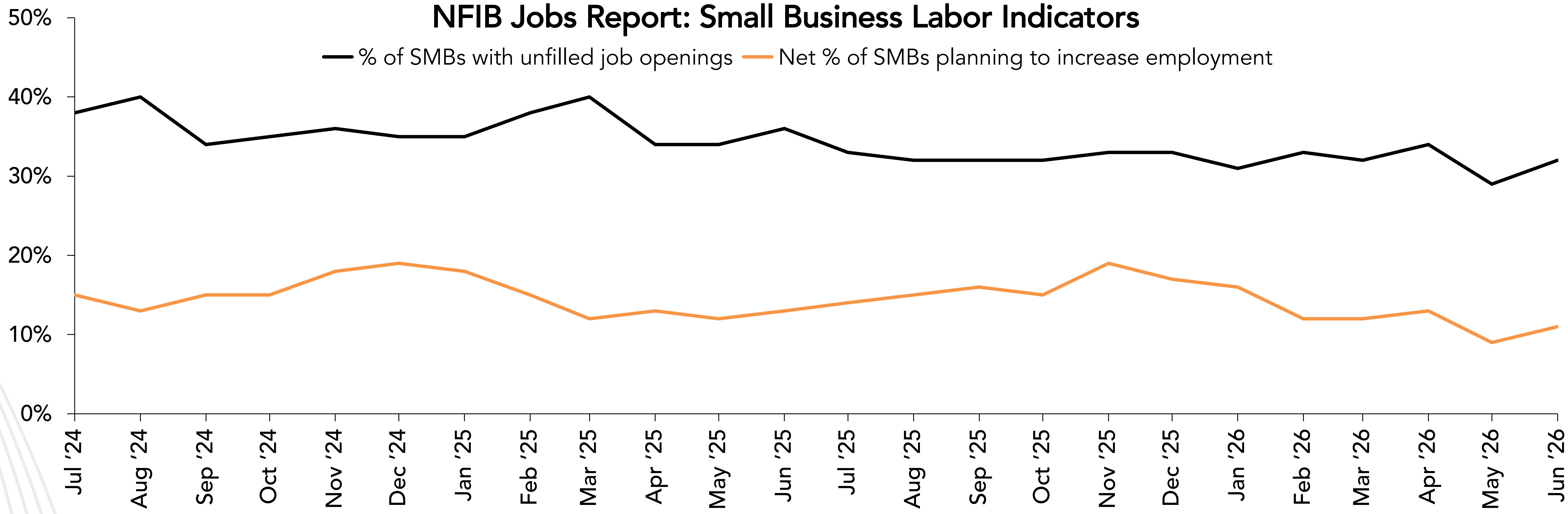
Small Business Macro Health:
During the 2nd quarter, business formation regained momentum and moved back toward 2025 highs



Note: U.S. Census Bureau Monthly Business Applications Report; high-propensity applications defined as EIN filings with a relatively high likelihood of becoming employer businesses.

Source: US Census Bureau Monthly Business Applications Report (https://www.census.gov/econ/bfs/current/index.html)

Small Business Macro Health:
Hiring plans have softened from late-2025 levels, while unfilled openings remain persistent

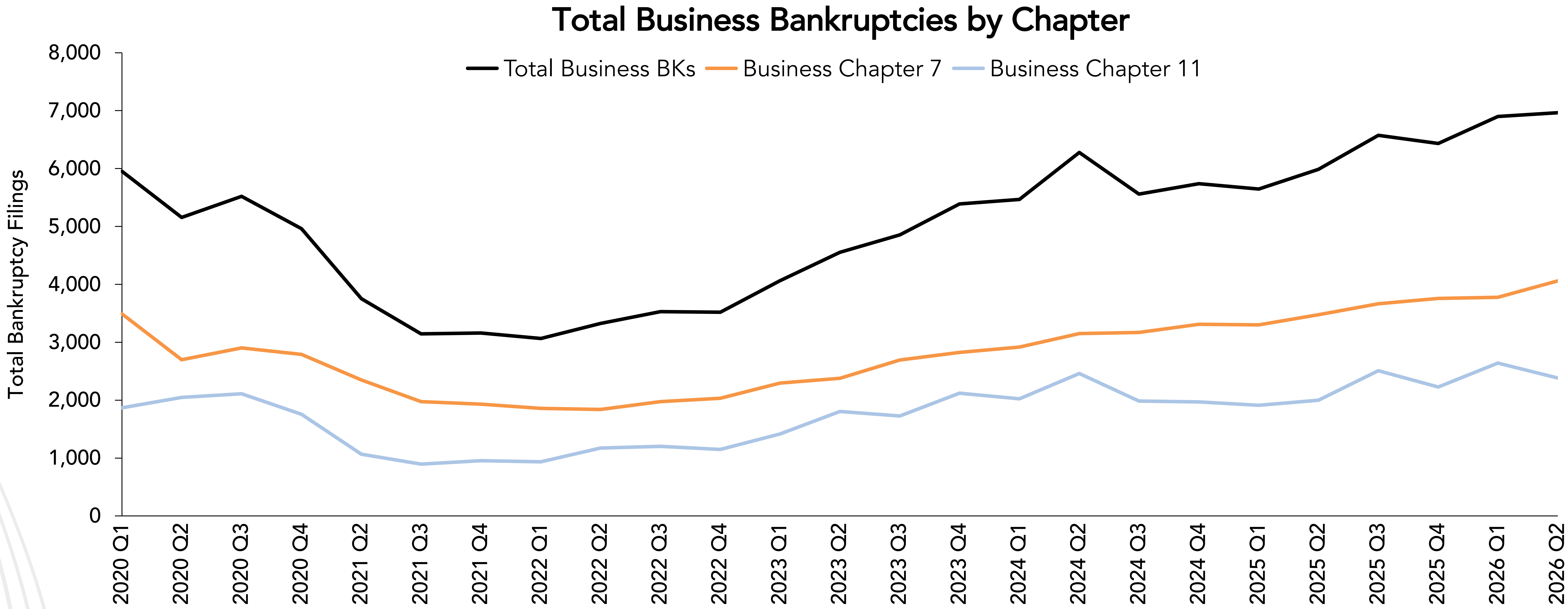


Note: National Federation of Independent Business Jobs Report is a monthly survey of small-business owners covering hiring plans and unfilled job openings.

Source: National Federation of Independent Business (NFIB) Jobs Report, Monthly Reports (July 2024–June 2026), https://www.nfib.com/news/monthly_report/jobs-report/

2nd Order solutions

Business Bankruptcies:
BK volumes increased slightly in Q2, driven by an increase in Chapter 7 filings



Source: U.S. Bankruptcy Courts—Business and Nonbusiness Cases Filed, by Chapter of the Bankruptcy Code—During the Three-Month Period Ending June 30, 2026 (https://www.uscourts.gov/data-table-numbers/f-2-three-months)

State of Small Business

SMB Lending Activity

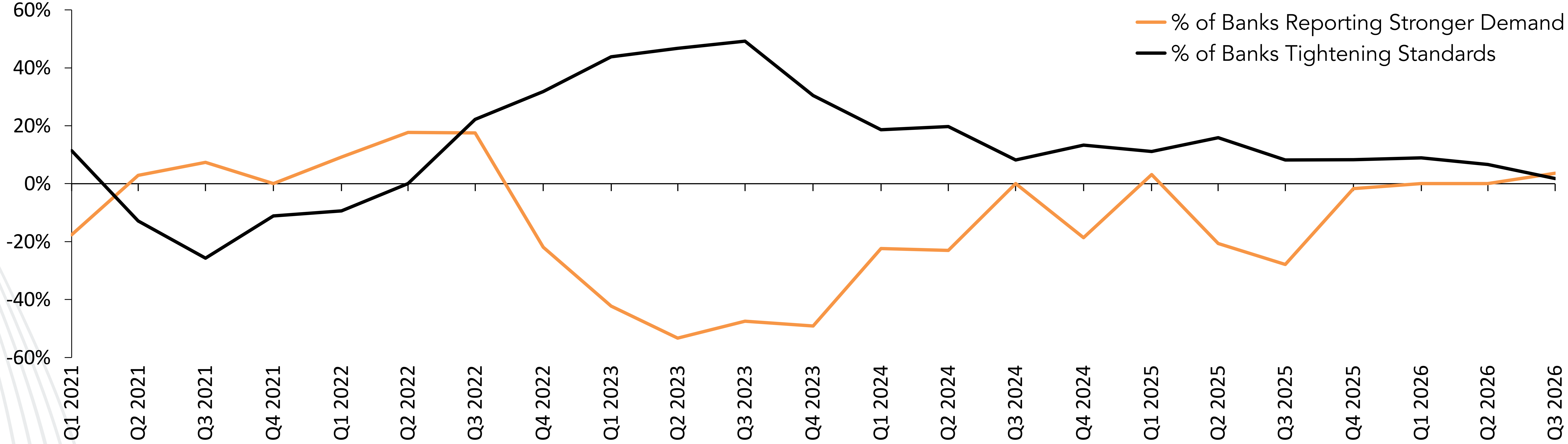
SMB Loan Performance

Recent Developments

Small Business Lending Conditions:
Banks saw slightly stronger demand, but continued to tighten standards

Net % of Domestic Banks Reporting Stronger Demand for C&I Loans & Net % of Domestic Banks Tightening Standards for C&I Loans

Small Firms Only (<$50M in Annual Sales)



