State of SMB lending

Operational view - Q1 2026

Foreword

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Small businesses are the engine of the American economy. They generate nearly half of GDP, employ more than half the private-sector workforce and absorb a level of financial risk that most larger companies can hedge, diversify or simply walk away from. And yet, for most of the history of institutional credit, the tools built to evaluate them were designed for someone else entirely.

Credit scores built for consumers. Income documentation frameworks built for W-2 employees. Underwriting funnels that treat a three-year-old HVAC contractor the same way they treat a Fortune 500 subsidiary. The mismatch between the complexity of small business financial life and the bluntness of traditional credit infrastructure is not a minor inefficiency. It is the reason capital has historically flowed past the businesses that need it most.

Ocrolus was built to close that gap. Over the past decade, we have processed tens of millions of financial documents across more than 175 SMB lending relationships, building what we believe is the most comprehensive real-time view of small business financial behavior in the industry. We see payroll flows and tax remittances. We see insurance payments appear and disappear. We see the moment a business starts leaning on overdrafts, and the moment it stops. We see which industries carry their costs differently, which geographies cluster risk and which payment rails signal formality or its absence. This is not survey data or credit bureau data. It is the actual financial behavior of small businesses, observed directly from their bank accounts.

That depth of visibility is what makes this report possible, and why we believe it represents something meaningfully different from the market commentary that already exists.

Starting this quarter, Ocrolus will publish a two-part SMB Lending Health Report on a quarterly basis. Part One, which you are reading now, is the operational lookback: a systematic read on how small businesses are managing their cost structures, cash flows, obligations, and payment behavior. Part Two, to follow, is the financial lookback: a deeper analysis of credit performance, revenue trends, and the signals that inform forward-looking risk.

Together, these two reports are designed to give lenders, investors and policymakers a grounded, transaction-level view of small business financial health, one that builds quarter over quarter into a continuous record of how the market is actually moving.

We have chosen to publish this work quarterly, because the small business lending environment does not stand still. Conditions that look stable in one quarter can shift materially in the next, and the lenders who respond fastest are almost always the ones who saw the change coming in the data before it showed up in their loss rates. Our goal is to give those lenders an earlier signal and a clearer view.

The findings in Q1 2026 are worth reading carefully. Acute stress, overdrafts, NSF events, high-strain cash flow, is genuinely declining. That is real progress. But payroll burden is rising, fixed obligations have climbed to a two-year high and insurance incidence has been falling steadily for six consecutive quarters. The surface looks calmer. The underlying cost structure does not.

That tension, between improving liquidity signals and rising structural costs, is the defining characteristic of the small business credit environment entering 2026. Understanding it requires exactly the kind of transaction-level evidence this report is built on. We hope it serves you well.

David Snitkof is the General Manager of SMB at Ocrolus, where he leads the company's business unit focusing on small business lending. He previously co-founded Orchard, a pioneering data and transaction platform for online lending acquired by Kabbage in 2018, and served as Head of Analytics and Data Strategy at Kabbage. He is a frequent writer and speaker on financial technology, credit, and the future of data-driven lending.

State of SMB lending | Part 1: operational view - Q1 2026

This report is the first in a quarterly two-part series. The operational view you are reading now will be paired each quarter with a financial lookback, together forming Ocrolus's ongoing read on the health of the small business lending market. This business operational view is drawn from transaction-level bank account data across 254,812 active SMB loan applicants in Q1 2026. Rather than relying on self-reported sentiment, the analysis examines how small businesses actually behave: how they pay their people, manage their tax obligations, carry insurance, service their debt, and move money across payment rails. The metrics covered span borrowing activity and debt service burden, payroll and tax remittance behavior, insurance payment incidence, operational friction indicators including NSF and overdraft events, fixed obligation burden and payment rail usage across checks, P2P platforms, and fintech channels. Where relevant, findings are broken out by industry and location to surface patterns.

Key takeaways

Stress is easing, but costs are climbing.

Overdraft incidence fell to 24.6%, down 5.2% year-over-year, and NSF incidence dropped to 10.1%, down 7.5% year-over-year. Yet fixed obligation burden hit 8.1%, up from 7.4% last quarter and its highest level in the observed period.

Multi-obligation stacking is down 22% year-over-year.

Multi-obligation incidence fell to 4.8%, suggesting either tighter credit eligibility or more deliberate debt management among small business owners.

Insurance coverage dropped sharply.

The share of businesses with visible insurance payments fell to 22.6%, down 16.5% year-over-year, an unusual move at this scale that may indicate businesses are dropping coverage to manage costs, with implications for lender risk exposure.

Payroll activity is rising, but hiring signals remain cautious.

Payroll incidence climbed to 43.9% in Q1 2026, up from 42.5% the prior quarter and up from 43.1% a year ago. Payroll burden (median dollars) grew $45,414 Q1 vs $41,696 the prior quarter.

The current lending landscape

Borrowing is steady, but appetite is softening

Financing incidence, the share of small businesses with an active loan inflow, held flat at 13.4% in Q1 2026 compared to Q4 2025 and slightly down from 13.9% in Q1 2025. The year-over-year decline of 0.5 percentage points reflects a modest but consistent softening in borrowing activity across the applicant population.

