FICO

FICO® Small Business Scoring Service™ (SBSS™) solution

scoring

Significantly broaden the scope of applications you underwrite, and cut losses with even greater risk prediction

With the latest release of the FICO® Small Business Scoring Service™ (SBSS™) solution, FICO gives small business credit grantors an unprecedented ability to score virtually any type of loan they want—and simultaneously increase their protection from risk and losses. SBSS solution is the culmination of cutting-edge analytics and the combined experience of FICO and leading small business credit grantors. Based on analysis of over 1 million contributed small business applications, the latest release of SBSS solution allows lenders to confidently expand their underwriting across regions, SIC codes, loan amount, product offerings and data combinations used in decisioning.

Figure 1: Feature comparison earlier and current versions of SBSS solution

	Earlier SBSS™ Versions	Latest Releases of SBSS™
Records Assessed	250,000	1,000,000+
Institutions Participating	25	32
Models Available	20	100+
Model Types	Term Loan Line of Credit Commercial Card Leasing	Term Loan Line of Credit Commercial Card Leasing General Credit Terms
Development Time Period	1994–1999	2001–2007
Validated for Term Loan/Line of Credit Amounts Up To	$250,000	$750,000
Data Combinations Supported	Some Data Options Not Available	Coverage for All Situations—With and Without Application, and/or Consumer Data, and/or Financial, and/or Business Bureau Data
Leasing Models	Not Rebuilt	Rebuilt
Startup Business Specific Models	No	Yes
Credit Offer Index	No	Yes (150+ segmentations)
Extended Data and Market Support	No	SBRI, PayNet, SBFE, Agricultural and Canadian

This chart shows the advances made in SBSS solution. The breadth of data ensures that all SBSS models provide an accurate reflection of today's small business lending environment.

Launched in 1993, SBSS solution has long been recognized as the premier service for supporting small business credit risk assessment. Now the latest release of SBSS solution takes small business lending to an entirely new level.

Not only do lenders now have even greater power to reduce risk exposure, but they also have the ability to significantly expand the scope of transactions they can assess. SBSS solution advances include:

- A total of more than 100 models allowing lenders to score many more market segments, such as leasing, using new and upgraded leasing models
- Better separation of goods and bads for all models to help lenders further cut risk and reduce losses
- Models validated for Term Loan/Line of Credit transactions up to $750,000
- The flexibility to use any combination of data to evaluate credit risk
- A suite of models specifically focused on start-up businesses
- A new Credit Offer Index to help lenders measure a business's capacity to pay
- A suite of models specifically focused on niche markets and new data sources

The bottom line? An unprecedented degree of support for quickly building portfolio volumes while keeping risk at bay, or cutting it down to new levels.

SBSS solution is the culmination of ongoing partnering, data sharing and leading analysis and model development between FICO and its SBSS clients.

Figure 2: Trade-off curves showing greater predictive power of the current FICO® SBSS™ solution release over previous versions and the Business Bureau Score

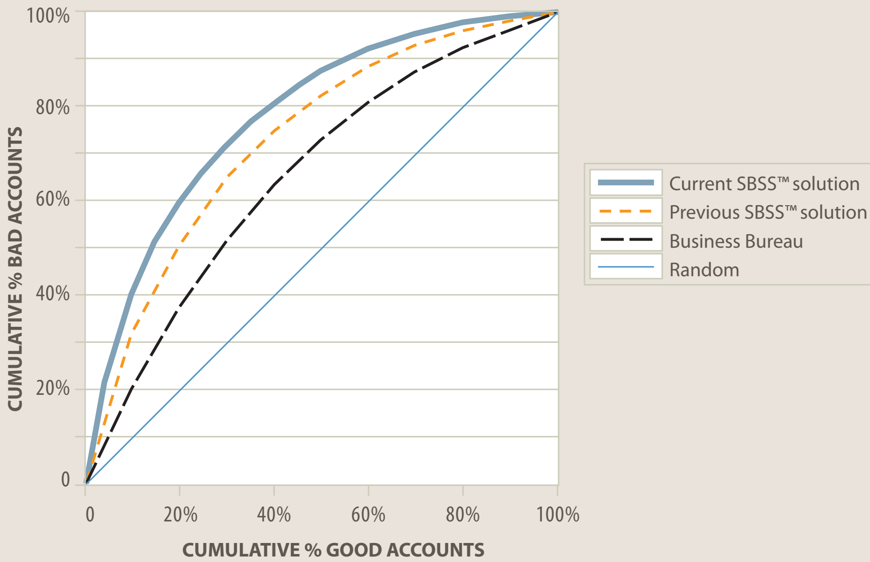


Figure 2 shows that the current SBSS solution does a better job than previous SBSS releases and other scores in identifying a higher number of bad accounts per good accounts. The lowest 30% of good accounts identifies 70% of bad accounts, versus 65% of bad accounts in the previous release.