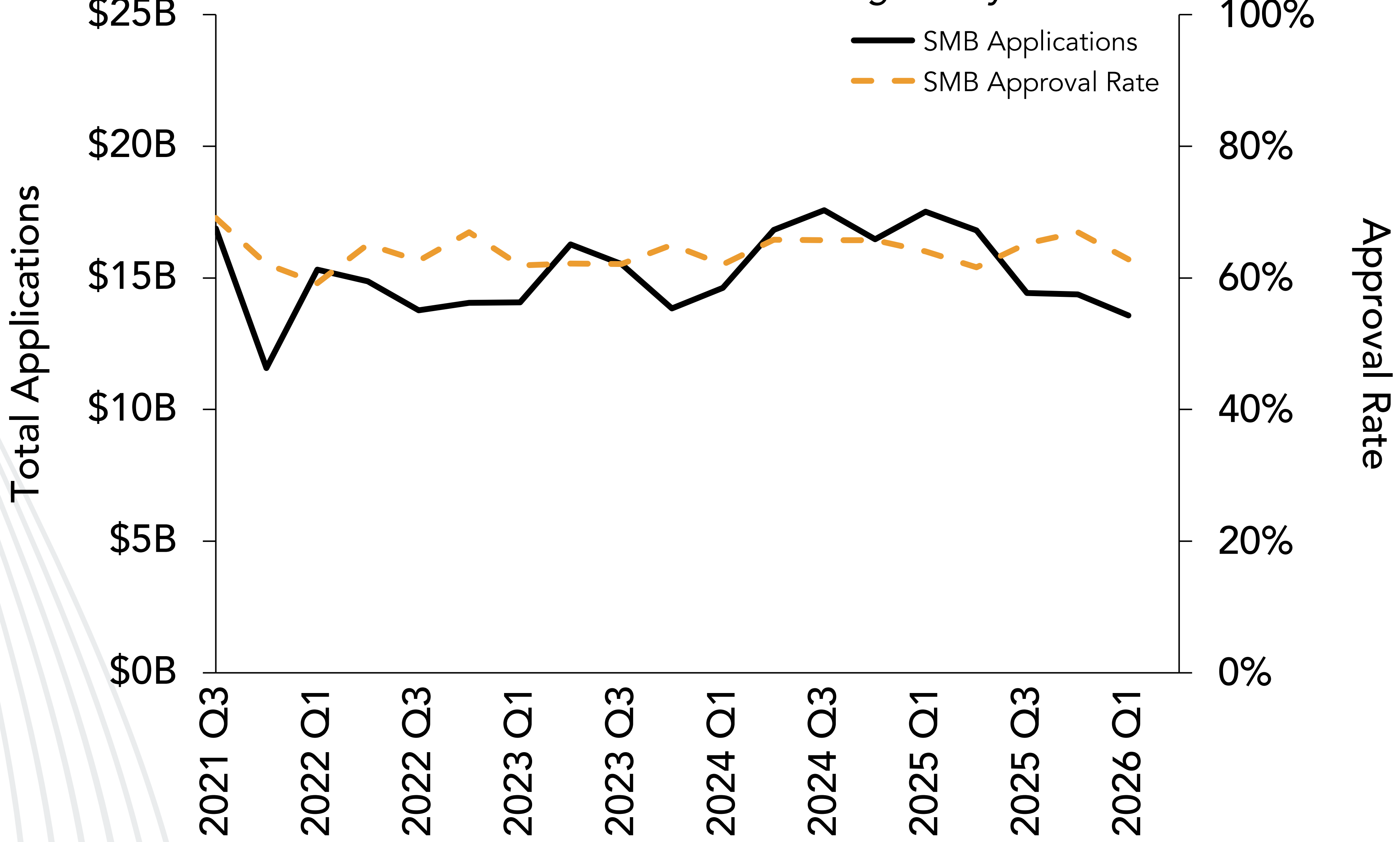
Note: Quarterly survey of domestic bank loan officers. The small-firm series shown here covers businesses with annual sales of less than $50M.

Source: Board of Governors of the Federal Reserve System, Senior Loan Officer Opinion Survey (SLOOS), via FRED (DRSDCIS & DRTSCIS)
https://fred.stlouisfed.org/series/DRSDCIS & https://fred.stlouisfed.org/series/DRTSCIS

SMB Lending Application Funnel: Approval rates remained stable, while application volume and average origination amount continue to decline

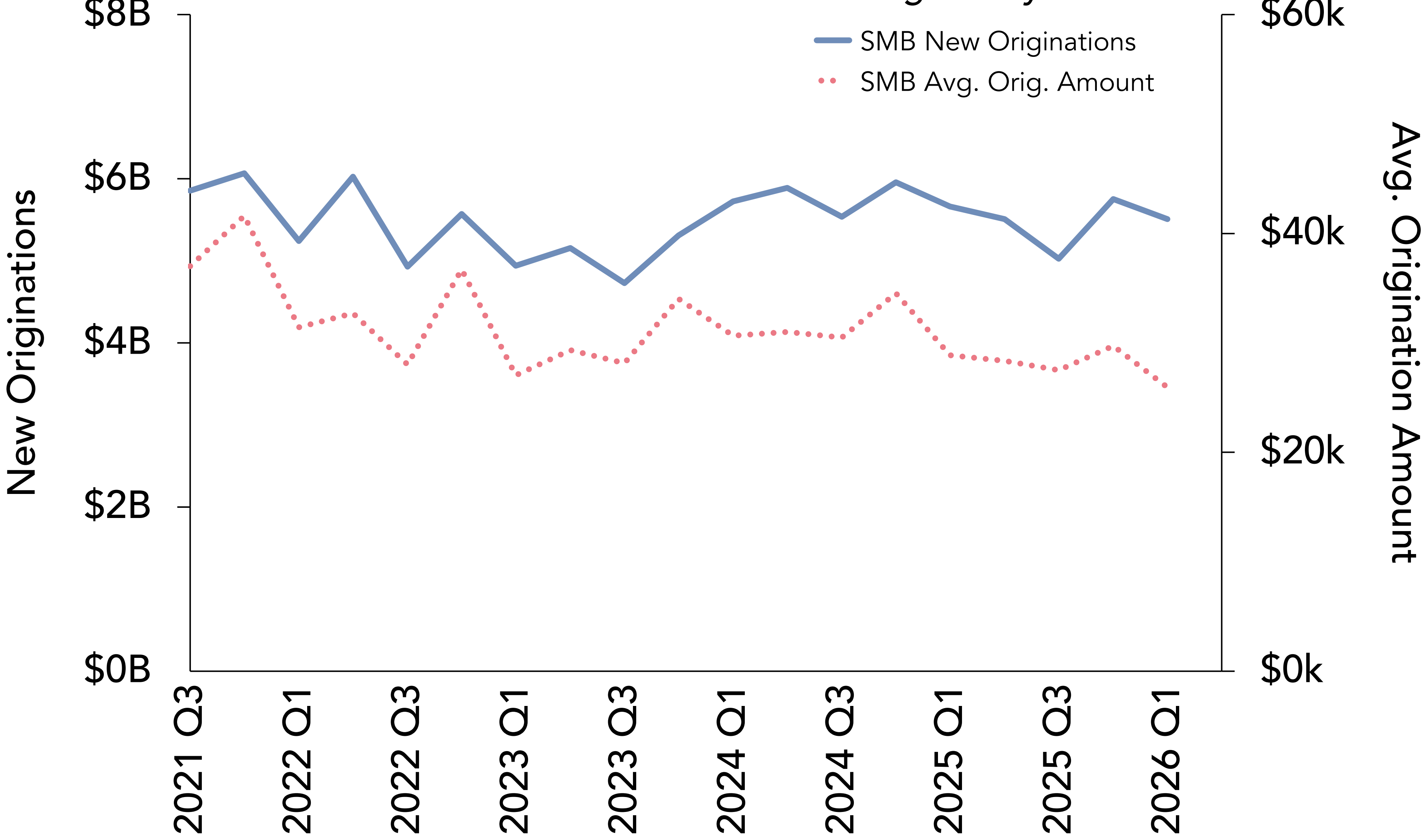
SMB Loan Applications & Approval Rate

KC Fed Small Business Lending Survey



SMB New Originations & Avg. Loan Size

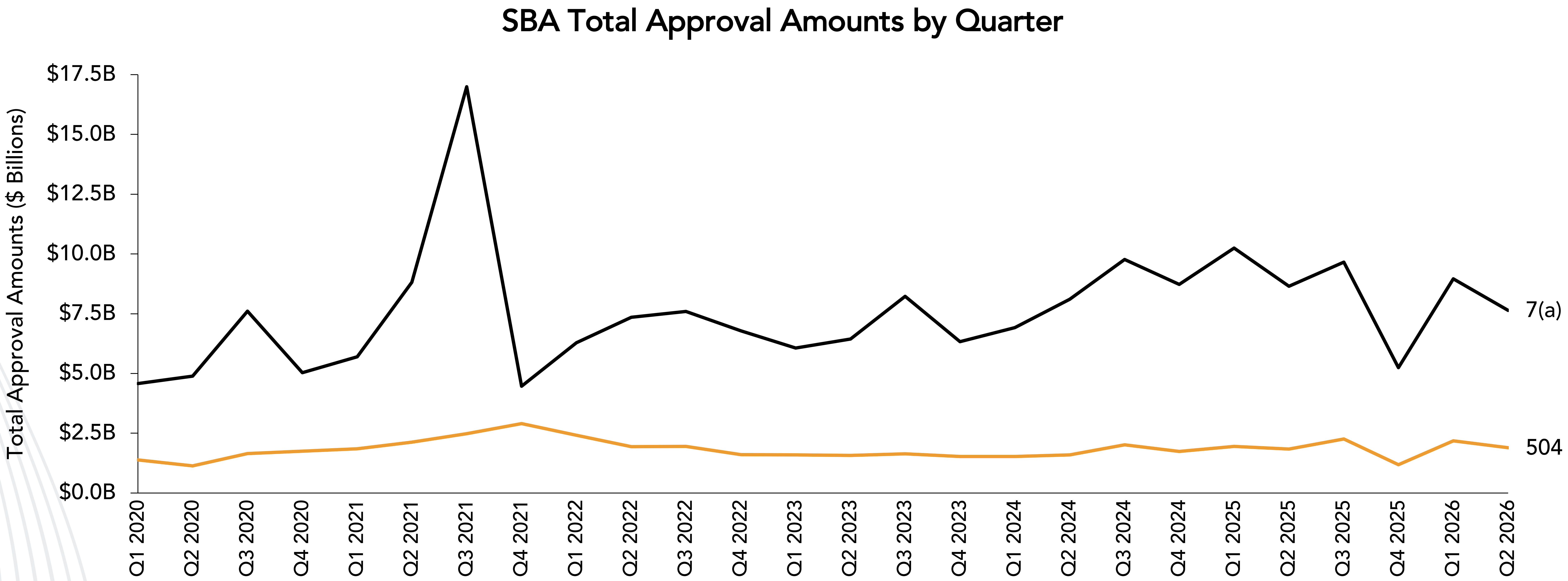
KC Fed Small Business Lending Survey



Note: KC Fed Small Business Lending Survey is a quarterly survey of U.S. commercial banks (144 resp. in Q1 2026), "Small Business" lending refers to C&I loans to U.S. nonfarm businesses with $5 million or less in annual gross revenue.

