Abrigo data shows privately held companies' financial resilience amid rising interest rates and economic shifts

Austin, Texas — **November 5, 2024** — New data from Abrigo, a leading provider of compliance, credit risk, and lending solutions for financial institutions, shows privately held U.S. businesses are managing their debt obligations effectively and maintaining their financial health despite higher interest rates.

Abrigo's proprietary data, based on aggregated financial statements collected from accounting firms, banks, and credit unions, highlights trends in leverage, debt service coverage, and working capital cycles – crucial intelligence for financial institutions as they monitor loan demand and assess the health of prospective borrowers.

"In conversations with community banks and credit unions across the country, we're hearing about a significant increase in line utilization, raising questions about both liquidity and credit risk," said Abrigo Advisory Services Director Kent Kirby. "Our data show that companies are borrowing more, but they're also managing their leverage and meeting their obligations," Kirby said.

Abrigo examined leverage and coverage ratios for privately held firms between 2002 and early October 2024 to learn how economic shifts are affecting them. The company's real-time database of private-company financial statement information offers valuable insights into the financial health of businesses across the U.S., helping institutions make informed lending decisions and manage risk effectively.

Key findings:

1. Steady debt service coverage despite rising rates
Even with a 350-basis point increase in interest rates since 2019, the Debt Service Coverage Ratio (DSCR) for privately held companies has remained stable at 5.75x in 2023, compared to 5.73x in 2019. This suggests that businesses are managing their debt obligations effectively. Kirby added, "Debt service coverage remained steady, showing there was enough cash coming in to service debt as contractually agreed. Businesses are feeling the pinch but handling it well."

2. Improved leverage levels
Businesses have taken a more cautious approach to borrowing, as reflected in the Debt-to-Equity Ratio, which decreased from 4.10x in 2019 to 3.45x in 2023. Despite increased utilization, the reduction in leverage indicates that companies have prioritized financial stability. "Leverage actually decreased, showing that companies are managing their obligations and not overextending themselves," Kirby said.

3. Longer working capital cycles driving borrowing
The analysis shows a rise in Days Needed Financing, which increased from 77 days at the end of 2019 to 93 days in 2023. This increase is driven by longer inventory periods (72 to 81 days) and extended receivables (31 to 41 days). Companies are borrowing more to cover operational costs but continue to pay suppliers on time,

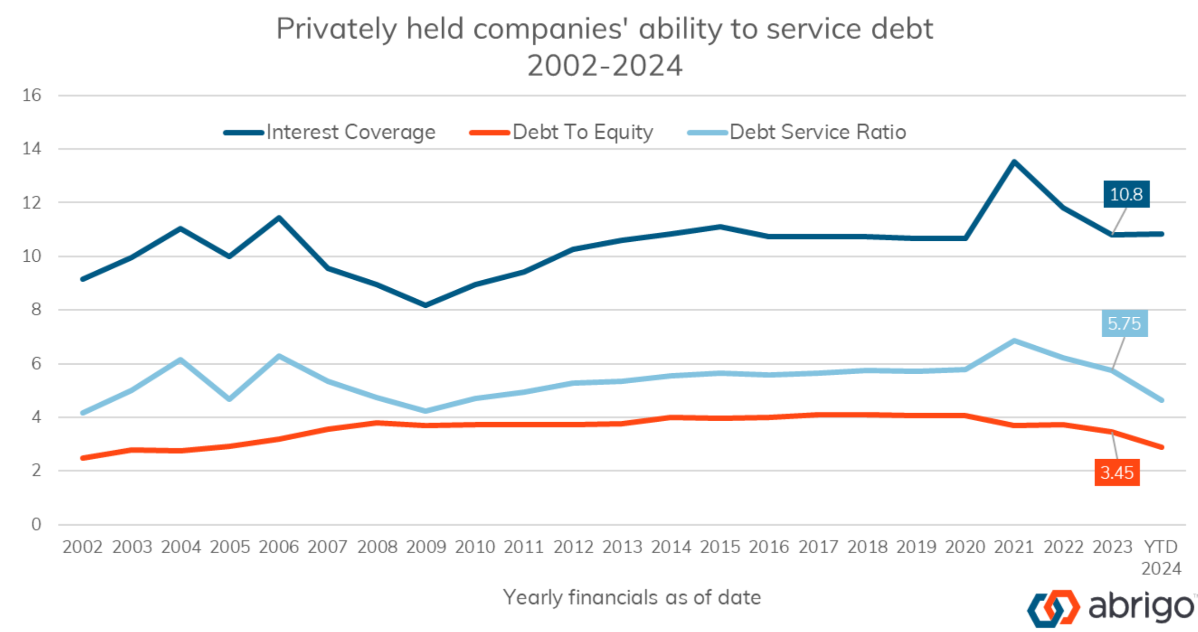
with payables remaining under 30 days. Kirby explained, “Companies need more working capital, but they’re still paying their suppliers as they should.”

