Memorandum

Date: October 5, 2023

To: Joe Rinaldi, President & CIO

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Re: Small Firms Under Pressure

- Small business owners appear to report low confidence due to heightened concerns about the economy, higher interest rates and operating costs.
- The rate of small businesses reporting loan delinquencies has only increased since June 2022 and are now above pre-pandemic rates.
- Aside from competition, small businesses struggle due to needed capital that is more expensive and difficult to access, limiting their sources of funding and chances for expansion that larger, more established businesses have more access to.
- Another factor impacting small businesses are rising wages and labor costs. In attempts to grow business and expand clientele, small businesses bleed out profit for labor and salary expenses. Even though inflation seems to be coming at a 12-month 3 percent rate, unions going on strikes, ie. UAW, may prolong inflation at current levels for longer.
- Covid disaster loans and Government aid programs have aided business in avoiding claiming bankruptcy. However, paying off these loans have proven burdensome for small businesses trying to regain stability.
- Many businesses have now turned to filing Subchapter V as standard Chapter 11 bankruptcy filings were expensive and difficult for small businesses to initiate. This has also resulted in a rise in filings, as depicted in the attached figure.
- Many small businesses that started out during the pandemic report the demand experienced to be short-lived, as revenue and demand have plunged yet operating costs such as insurance and employee costs continue rising.

Cumulative number of small business bankruptcies each year
■ 2020 ■ 2021 ■ 2022 ■ 2023

2023: 1,491*
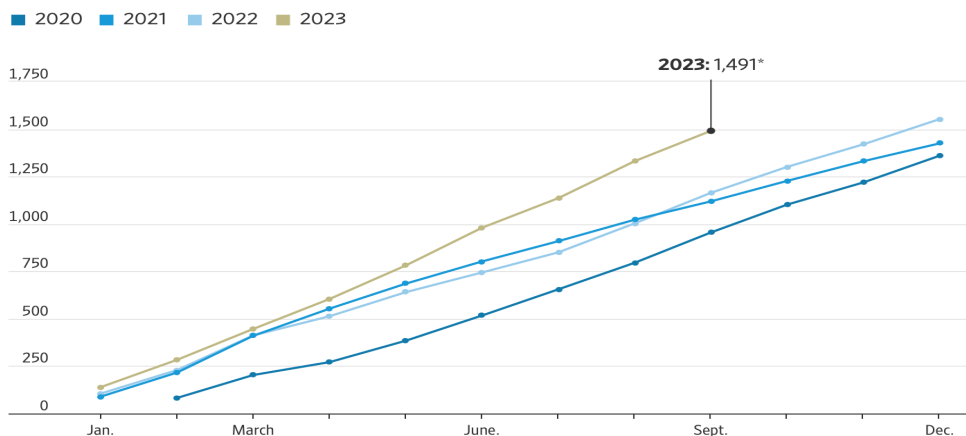
*As of Sept. 28
Note: Cases filed under Subchapter V of the federal bankruptcy code.
Source: American Bankruptcy Institute

*Subchapter V, entitled "Small Business Debtor Reorganization," targets many of the obstacles small businesses encounter with the Chapter 11 filing process.
*References: Subchapter V of Chapter 11: A User's Guide: https://www.dailydac.com/subchapter-v-of-chapter-11-the-complete-users-guide/