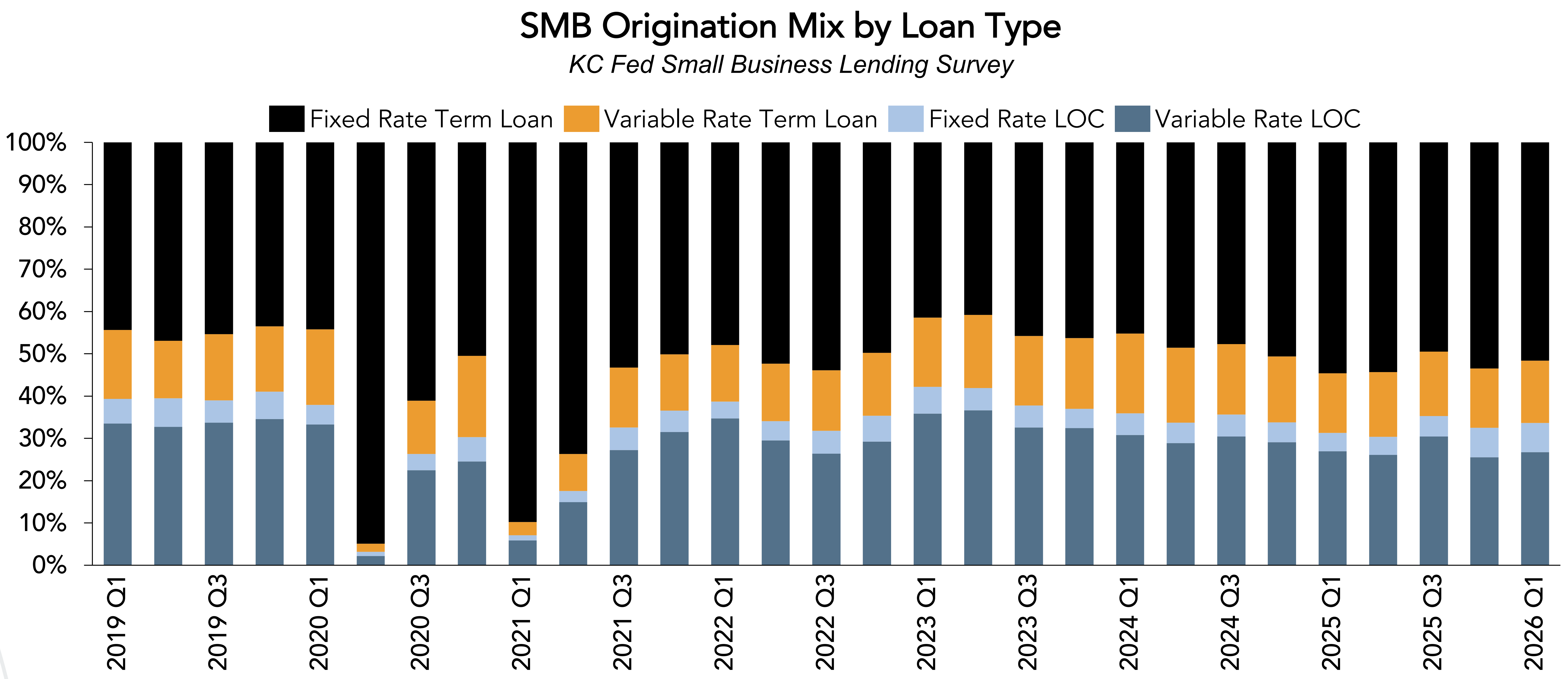
Source: Federal Reserve Bank of Kansas City, Small Business Lending Survey – Aggregate Data, quarterly data through Q1 2026, https://www.kansascityfed.org/surveys/small-business-lending-survey/

SBA Loan Approvals:
Q2 approvals cooled after the Q1 rebound, but remain above recent-year levels



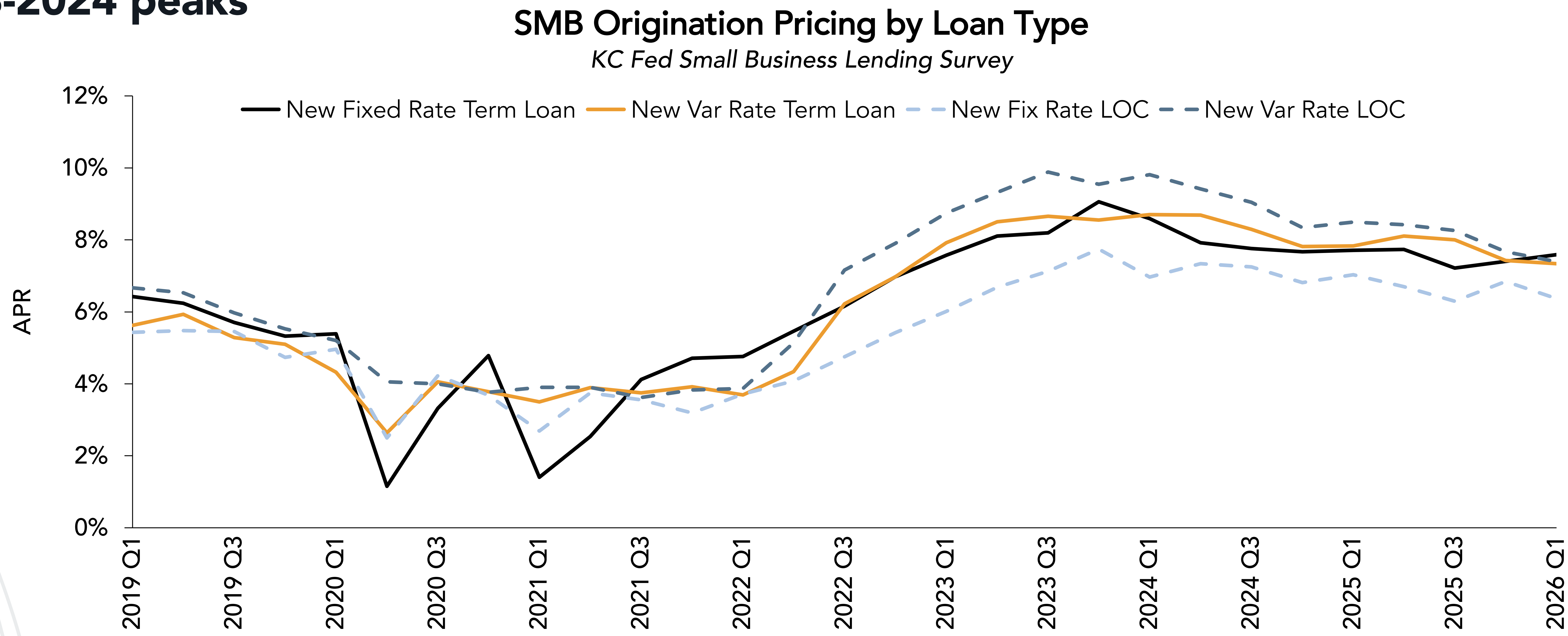
Source: SBA FOIA – 7(a)(FY2020-Present) asof 7/1/26 - https://data.sba.gov/dataset/7-a-504-foia/resource/d67d3ccb-2002-4134-a288-481b51cd3479

SMB Lending Origination Mix:
Fixed-rate term loans drove most of new SMB originations



Source: Federal Reserve Bank of Kansas City, Small Business Lending Survey – Aggregate Data, quarterly data through Q1 2026, https://www.kansascityfed.org/surveys/small-business-lending-survey/

SMB Lending Pricing:
New origination interest rates remain stable, continuing the decreasing trend from 2023-2024 peaks