Any financing inflow

Quarterly trend among active SMB loan applicants in the lending sample.

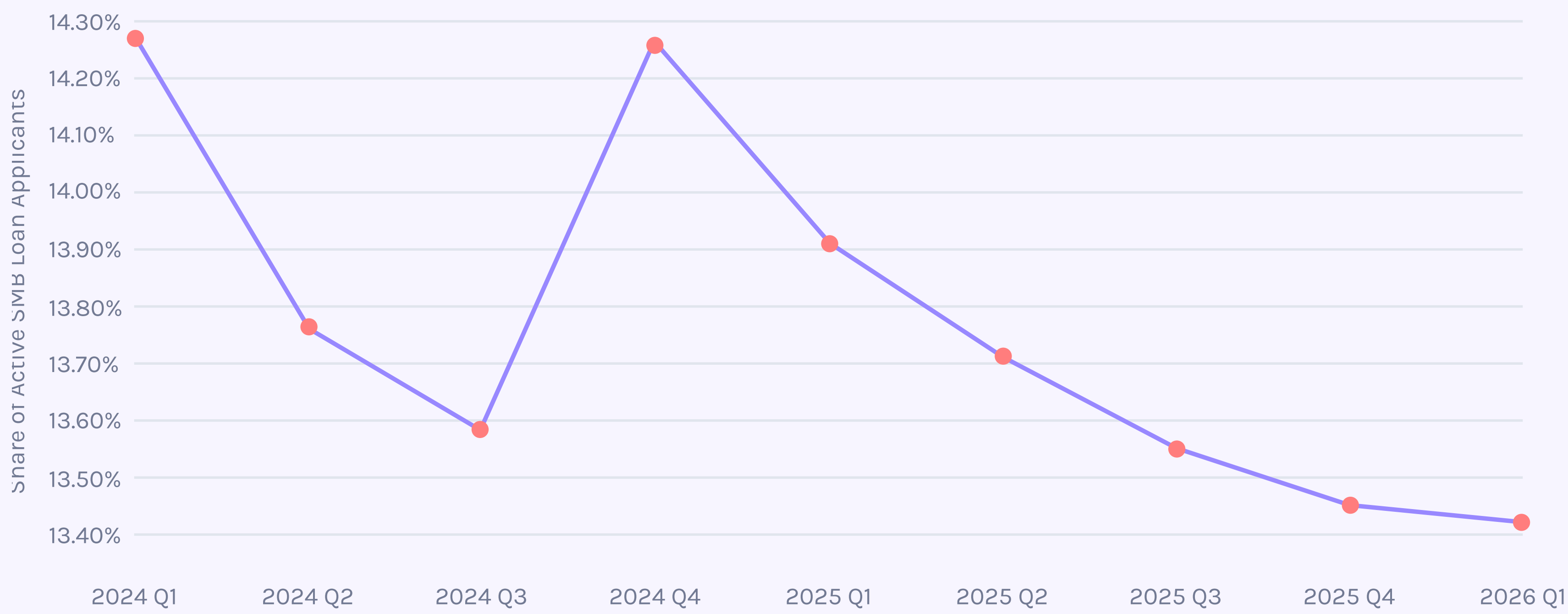

Exhibit 1: Any Financing Inflow — Quarterly trend, 2024 Q1 through 2026 Q1

13.4% of SMB applicants had an active financing inflow in Q1 2026, down from 13.9% a year prior.

> *"The applicant pool entering 2026 is structurally less encumbered than it was a year ago, suggesting lenders may be able to justify greater confidence in their borrowers' debt capacity."*
>
> **— David Snitkof, General Manager of SMB, Ocrolus**

Where demand is concentrated

Five industries account for nearly 25% of all financing activity. Residential Remodelers and Full-Service Restaurants alone represent over 3,100 financing cases, a concentration that warrants ongoing portfolio monitoring given that restaurants carry significantly higher operational stress than remodelers.

