

CBS's FICO® SME Score For Small Business Credit Grantors

Confidently grow your small business loan portfolio while reducing risk exposure

For small business loan portfolios, the right credit scoring tool increases the speed, accuracy and consistency of the decision-making process, enabling new products to be launched faster and reducing losses through effective management of credit risk. While credit scores have traditionally been a powerful tool used in consumer lending, small business credit grantors worldwide are increasingly applying the same technology to their small business portfolios with impressive results.

The FICO® SME score is a comprehensive risk assessment tool offering credit grantors for small and medium-sized enterprises (SMEs) an efficient way to combine powerful commercial information with consumer credit data. The FICO® SME score helps credit grantors:

- Make more informed lending decisions and collection activities
- Reduce delinquency and charge-off losses
- Identify profitable accounts for line increases or cross-sell
- Approve more applicants and increase profitability with risk-based pricing
- Streamline operations and cut decision time

More than a consumer credit score

Accurately assessing the risk of a new or small business is a difficult, expensive and time-consuming process. As a result, many credit grantors shy away from lending to start-up or small and medium-sized businesses, or they employ rigid, labour-intensive processes to identify only the most worthy applicants. The FICO® SME score assesses risk quickly and accurately, making it possible for credit grantors to expand their small business loan portfolio and control risk with confidence.

Successful commercial lenders understand that small business lending differs from traditional commercial lending. Like consumer loan portfolios, small business loan portfolios require process efficiency and accurate risk prediction to stay competitive and profitable.

The FICO® SME score provides credit grantors with an effective tool for rank-ordering the credit risk of small and medium enterprises. The score applies to different product types (e.g., loans or leases) and can be used throughout the entire credit lifecycle, from acquisitions to account management, collections and cross-selling. With the FICO® SME score, credit grantors can experience faster, more consistent and more profitable credit decisions.

Tapping an underserved market

The worldwide economic crisis and tightening of credit has affected small businesses, and many are having difficulty obtaining access to credit to operate and expand during the economic slowdown. In many areas, small businesses are underserved from a credit perspective and represent an opportunity for innovative credit grantors.

The FICO® SME score allows credit grantors to tap into this underserved market by:

- **Improving lending strategies with an objective tool:** Scores can be an objective criterion in making consistent, accurate credit decisions, and implementing decision strategies above and beyond accept/reject, including loan size, type, pricing, down payments, etc.
- **Raising customer satisfaction and lowering costs:** By providing a consistent, objective criterion for making credit decisions, credit grantors can automate processes and reduce the time spent manually reviewing loans.
- **Reacting faster to market changes:** By monitoring the risk level of a portfolio and its associated performance, credit grantors can track the effectiveness of strategies and make adjustments in response to changes in the pool of applicants or existing customers.

Access to credit benefits local enterprises when credit grantors are empowered with a sophisticated, yet easy-to-use credit assessment solution, in the form of a credit score, to make more informed lending decisions. Businesses obtain more funding when credit grantors have the tools they need to expand their small business credit offerings to include new products such as micro loans and start-up loans.

Combining data from multiple sources provides superior predictive power

FICO has offered solutions which leverage consumer and commercial data since 1993. FICO analysts applied their extensive credit scoring expertise to the development of the FICO® SME score, which combines consumer and commercial information to produce a single score that is more predictive than either consumer or commercial data alone.

Business owners, particularly for small or start-up entities, often inject their personal cash into the business, so the credit risk of a business as a whole is closely linked to the risk of the business principal. As a result, the business's credit performance is driven by the individual credit behavior of the principal. Combining the credit profiles of the company and the company's owner creates a more complete credit risk picture.

The FICO® SME score efficiently combines business owner (consumer) credit data with commercial data to generate a score that is consistent and can be integrated into automated systems. To calculate a score, the model considers business owner credit data and commercial data such as key financials figures, non banking commercial trade lines from trade suppliers, demographic information such as years of operation, legal activities and other derogatory information.

The FICO® SME score can be an effective tool on its own, or it can be used in conjunction with internal application or behaviour scores to provide additional value.

FICO is a proven leader in risk analytics worldwide

FICO is recognized as the top provider of small business risk analytics. With over 90% of small business credit grantors in the United States using FICO small business solutions, our experts have developed a deep understanding of the analytics behind creating a successful business credit portfolio. This experience and expertise has spread outside of the United States with the introduction of small business risk models developed for multiple countries.