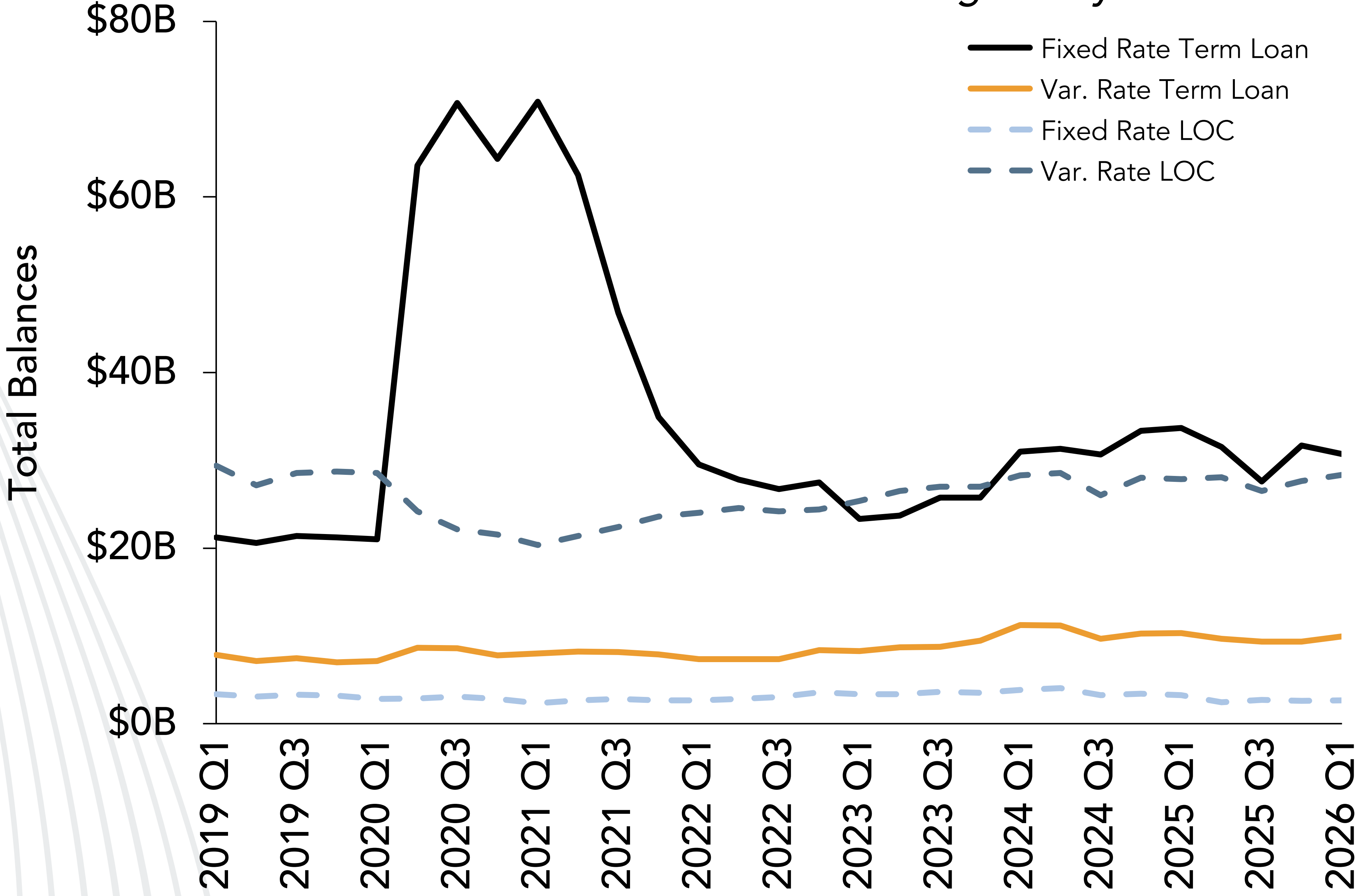


Source: Federal Reserve Bank of Kansas City, Small Business Lending Survey – Aggregate Data, quarterly data through Q1 2026, https://www.kansascityfed.org/surveys/small-business-lending-survey/

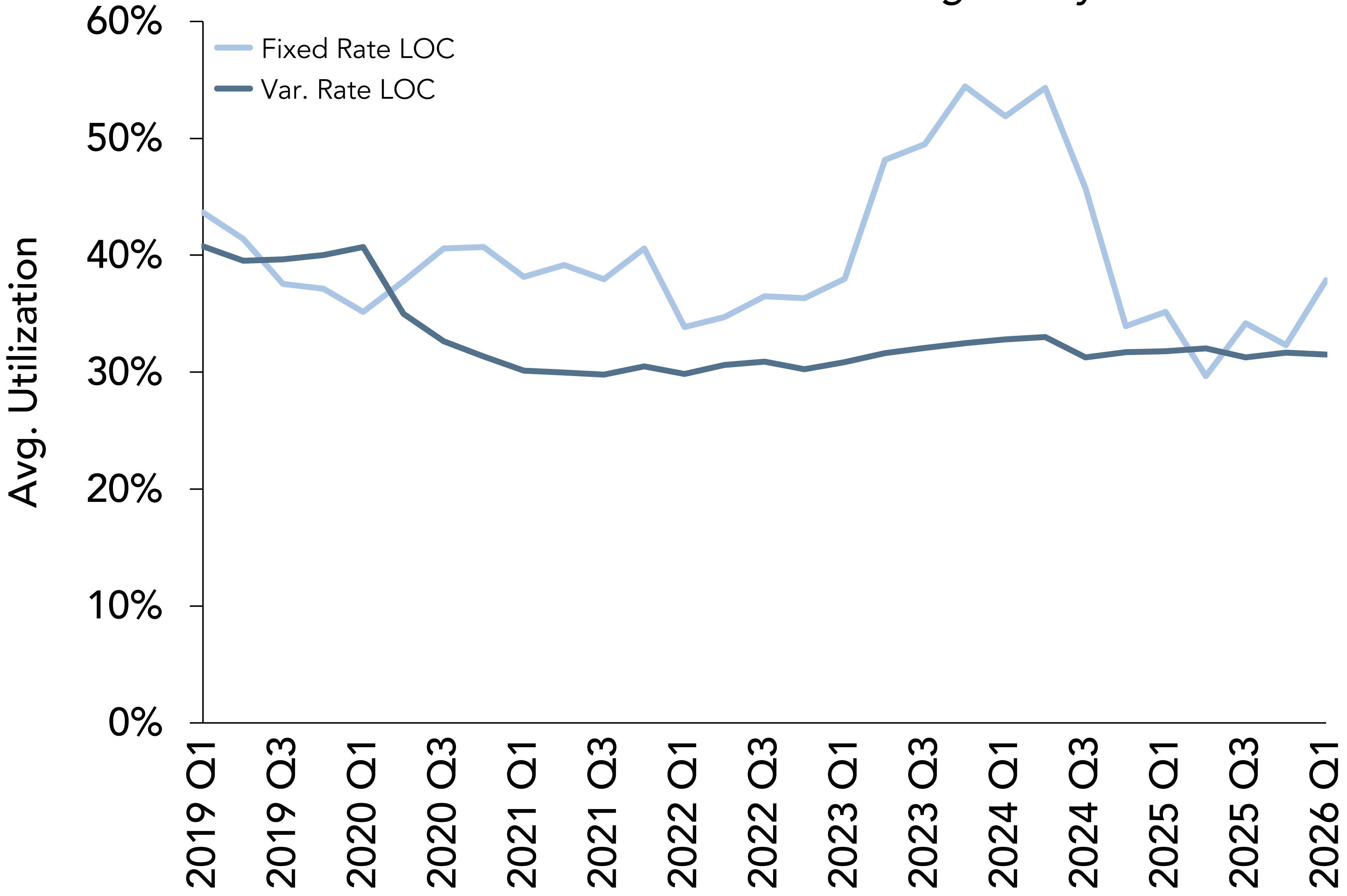
2nd Order solutions

SMB Credit Usage:
Existing Balance and Utilization rates reman stable;
lower recent origination activity has not translated into broader contraction

SMB Outstanding Balances by Loan Type
KC Fed Small Business Lending Survey



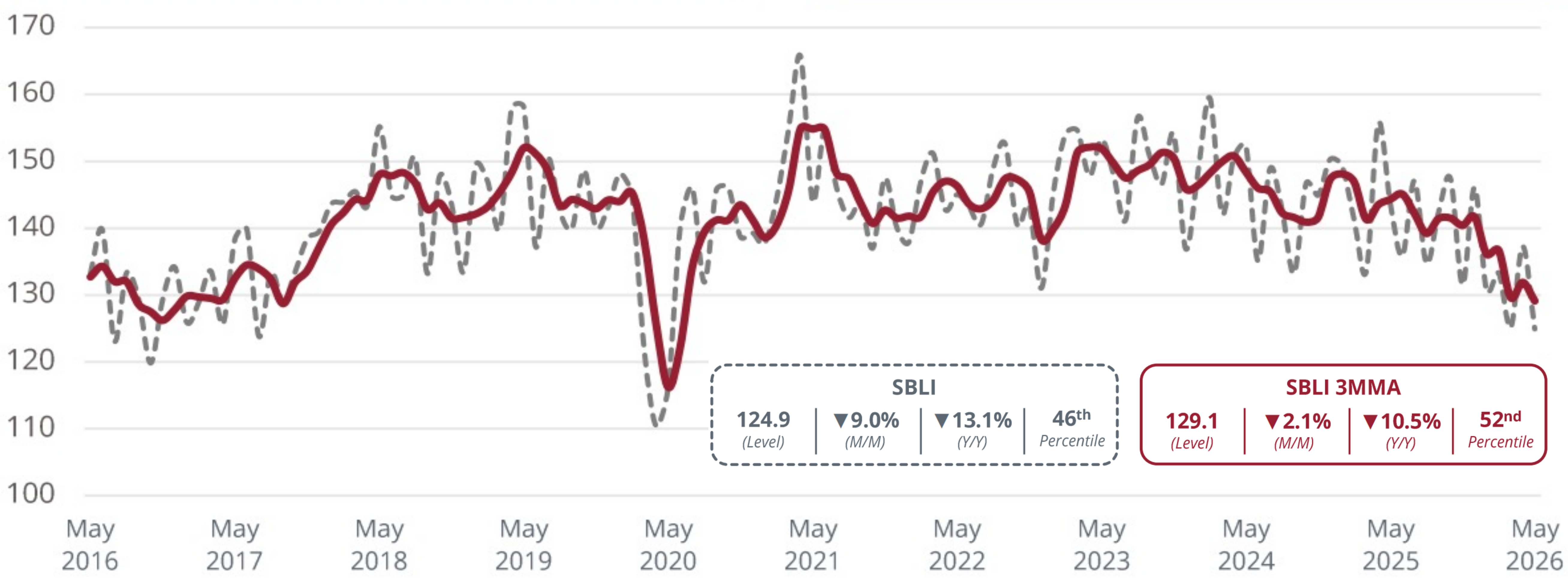
SMB LOC Utilization by Loan Type
KC Fed Small Business Lending Survey



Source: Federal Reserve Bank of Kansas City, Small Business Lending Survey – Aggregate Data, quarterly data through Q1 2026, https://www.kansascityfed.org/surveys/small-business-lending-survey/

Small Business Lending Index: Broader new lending activity has weakened despite relatively stable bank lending indicators

Equifax / PayNet Small Business Lending Index (SBLI)