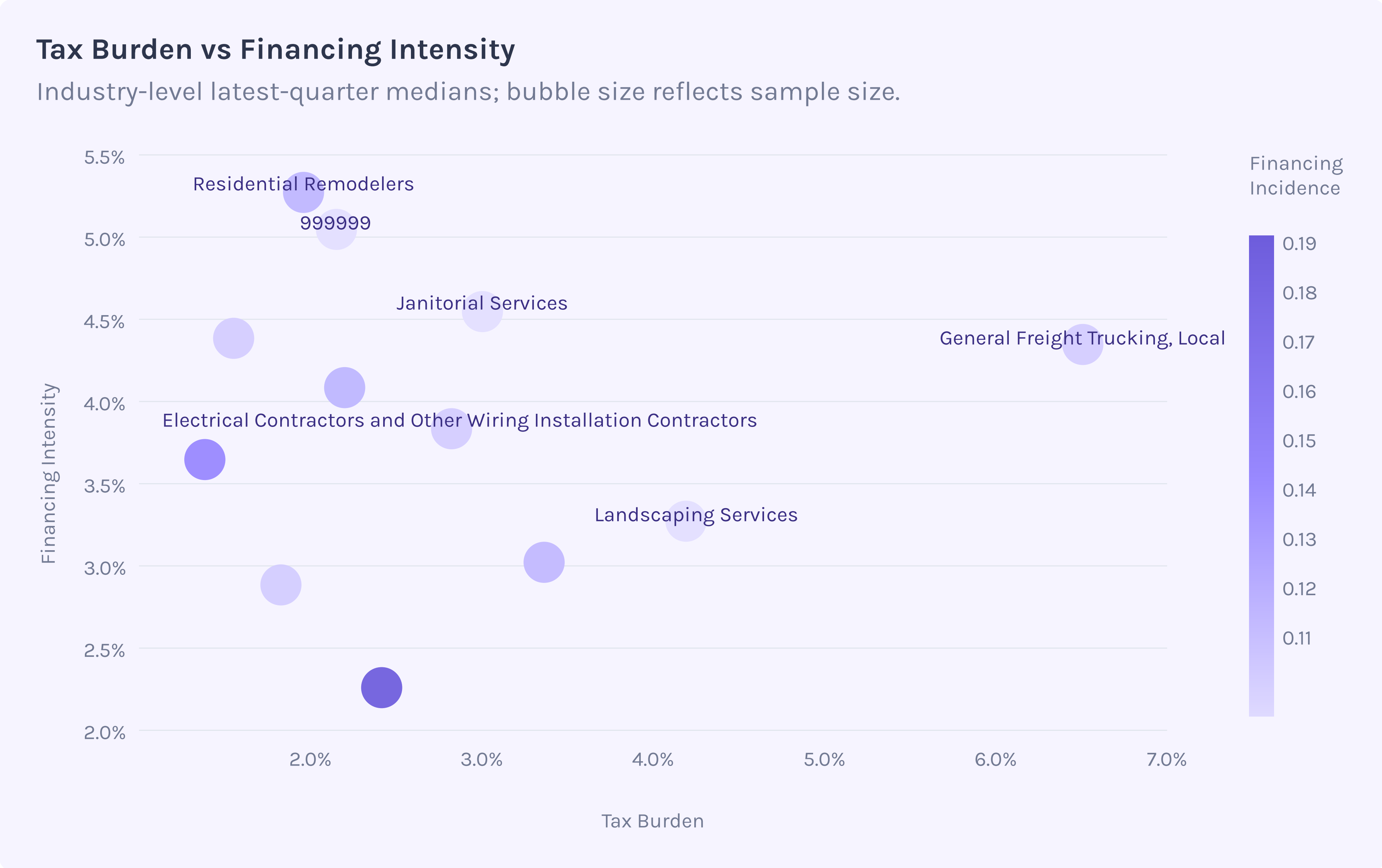

Exhibit 2: Tax Burden vs. Financing Intensity

Residential Remodelers and General Freight Trucking represent opposite ends of the tax-burden spectrum among high-volume financing segments.

Costs and consequences

The squeeze is coming from inside the house

The most important operational development of Q1 2026 is not what is happening with borrowing, it is what is happening with costs. Payroll burden rose to 15.9% of revenue in Q1 2026, up from 14.8% in Q4 2025 and 14.9% in Q1 2025. Fixed obligation burden climbed to 8.1%, up from 7.4% in Q4 2025 and 7.8% in Q1 2025.

