

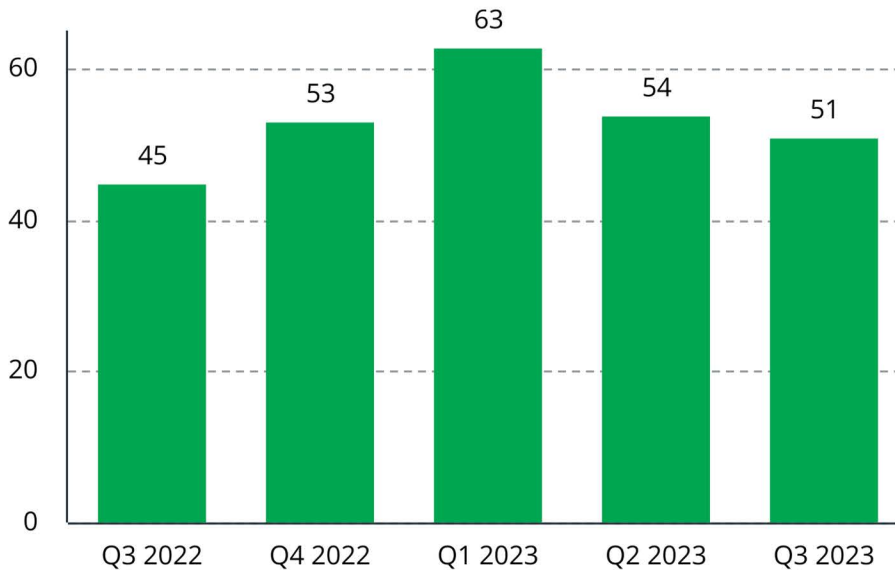
NCS Credit's Lien Index is derived from carefully monitored national and regional mechanic's lien activity, construction economic data from various sources, and general economic trends. The Lien Index compares mechanic's lien data, quarter over quarter.

The standard is fifty ("50"), with a number greater than "50" representing an increase in mechanic's lien activity, and less than "50" representing a decrease in mechanic's lien activity.



The Lien Index decreased 3 points in Q3 2023 to 51; a slight dip from the revised Q2 Index of 54. Despite Index drop, lien activity remains high.

National Mechanic's Lien Activity



The Lien Index decreased to 51 in Q3.

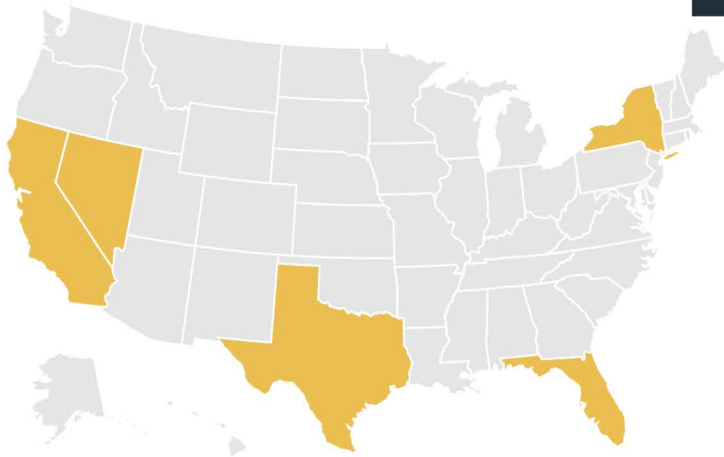
The decrease comes on the heels of a revised rate of activity for Q2 2023, in which the Index increased from 47 to 54.

Despite the slow down, **lien activity is 13% higher** than Q3 2022.

Cyclically, we expect to see the Index climb in Q4. As the season winds down and the fiscal year comes to a close, disputes, change orders, and lack of cash flow will slow and even stop payments.

**Nationwide, recording offices continue to manage a backlog of requests. The Index data is adjusted and revised accordingly.*

States with Highest Lien Activity



The top 5 states for lien activity were (in order of volume) **Texas, Florida, California, Nevada**, and new to the list in Q3, **New York**.

Top 3 States by Region

Midwest: Ohio, Illinois, Michigan

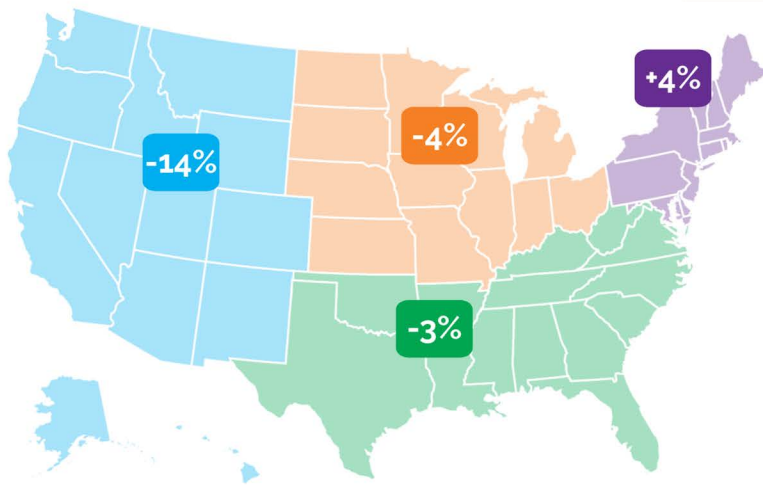
Northeast: New York, Massachusetts, New Jersey