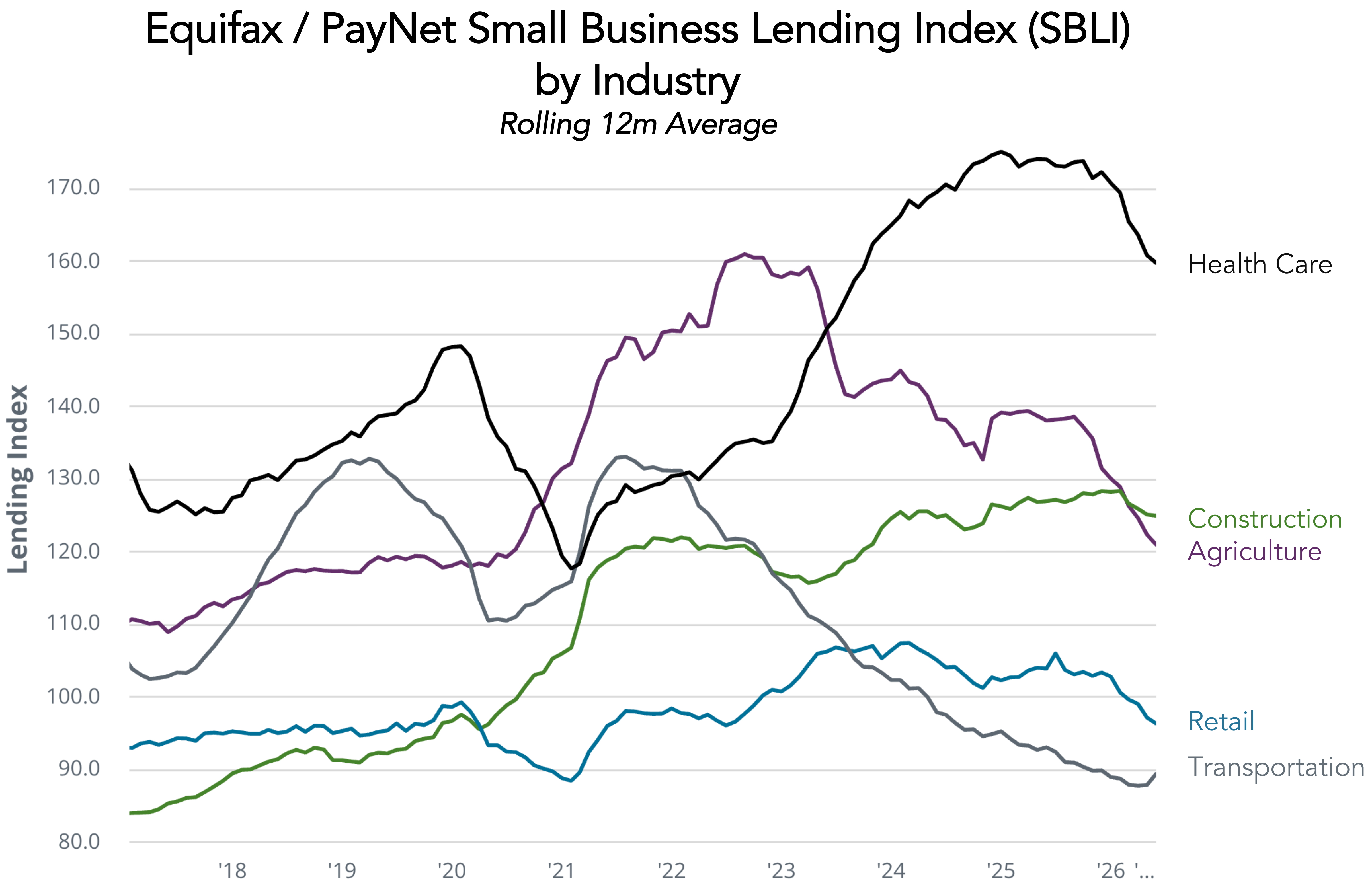


Volume of new commercial loans and leases to small businesses, seasonally adjusted index (January 2005 = 100)

Note: Equifax / PayNet SBLI measures new small-business commercial loan and lease activity. National Index is monthly and seasonally adjusted; State and industry indices are rolling 12-month measures. Indexed to Jan 2005 = 100

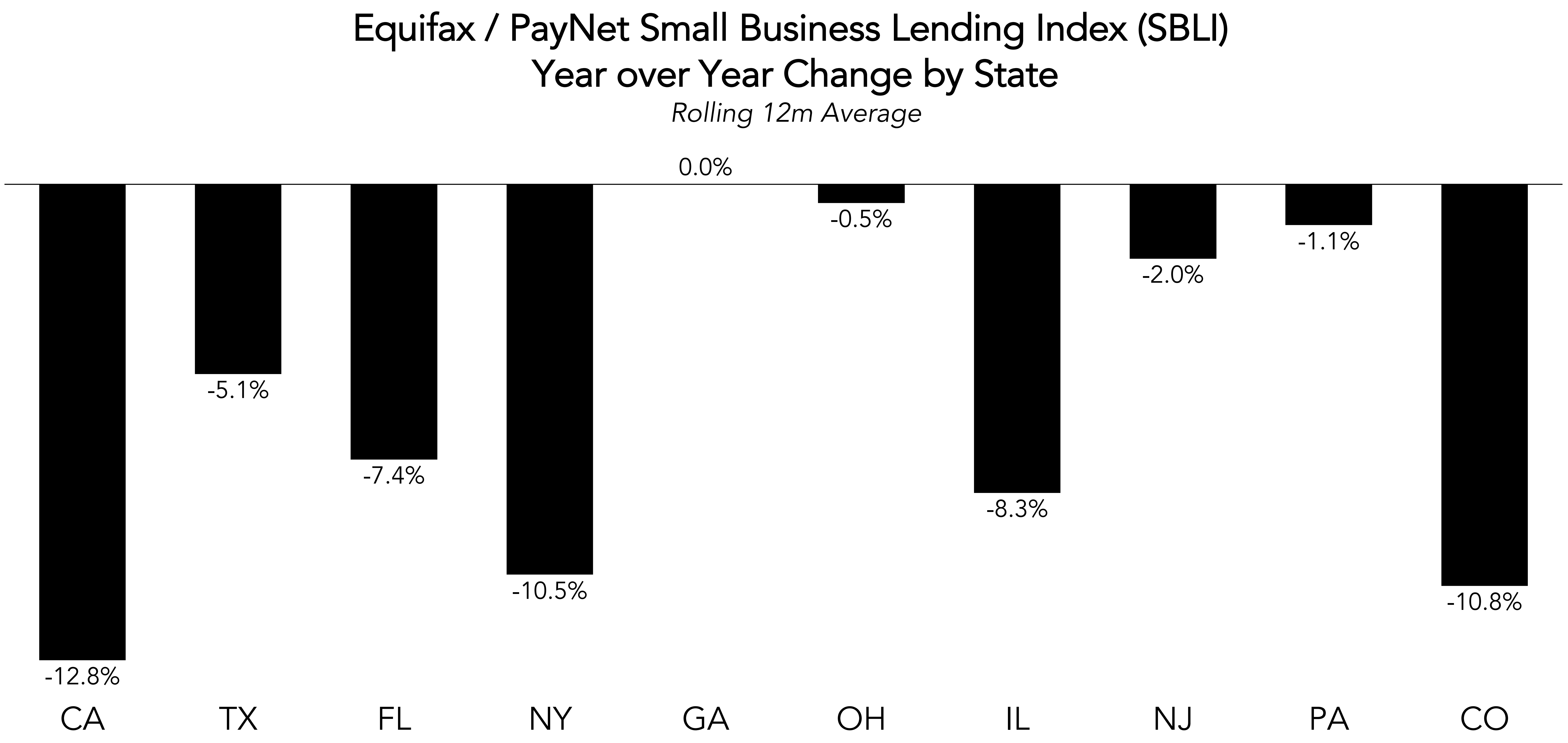
Source: Paynet Small Business Lending Index (SBLI) - https://assets.equifax.com/marketing/US/assets/main-street-lending-report-july-2026.pdf

Small Business Lending Index:
Health care leads SMB lending activity; transportation remains the clear weak spot



Source: Paynet Small Business Lending Index (SBLI) - https://sbinsights.paynetonline.com/lending-activity/

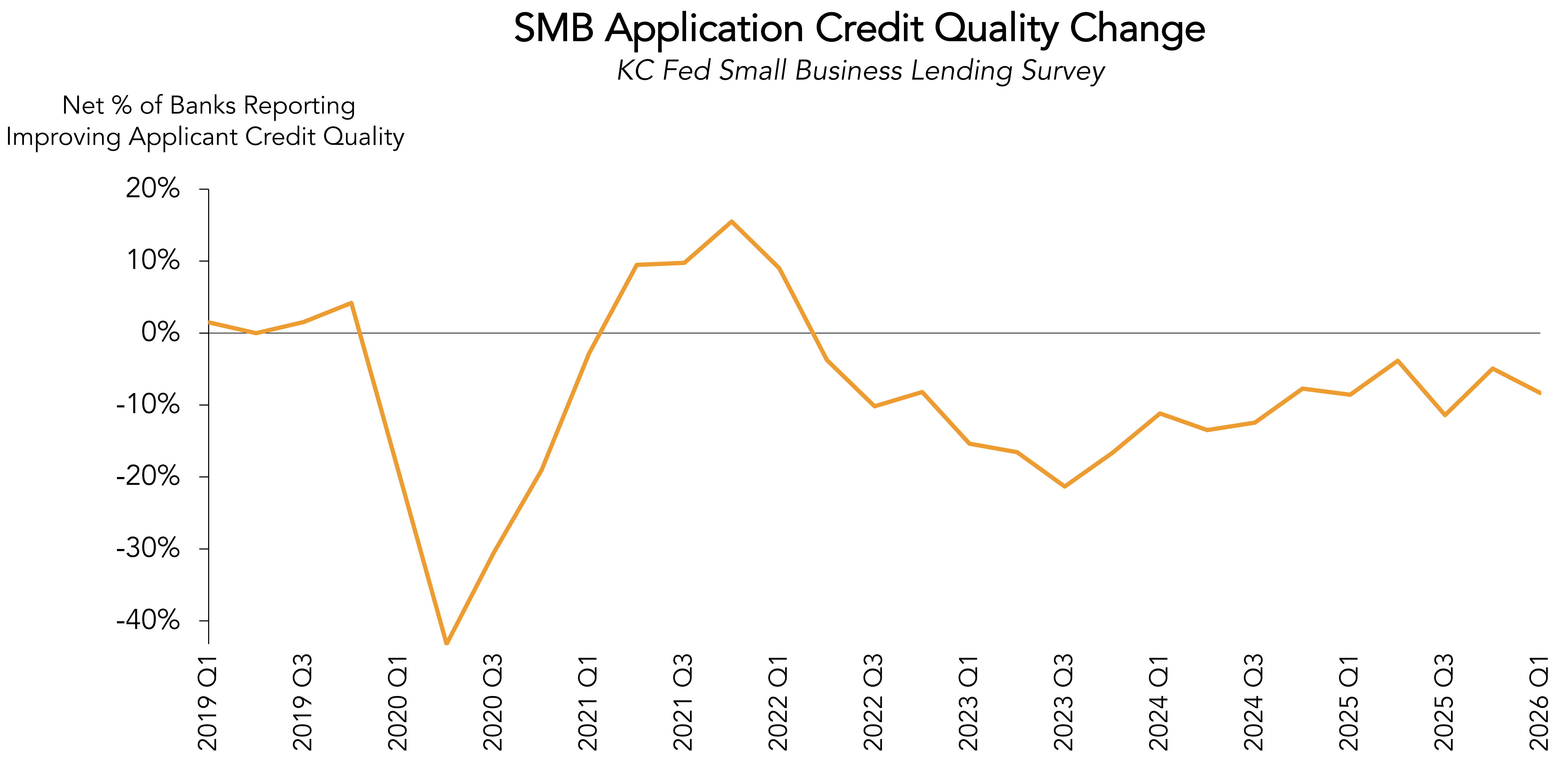
Small Business Lending Index:
Trailing lending activity remains below prior-year levels across most major states