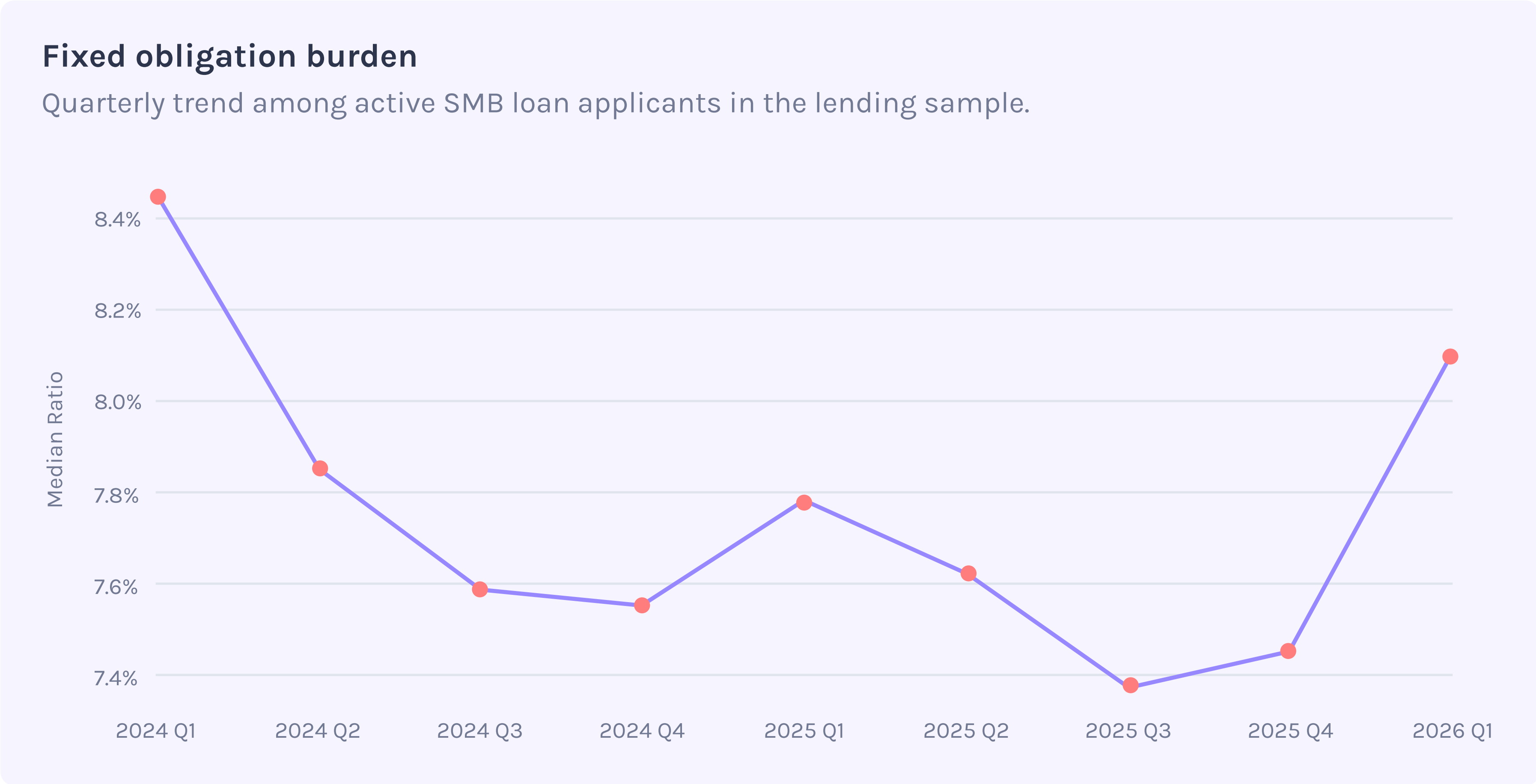

Exhibit 3: Fixed Obligation Burden — Quarterly trend, 2024 Q1 through 2026 Q1 15.9% of revenue went to payroll in Q1 2026, up from 14.8% last quarter. Fixed obligations consumed another 8.1%.

The industries feeling cost pressure most acutely are Janitorial Services (22.8% payroll burden), Electrical Contractors (21.2%) and Management Consulting (21.0%). On the other end, Residential Remodelers carry just 8.4% payroll burden, one reason they remain among the healthiest segments in the applicant pool.