South: Texas, Florida, Georgia

West: California, Nevada, Colorado

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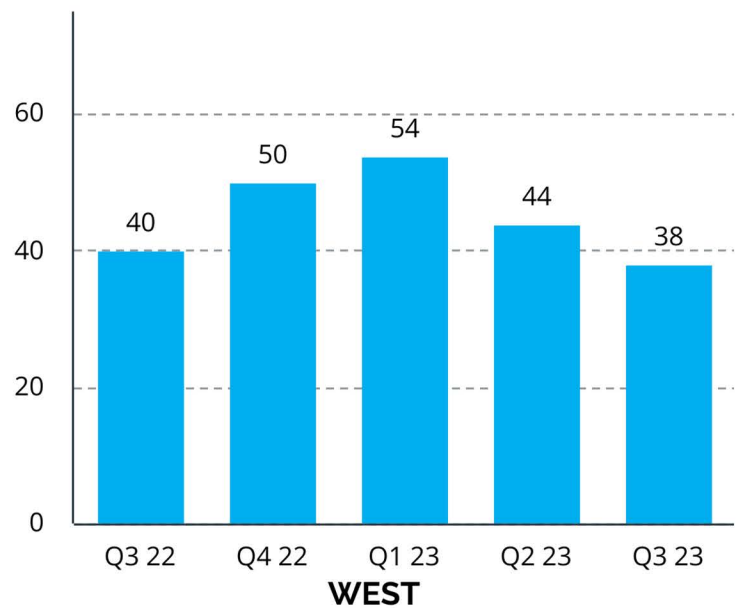
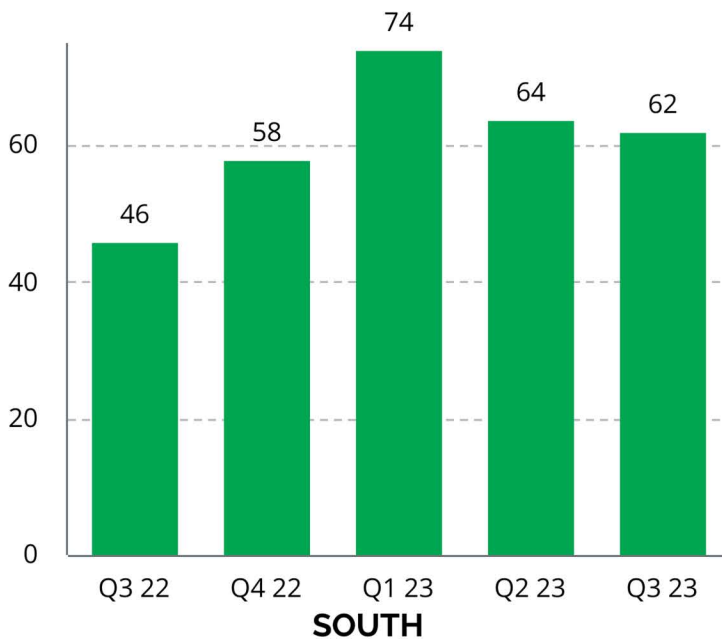
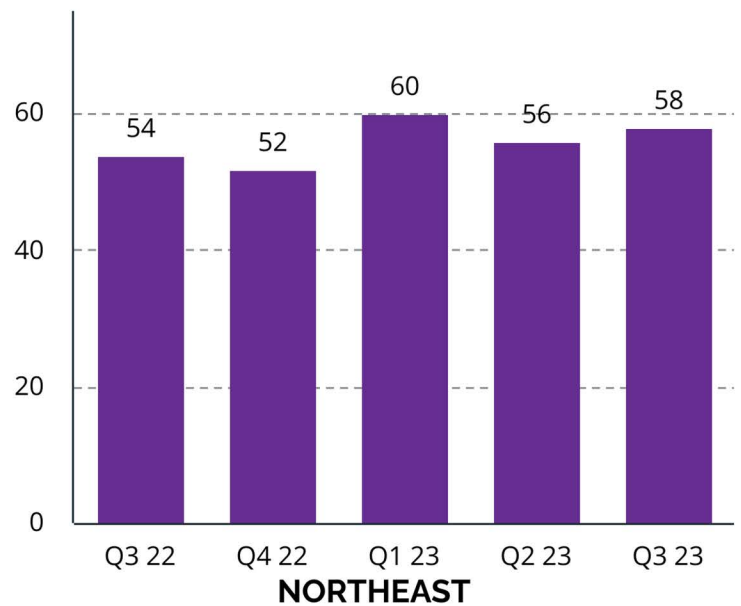
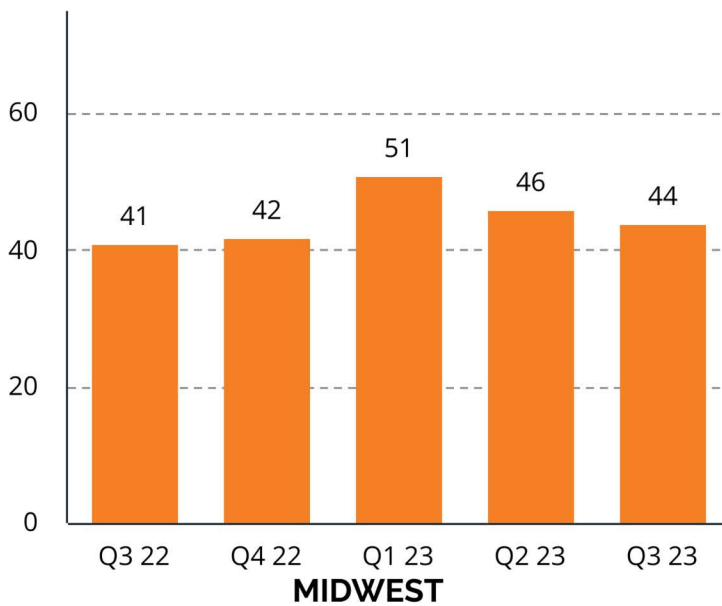
Regional Mechanic's Lien Activity