Source: Paynet Small Business Lending Index (SBLI) - https://sbinsights.paynetonline.com/credit-conditions/

SMB Loan Performance

SMB Credit Quality:
Banks continue to report deterioration in new applicant quality, though conditions have improved from 2023 lows

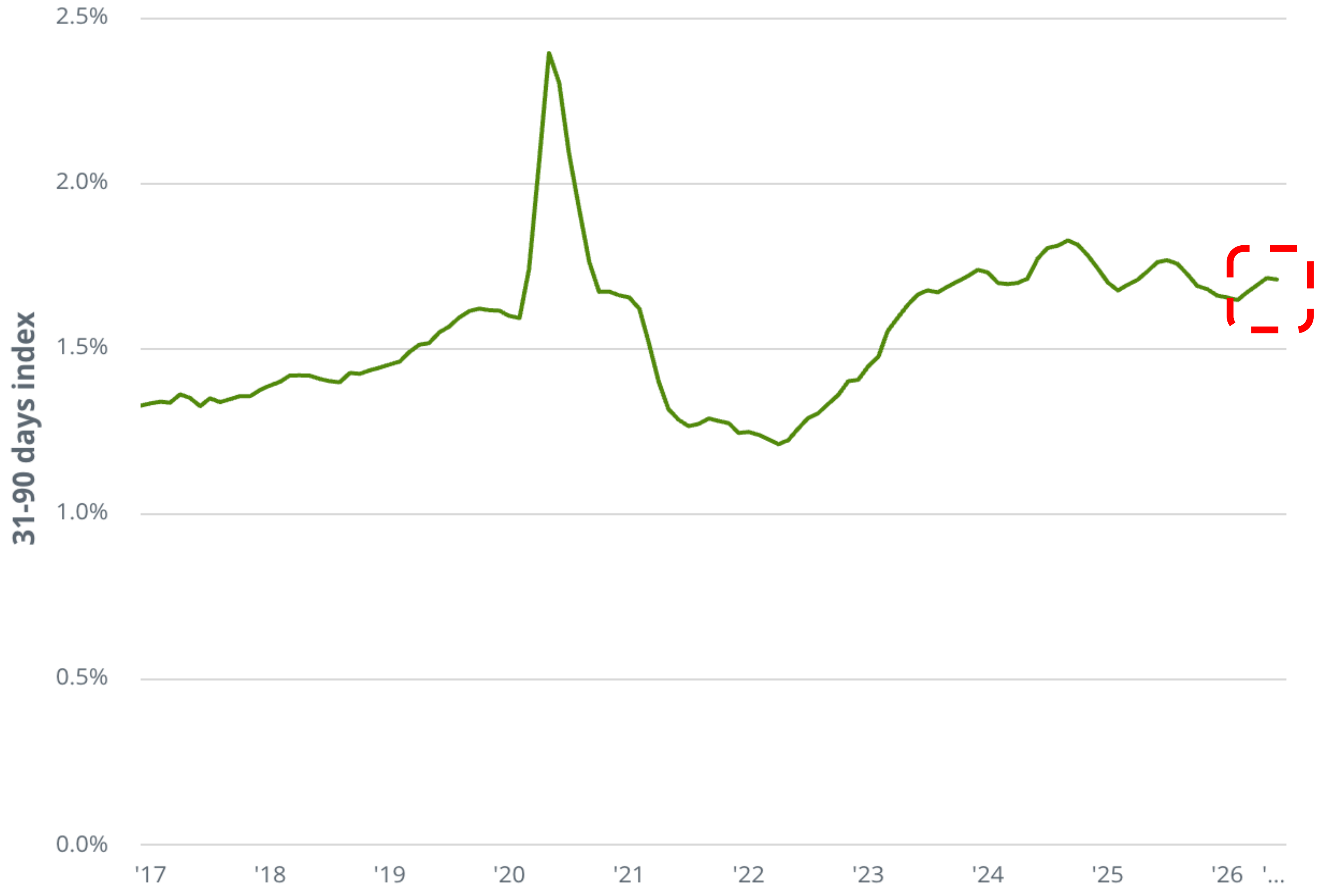


Source: Federal Reserve Bank of Kansas City, Small Business Lending Survey – Aggregate Data, quarterly data through Q1 2026, https://www.kansascityfed.org/surveys/small-business-lending-survey/

2nd Order solutions

Small Business Delinquency and Default Index: Delinquencies rose modestly while defaults remained contained

Equifax / PayNet
Small Business Delinquency Index (SBDI)
All Industries
(31-90 Days Delinquent)

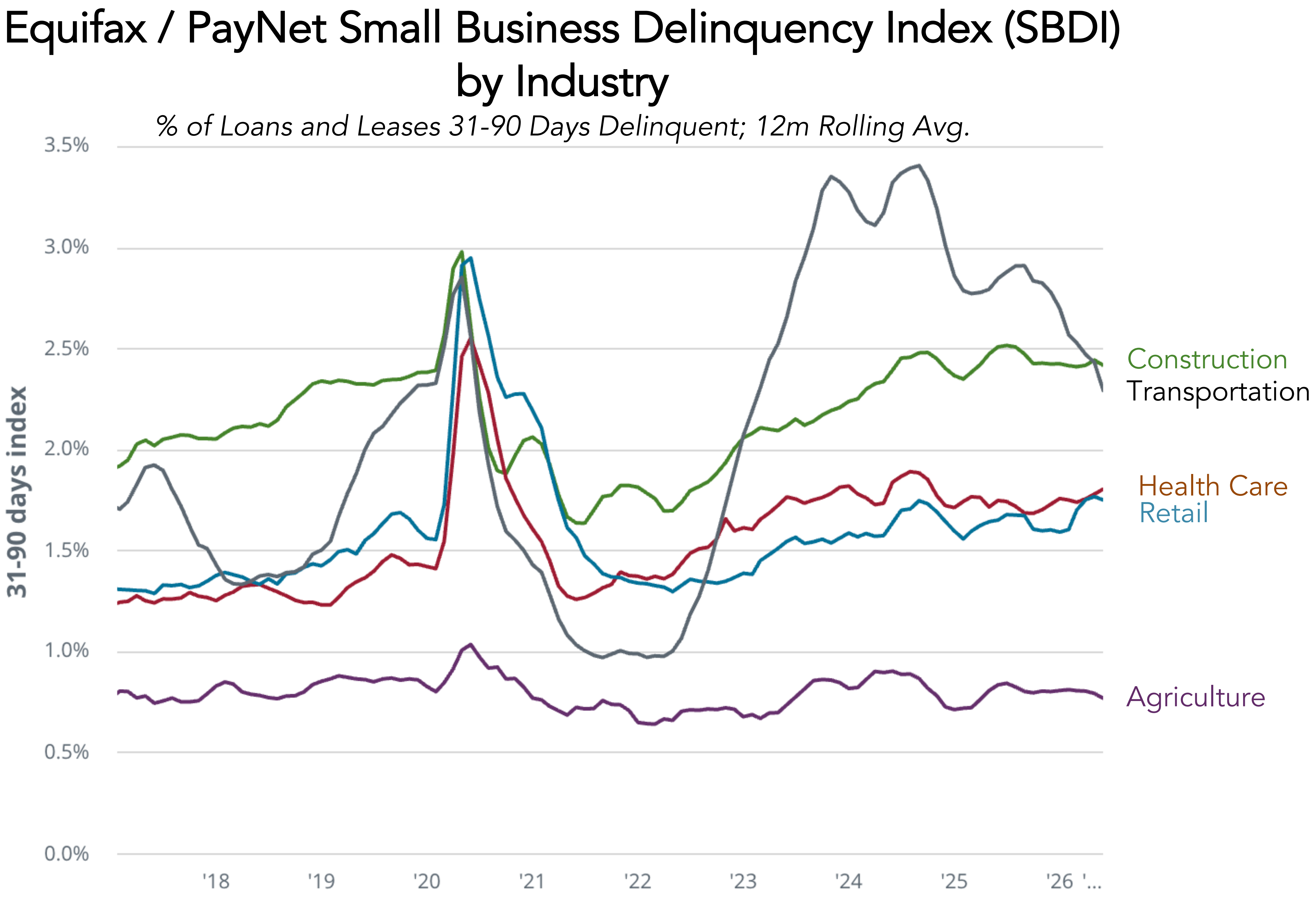


Equifax / PayNet
Small Business Default Index (SBDFI)
All Industries
(Trailing 12m Defaults)

Note: Equifax / PayNet SBDI and SBDFI use commercial loan and lease performance data from participating lenders. SBDI measures 31–90 day delinquency; SBDFI measures trailing 12-month defaults; state and industry views use rolling 12-month measures.