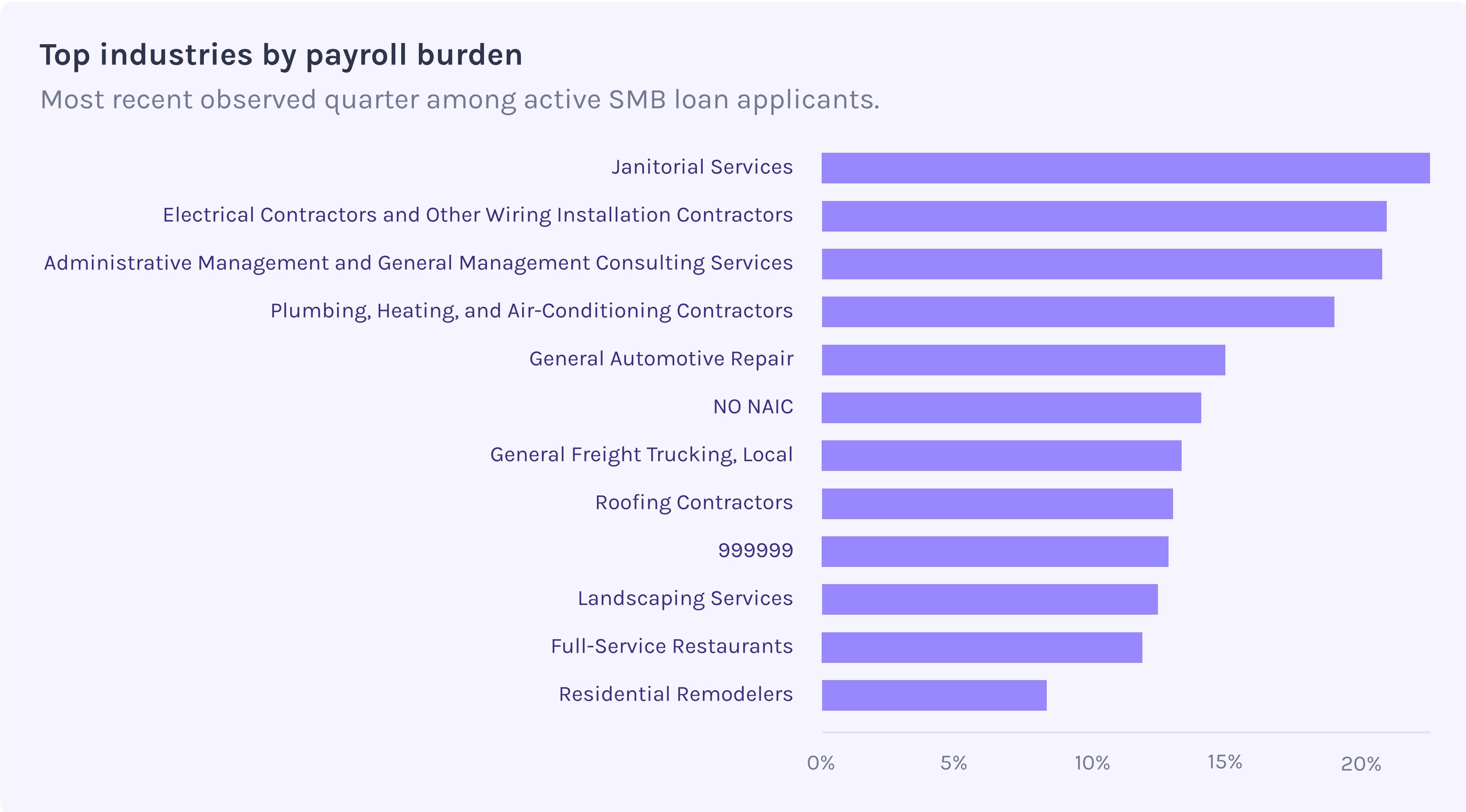

Exhibit 4: Top Industries by Payroll Burden

“Remodelers can scale labor up and down with project volume. Restaurant operators carry a largely fixed labor cost regardless of covers served. That structural distinction should show up clearly in underwriting policy.”

— Patrick Shubert, Head of Data Science, Ocrolus

Financial friction

Acute stress is declining, a genuine positive

Overdraft incidence fell to 24.6% in Q1 2026, down from 24.8% in Q4 2025 and 25.9% in Q1 2025. NSF incidence fell to 10.1%, down from 10.3% in Q4 2025 and 10.9% in Q1 2025. High-strain incidence fell to 2.7%, down from 2.8% in Q4 2025 and 3.0% in Q1 2025.

Overdraft incidence

Quarterly trend among active SMB loan applicants in the lending sample.

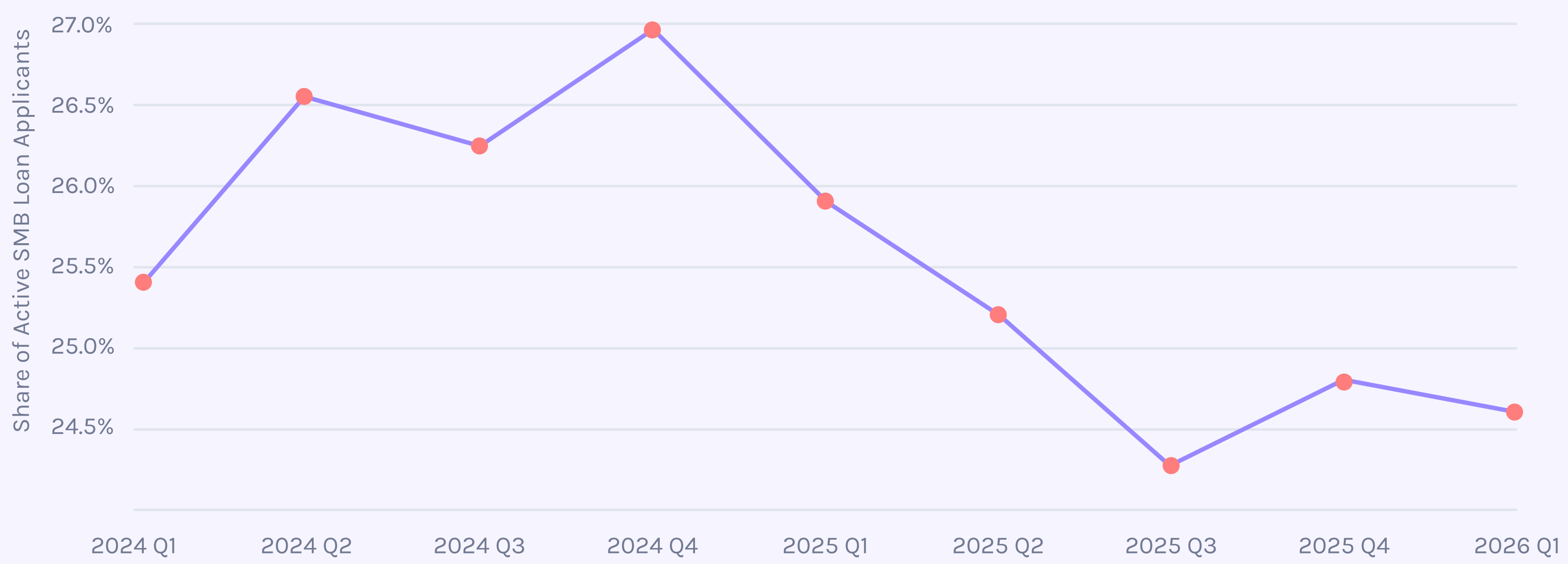

Exhibit 5: Overdraft Incidence — Quarterly trend, 2024 Q1 through 2026 Q1

NSF incidence

Quarterly trend among active SMB loan applicants in the lending sample.

