The Changing Small Business Lending Landscape

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FICO
What Should You Expect?

► What do Financial Institutions use to evaluate small business credit worthiness?
► What is happening today to change traditional lending habits?
► What are future possibilities in lending?
What Data is Used in Credit Decisions?
Traditional Data Sources

► Consumer Bureaus to Score Guarantors/Principals
  ► Equifax
  ► Experian
  ► TransUnion

► Business bureau data sources
  ► Dun & Bradstreet – Paydex score
  ► Equifax Business - Equifax Business Credit Risk Score
  ► Experian Business – Intelliscore Plus
  ► PayNet - MasterScore

► Business Data Repositories – Data Consortiums
  ► SBRI - Small Business Risk Insight - D&B
  ► SBFE - Small Business Financial Exchange
Financial Statements

► Banks will ‘spread’ financials to evaluate credit
  ► Income Statement
  ► Balance Sheet
  ► Cash Flow

► ‘Spreading’ means predicting the future in regards to the financial statements
  ► Looking at total sales/revenues and total assets allows the banks to predict future performance
  ► Time consuming for the business owner and the FI
The SBA uses a FICO small business score called SBSS. They have set a low cutoff of 140 for approval. Score ranges from 0 to 350. Top scorers will score from 250 to 310. Most banks set low cut offs at between 170 and 190.
Impact of additional data sources on models

- Consumer Bureau
- Business Bureau
- Business Financials
- Business Repositories
- Application Data
What is changing in today’s market?
When Do Small Business Owners Have Time to Apply for Credit?
New ‘Banking Hours’

► “Small business loans”
► Who can give me what I need?
New ‘Banking Hours’

► “Small business loans”
► Approval Speed

Pre-Approval in Minutes
24 Hour Approval
Same Day Approval
New ‘Banking Hours’

► “Small business loans”
► Approval Speed
► Loan Amount

$5,000–$250,000
$10,000–$500,000
Up to $750,000
New ‘Banking Hours’

► “Small business loans”
► Approval Speed
► Loan Amount
► Qualify Requirements

$10k/Mo. in Gross Req.
$10k+/Mo. in Sales Is a Must
$9K/Mo. in Sales Required
Industry Trends

► Automated decisioning in small business lending
  ► Government is helping lead the charge
  ► ^^ Not a typo
  ► Blending relationship banking with scoring

► Traditional Banks segmenting decisions by $ size
  ► Change forced by non-traditional lenders
  ► Banks/Credit Unions still constrained by traditional regulations

► More and more start up lending
  ► Traditional banks tend not to lend in this segment
  ► Non-traditional lenders feasting here
Types of lenders

► Lending hub models
  ► One applications, many lenders

► Crowdsource lending/funding
  ► Many sources of lenders, website organization acts as a marketplace
  ► Paying your lenders may include coffee cups, t-shirts or birthday party appearances

► Social media micro lending/funding
  ► Facebook/Twitter/LinkedIn requests for funding
Future of Lending
Is it here???
Next Generation Lending

► Niche lenders to Internet based businesses
  ► Data will be obtained from website rankings
  ► Feedback will be analyzed – text analysis of social media

► Decisions will become ‘more instant’ as data becomes more available
  ► Lenders will know their exposure limits for your organization at all times
  ► Constantly churn data that is publicly available or unregulated

► Oddities:
  ► Package pick up data indicates revenue trends
  ► When you use credit vs debit in the month indicates credit worthiness
Questions
Thank You

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