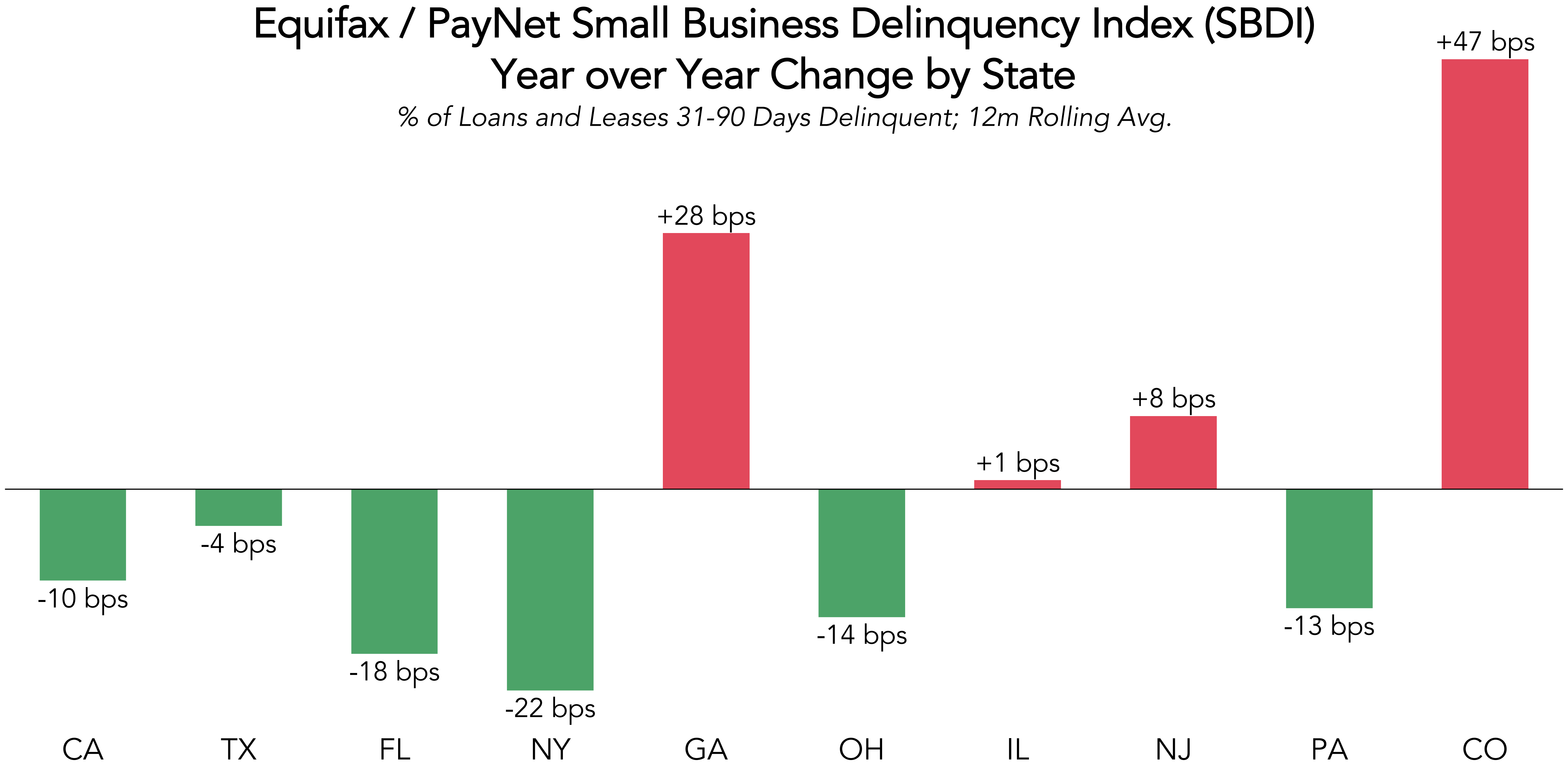
Source: Paynet Small Business Delinquency Index (SBDI) - https://sbinsights.paynetonline.com/loan-performance/
Paynet Small Business Default Index (SBDFI) - https://sbinsights.paynetonline.com/loan-performance/

Small Business Delinquency Index (SBDI): Transportation has improved significantly, but delinquency risk remains concentrated in transport and construction



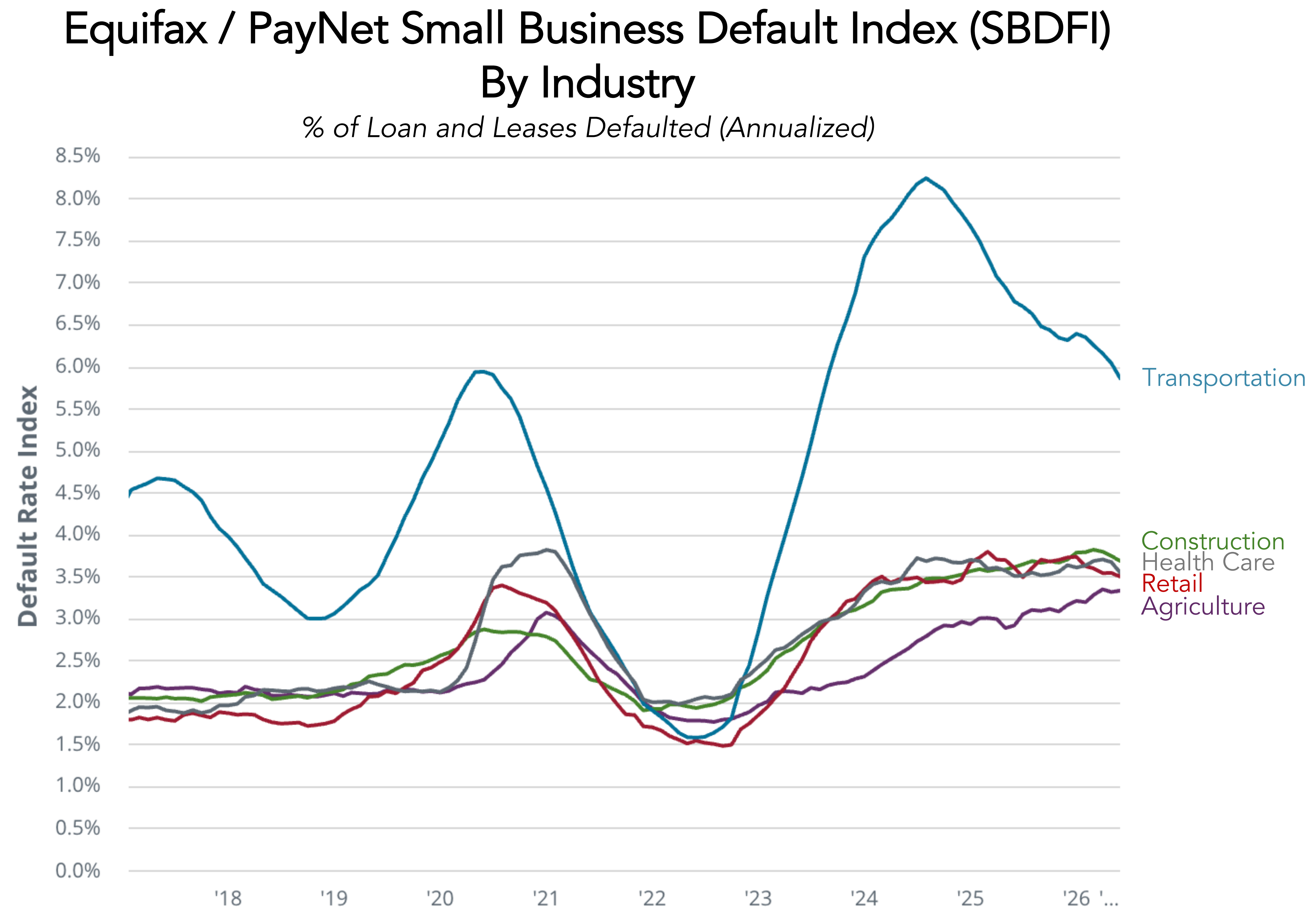
Source: Paynet Small Business Delinquency Index (SBDI) - https://sbinsights.paynetonline.com/loan-performance/

Small Business Delinquency Index: Trailing 12-month delinquency trends improved across most large states, led by California and New York