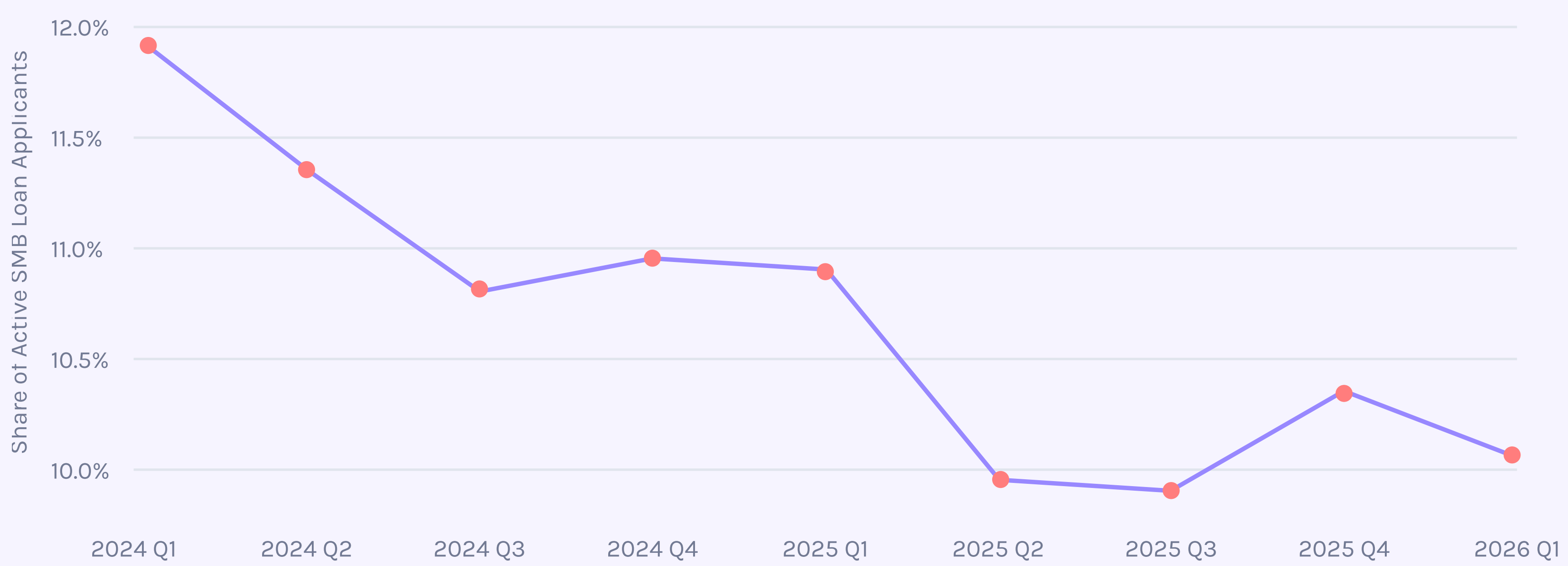

Exhibit 6: NSF Incidence — Quarterly trend, 2024 Q1 through 2026 Q1

2.7% of businesses showed high-strain indicators in Q1 2026, down from 3.0% a year ago. This is the clearest positive signal in the dataset. The direction of travel on acute stress is improving, even as structural cost pressure grows. The risk is that margin compression, rising payroll and obligation burdens, eventually converts into new liquidity stress if revenue softens.

Operational friction by industry

Full-Service Restaurants stand out as the most operationally stressed segment: 41.5% showed at least one friction event in Q1 2026. General Automotive Repair followed at 35.2% and Janitorial Services at 33.3%. Management Consulting and Plumbing/HVAC Contractors showed the lowest friction rates at 21.3% and 26.2% respectively.

Industry | Any Friction Incidence Full-Service Restaurants | 41.5% General Automotive Repair | 35.2% Janitorial Services | 33.3% Plumbing, Heating & A/C Contractors | 26.2% Admin & Management Consulting | 21.3%

> *"Operational friction isn't randomly distributed, it clusters in ways that are entirely predictable from the cost structure of the business. The signal is in the combination of factors, not any one metric in isolation."*
>
> **— Patrick Shubert, Head of Data Science, Ocrolus**

Payment behavior

Checks still dominate; fintech is growing slowly

Check usage held at 65.4% in Q1 2026, up from 64.3% in Q4 2025 but down from 66.7% in Q1 2025. P2P inflow rails were used by 38.3% of businesses, down from 39.7% in Q4 2025 and roughly flat versus 38.2% in Q1 2025. Fintech flow share held at 4.5%, up from 4.2% a year ago.