Mechanic's lien activity in the **Northeast rose 4% over Q2 2023.**

The **South (-3%)** and **Midwest (-4%)** saw slight decreases in activity, and the **West (-14%)** experienced the most significant decline.

Although there was an overall decline in lien activity, it's worth noting the **Index remains higher than Q3 2022** in Midwest, Northeast and South.



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Looking Forward

Two topics throughout Q3: bankruptcy and limited working capital / cash. Chapter 11 filings are up 61% over last year with unsecured creditors receiving pennies on the dollar. Companies that once sat on substantial cash are pushing to pay beyond terms. Funds have run dry and interest rates are unreasonably high as lenders brace for debtor default. If there was ever a time to secure mechanic's lien rights and file UCCs, it would be **NOW**. Lien activity will continue to rise, and we expect 2024 will challenge profitability, with the burden on material suppliers to front (and carry) funds for projects.

The **Architecture Billings Index (ABI)** fell throughout Q3 and ended the quarter at 44.8. *It's "the lowest score reported since December 2020 during the height of the pandemic and indicates that the share of firms reporting declining billings has significantly increased."* - The September ABI report

Associated Builders and Contractors (ABC) reported its **Construction Backlog Indicator** ended Q3 with a dip, but outlook remains positive. *"Construction continues to defy the downward gravitational pull of tightening credit conditions,"* said ABC Chief Economist Anirban Basu. *"Despite high and rising project financing costs, ABC contractor members continue to report lofty backlog, rising employment, expanding sales and stable profit margins."*

The **Dodge Momentum Index** bounced back in September, rising 3%, after consecutive months of decline. *"Overall activity remains above historical norms, but weaker market fundamentals continue to undermine planning growth,"* said Sarah Martin, associate director of forecasting for Dodge Construction Network. *"It's likely that the full year of tightening lending standards and high interest rates has begun to affect institutional planning, which has otherwise been resistant to these market headwinds."*

Epiq Bankruptcy reported a 61% increase in Chapter 11 filings at Q3 end. *"While still below pre-pandemic levels, the numbers of filings demonstrate the difficult challenges and growing debt loads that financially distressed families and businesses are facing in this current economic environment,"* said ABI Executive Director Amy Quackenboss.

- Carefully identify and evaluate credit for all parties within the ladder of supply. Construction is wrought with payment issues because the credit relationship is between more than you and your customer; it includes every party between you and the project owner. Timely payment is at the mercy of the weakest link in the payment chain.
- Obtain as much information as possible on the project and all parties within the ladder of supply. Recognize these large-scale projects will likely cover multiple parcels across multiple states.
- Serve preliminary notices on both public and private projects to secure bond claim and mechanic's lien rights respectively.
- Continue to monitor activity on your existing projects and customers. We are seeing an uptick in fund shifting (project to project), which is escalating payment issues.



Carefully identify and evaluate credit for all parties within the ladder of supply.



Obtain as much project and party information as possible.



Serve preliminary notices on every project, every time.



Continue to monitor payment activity on existing projects & customers.

LienFinder™: Innovation & Business Intelligence Like You've Never Seen. LienFinder™ is an online database that captures construction project data nationwide, from hundreds of recording offices daily. Locate essential project information and avoid potential payment risks, through the review of national mechanic's lien activity. Contact us today to learn more about this revolutionary database!



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