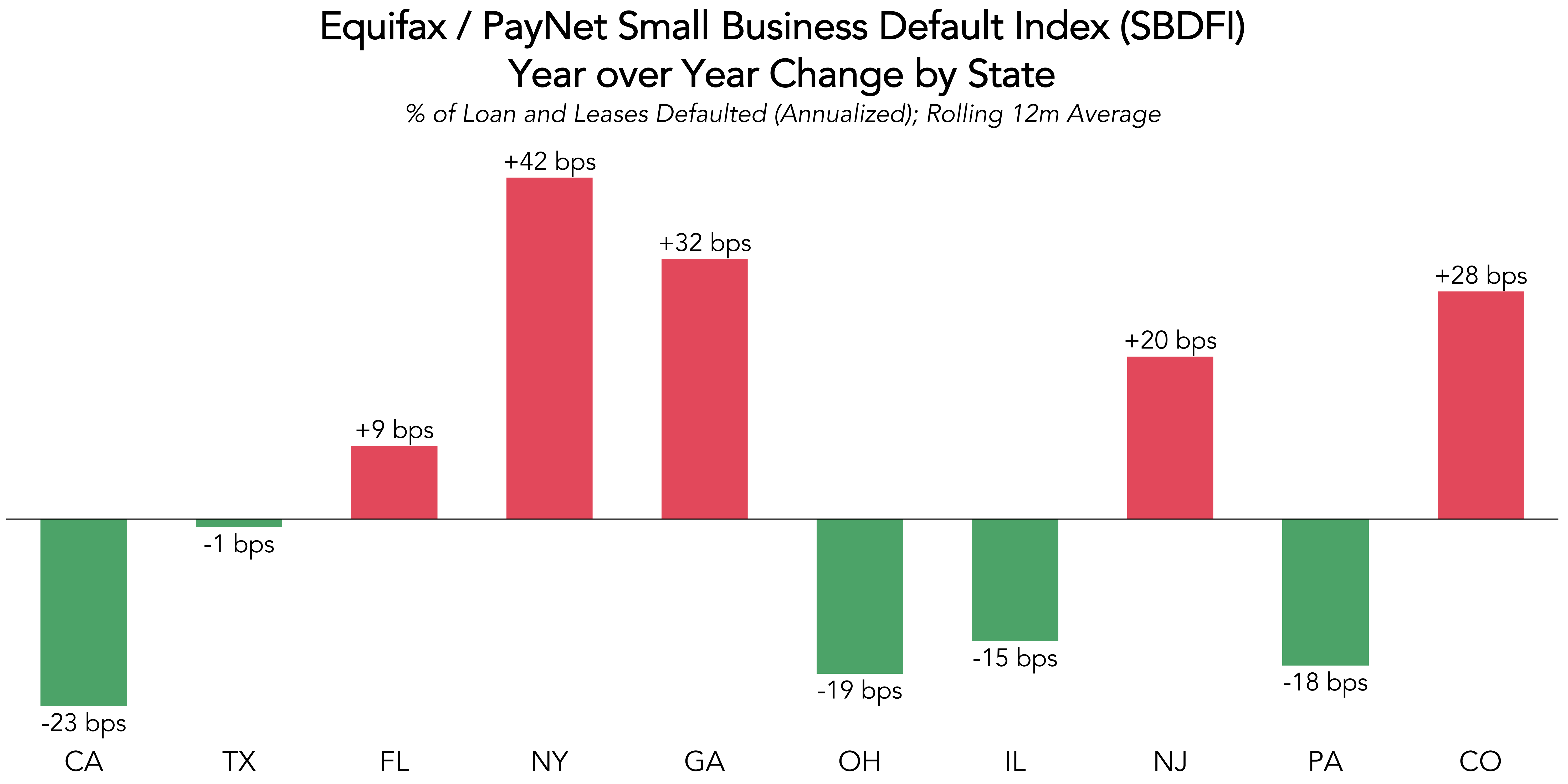
Source: Paynet Small Business Delinquency Index (SBDI) - https://sbinsights.paynetonline.com/loan-performance/

Small Business Default Index: Transportation remains the clear outlier, while other industries cluster in a narrower default band



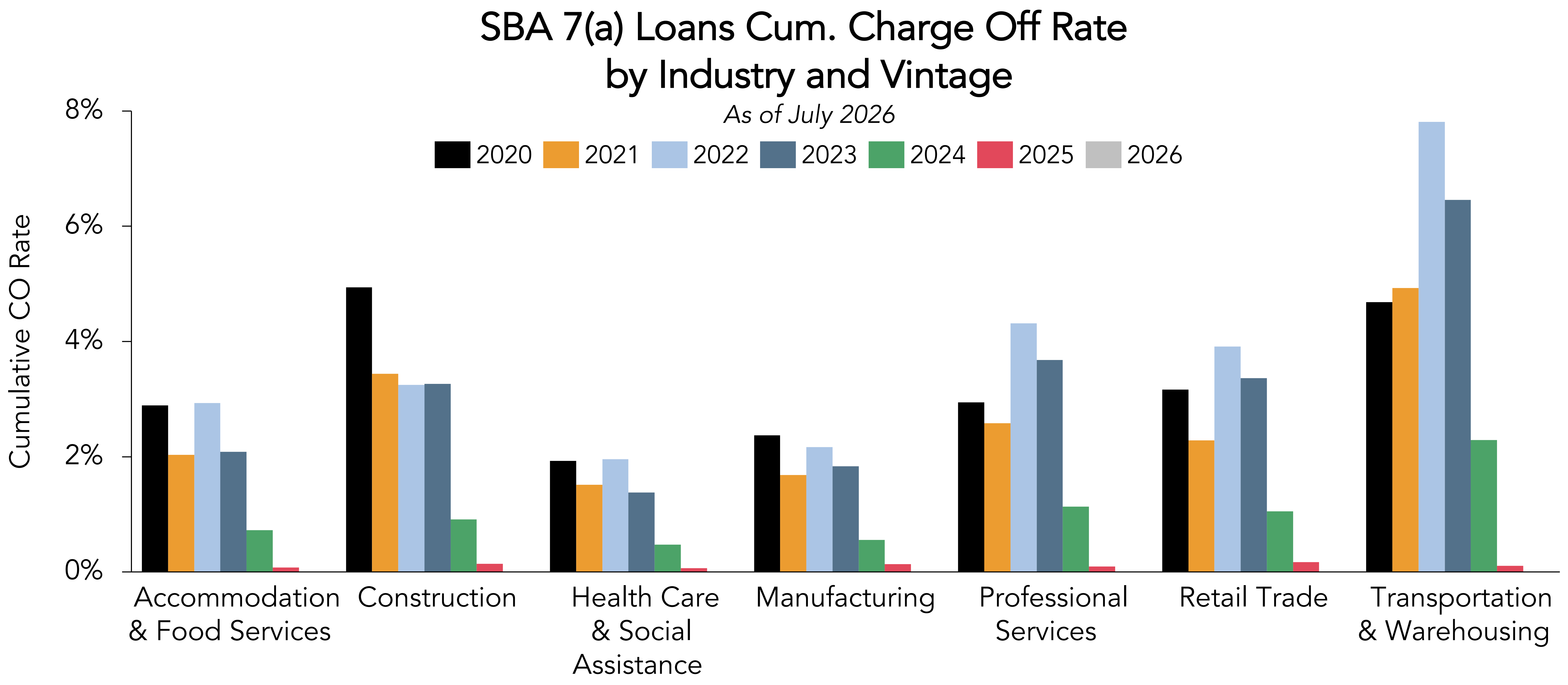
Source: Paynet Small Business Default Index (SBDFI) - https://sbinsights.paynetonline.com/loan-performance/

Small Business Default Index:
Rolling 12-month trends show increasingly divergent default performance across major states



Source: Paynet Small Business Default Index (SBDFI) - https://sbinsights.paynetonline.com/credit-conditions/

SBA 7(a) Loans:
Cumulative charge-off risk remains concentrated in transportation, with construction also elevated in older vintages



Note: Charge-off rates are cumulative by origination vintage; newer vintages have had less time to season and are not directly comparable with older vintages.

Source: SBA FOIA – 7(a)(FY2020-Present) asof 7/1/26 - https://data.sba.gov/dataset/7-a-504-foia/resource/d67d3ccb-2002-4134-a288-481b51cd3479

Recent Developments

- SBA: Expanded access to capital through its **Made in America Manufacturing Initiative**, doubling the combined 7(a)/504 borrowing limit to $10M and introducing **90% loan guarantees** for qualifying manufacturers
- SBA: Approved **Siemens Financial Services** as a new Small Business Lending Company (SBLC), expanding non-bank participation in the 7(a) lending program
- SoFi: Launched **SoFi Small Business Loans**, expanding digital financing options for entrepreneurs and SMBs
- Fifth Third Bank: Rolled out **Fifth Third for Business**, an integrated banking, payments, and lending platform for small businesses
- Live Oak Bank: Reported **$1.5B in Q2 originations**, record **Live Oak Express** production, and a near-record loan pipeline.

Sources: SBA "Made in America Loan Guarantee" / "Small Businesses Now Eligible for $10 Million in SBA Financing"; SBA "Siemens Financial Services as 7(a) Lender"; SoFi "SoFi Introduces Small Business Loans to Help Members Pursue Their Business Ambitions"; Fifth Third "Fifth Third for Business Helps Small Businesses Get Paid Faster, Manage Cash Flow, and Access Capital"; Live Oak Bancshares Q2 2026 Results

Copyright © 2026 by 2nd Order Solutions. All rights reserved.

Sources – Recent Developments (Q2 2026)

- U.S. Small Business Administration – "SBA Announces New 'Made in America Loan Guarantee' to Restore Manufacturing Dominance" (March 2026)
  - https://www.sba.gov/article/2026/03/31/sba-announces-new-made-america-loan-guarantee-restore-manufacturing-dominance

- U.S. Small Business Administration – "Small Businesses Now Eligible for $10 Million in SBA Financing" (July 2026)
  - https://www.sba.gov/article/2026/07/07/small-businesses-now-eligible-10-million-sba-financing

- U.S. Small Business Administration – "SBA Approves Siemens Financial Services as 7(a) Lender" (June 2026)
  - https://www.sba.gov/article/2026/06/17/sba-approves-siemens-financial-services-7a-lender

- SoFi Technologies – "SoFi Introduces Small Business Loans to Help Members Pursue Their Business Ambitions" (June 2026)
  - https://investors.sofi.com/news/news-details/2026/SoFi-Introduces-Small-Business-Loans-to-Help-Members-Pursue-Their-Business-Ambitions/default.aspx

- Fifth Third Bancorp – "Fifth Third for Business Helps Small Businesses Get Paid Faster, Manage Cash Flow, and Access Capital" (June 2026)
  - https://www.53.com/content/fifth-third/en/media-center/press-releases/2026/press-release-2026-06-04-1.html

- Live Oak Bancshares – "Reports Second Quarter 2026 Results" (July 2026)
  - https://investor.liveoak.bank/news/news-details/2026/Live-Oak-Bancshares-Inc--Reports-Second-Quarter-2026-Results/default.aspx

About 2OS

2nd Order Solutions (2OS) is a boutique credit risk advisory firm that specializes in solving the world's most challenging credit problems. 2OS was founded 18 years ago and consults to a wide range of banks, card issuers, fintechs, and specialty finance companies in the US and abroad.

2OS has deep experience with lending businesses across Card, Auto, Small Business, and Personal Loans, at all points in the credit lifecycle. 2OS partners have vast expertise in all aspects of Collections, both as operating executives and as consultants.

For more insights and commentary on the lending industry, visit us at **https://2os.com/insights/**

2nd Order solutions

Providing World-Class Credit Risk
Solutions to Financial Institutions