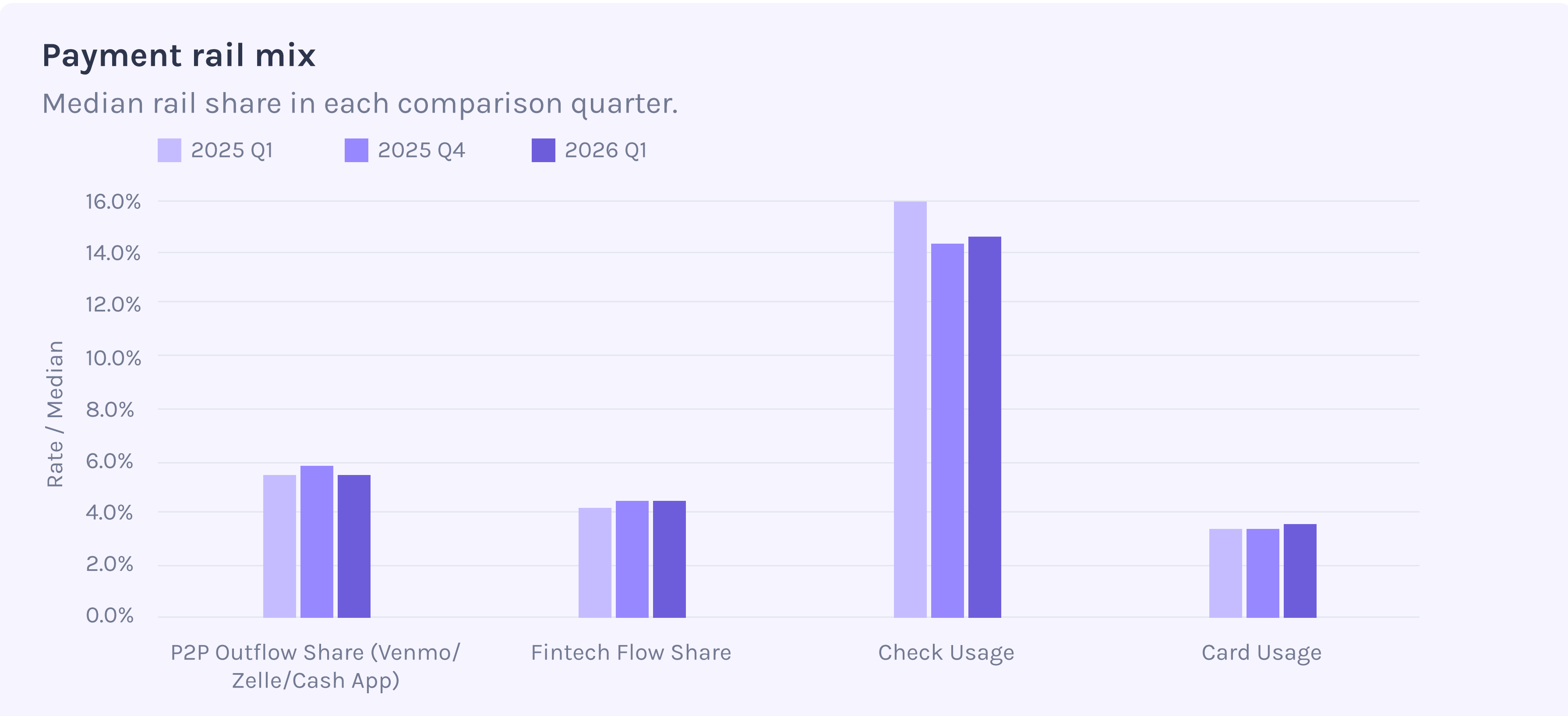

Exhibit 7: Payment Rail Mix — 2025 Q1, 2025 Q4 and 2026 Q1

65.4% of SMB applicants used checks in Q1 2026. Fintech flows account for 4.5% of total volume, up from 4.2% a year ago.

Geographic variation

Fixed obligation burden varies meaningfully by state. Virginia leads at 11.0%, followed by Michigan at 9.7% and Arizona at 9.1%. Florida and New York showed among the lowest fixed obligation burdens at 6.9% and 7.0% respectively.

Top States by Fixed Obligation Burden

Most recent observed quarter among active SMB loan applicants.