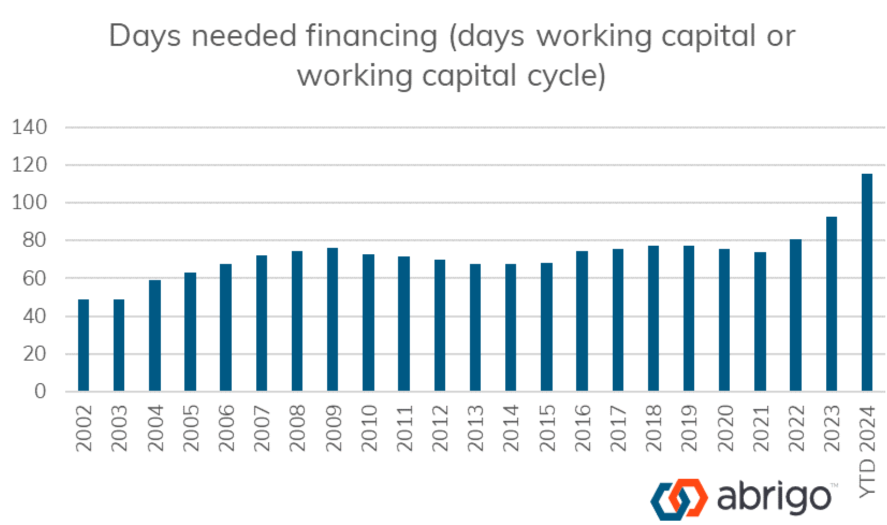
4. Strong interest coverage amid rising rates

The Interest Coverage Ratio, which measures a company’s ability to meet interest payments, remained strong. It has gone from 10.67x in 2019 to 10.80x in 2023, meaning businesses have continued to cover interest expenses despite higher rates. “The increase in interest rates hasn’t derailed businesses' ability to manage payments,” Kirby said.

5. Leverage continues to improve in 2024

Abrigo receives more data every day on how privately held businesses are managing their debt and financial health in 2024. Early figures for this year show a slight decline in the Debt Service Coverage Ratio (DSCR) to 4.62x. However, leverage continues to improve. “The preliminary data indicates that the increase in rates and the end of stimulus measures are finally being felt,” Kirby said. “The rate decrease in September came at just the right time to prevent further financial stress.”





Implications for financial institutions

Nearly all U.S. businesses are privately held, and most are small, with fewer than 500 employees. The 33.2 million small businesses in the U.S. employ roughly half of all Americans in the labor force and drive nearly 44% of GDP.

Small business lending is a large and growing market. The Consumer

Financial Protection Bureau's (CFPB) last detailed review estimated that it grew 21% to $1.7 trillion between 2019 and 2022.

Historically, increased line utilization, particularly in somewhat benign times, has been a cause for concern. As line utilization goes up, the ability of a small business to have "dry powder" in the event of a downturn diminishes. Yet, the Abrigo data show that companies are not only meeting obligations but also reducing overall leverage. That would indicate that there are opportunities to grow the small business portfolio in a safe and sound manner, particularly with rates apparently peaking. The real issue, then, is how to add incrementally to that portfolio in a profitable manner.

Recently, Abrigo introduced the Abrigo Small Business Lending solution featuring innovative automation technology and AI-powered loan scoring provided by Charm Solutions. Abrigo Small Business Lending can modernize an institution's ability to serve the small business community through a simplified loan application, easy loan documentation management, automated loan processing that allows for easy lender intervention, and support for Section 1071 reporting. Charm's AI-powered, transparent loan scoring assesses applicants more comprehensively, ensuring that financial institutions can approve borrowers who might be overlooked by conventional models.

About Abrigo
Abrigo is a leading provider of risk management, financial crime prevention, and lending software and services that help more than 2,500 financial institutions manage risk and drive growth in a rapidly changing world. We deliver transformational technology, product innovation, world-class support, and unparalleled expertise so our customers can face complex challenges and make big things happen.

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