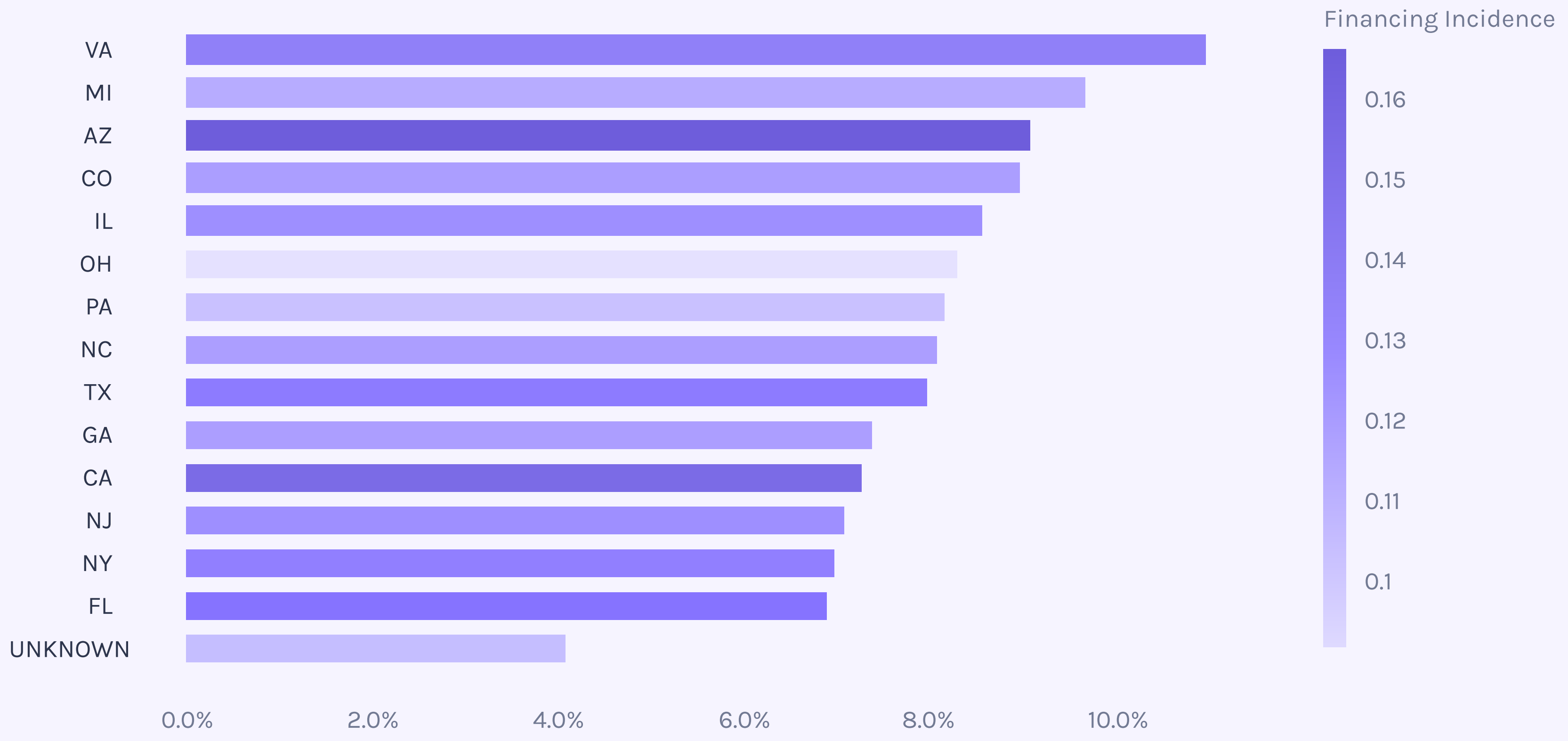

Exhibit 8: Top States by Fixed Obligation Burden

State | Fixed Obligation Burden | Sample Size Virginia | 11.0% | 6,391 Michigan | 9.7% | 6,228 Arizona | 9.1% | 5,971 New York | 7.0% | 12,546 Florida | 6.9% | 28,698

"Geography alone is a poor proxy for obligation risk. You need to look at what the business actually does."
— Patrick Shubert, Head of Data Science, Ocrolus

Industry spotlight

Residential remodelers: the portfolio bright spot

With 12,805 businesses in the sample, Residential Remodelers are the largest single industry in the financing applicant pool and among the healthiest. They carry the lowest payroll burden (8.4%), the lowest fixed obligation burden (4.1%) and a financing incidence of 13.9%, in line with the population average. For lenders, this combination of scale and relative financial health makes Remodelers a segment worth prioritizing.

Full-service restaurants: worth watching

Restaurants tell the opposite story. They rank among the highest across insurance burden (4.1% of revenue), operational friction (41.5% incidence) and fixed obligations. Their financing incidence of 11.4% is below the population average. The overall financial profile warrants close monitoring.

General automotive repair: high demand, high stress

General Automotive Repair carries the highest financing incidence of any tracked industry at 19.1%, nearly six points above the population average. They also rank second in operational friction at 35.2%. This combination of high credit demand and elevated stress makes them a segment where underwriting discipline matters most.

Operational outlook

Q1 2026 reflects a small business lending population that has deleveraged from prior stress levels. Fewer multi-obligation borrowers, lower overdraft incidence, and lower NSF incidence are all encouraging signs. But the structural picture is more complicated. Payroll burden rose to its highest level in the observed period. Fixed obligations climbed quarter-over-quarter. And a 16.5% year-over-year decline in visible insurance coverage introduces a risk exposure that doesn't show up cleanly in traditional credit metrics.

> *"Transaction data gives you visibility into the full cost structure of the business. It's the only data source that does."*
>
> **— David Snitkof, General Manager of SMB, Ocrolus**

The underwriting challenge is shifting. The question is no longer primarily whether a business can weather a cash crunch. It is increasingly whether its margins can absorb rising structural costs if revenue softens even modestly. Lenders positioned to answer that question with transaction-level cash flow data will have a meaningful edge in 2026.