As clients have used subsequent SBSS models and grown portfolio sizes, they've acquired and shared new, richer data with FICO. This latest release of SBSS solution is a turning point in the dynamics of this partnership.

Extended market and data support

The latest release of the SBSS models extends these powerful analytics even further by offering market-specific models for agricultural lending and leasing as well as new models specifically for use in Canada. In keeping with FICO's efforts to allow our clients maximum flexibility, SBSS solution now also provides support for the new data respositories: Small Business Risk Insights (SBRI), PayNet and Small Business Financial Exchange (SBFE).

» Improved risk protection with all models

In development testing, all new models demonstrated superior predictive power over earlier models. Predictive risk models are powerful in their ability to "push" future good performing accounts up to higher scoring ranges and future bad performing accounts down to lower scoring ranges. Through the data development set, FICO demonstrated in several ways the ability of this SBSS solution to outperform earlier versions in providing greater separation of good and bad accounts. One method used, Divergence, showed that Term Loan/Line of Credit models provided a 38% improvement over the previous version in separating good accounts from bad accounts. In addition, all models—leasing, commercial card and general credit term models—showed similar improvements over prior releases, with some improvements exceeding 60%.

Figure 2 illustrates the predictive improvement of this release over previous SBSS versions and other scores using another measurement method—trade-off curves. As the figure shows, each of the trade-off curves plots the ascending cumulative percent of good accounts versus bad accounts for a given score. SBSS solution does the best job of identifying a higher number of bad accounts per good accounts. For example, the lowest 30% of good accounts identifies 70% of bad accounts, versus 65% of bad accounts in the earlier version.

» More than just improved risk benefits

SBSS solution also provides small business credit grantors with the flexibility, ability and confidence to apply risk-based services for different types of situations.

Evaluating larger transaction sizes

Previous versions of SBSS solution were statistically validated up to credit request amounts of $250,000. However, because of the robustness of this version of the SBSS development data set, FICO has been able to build a set of models that is now validated for Term Loan/Line of Credit transactions up to $750,000. As a result, small business credit grantors will be able to more consistently and objectively evaluate the credit risk of larger dollar loans by using the SBSS solution score in the decision process.

Data flexibility of SBSS model suite

SBSS solution allows small business credit grantors to use different combinations of data to evaluate the credit risk of a small business—for example, the ability to use application data with principal owner data, and the choice to use or not use business bureau data from one of the business bureaus. Whereas previous versions of SBSS solution did not easily lend themselves to scoring 100% of applications—when some data elements required would not be present or would be difficult to collect—this version's models support all combinations of data: with and without application data, with and without financials, with and without consumer bureau data, and with and without business bureau data. In fact, SBSS solution now includes a model that can generate a statistically valid small business score using just application and financial data (which some small business credit grantors may find useful to more objectively underwrite non-profit applications).

New and improved leasing models

Data contributed for the SBSS solution leasing rebuild came from a broad range of small business lessors from all regions of the United States and represented a wide range of SIC codes—from agricultural to trucking to office and medical equipment. In addition to being significantly more predictive than the original

SBSS models, and by an even greater degree over the FICO® score, FICO® SBSS™ solution contains more leasing models and is now validated for larger small business leases.

SBSS solution contains eight leasing models versus the five models in previous versions, helping to drive a 56% improvement in Divergence. In addition, whereas past models were validated to score for leases up to $100,000, now leasing models can be used for leases up to $200,000.

In head to head comparisons using just business bureau data to calculate, the SBSS solution leasing models showed a 26% improvement in Divergence and an 11% improvement in K-S over business bureau scores on the exact same population of small business leases in the development data set.

New scores for start-up business populations

Accurately assessing a new business has traditionally been a risky, difficult, expensive and time consuming process. As a result, many small business credit grantors tend to shy away from start-up businesses or use rigid, labor intensive processes to find low-hanging fruit. SBSS solution can help change this situation by making it easier for small business credit grantors to more confidently pursue this large pool of potential customers.

Because of the size of the SBSS development data set, FICO was able to evaluate a specific population of start-up businesses (in business two years or less) and develop empirically derived models for new business risk. Leveraging the talents of its world-class Research analytic staff, FICO mined business owners' consumer data and application data, and in certain cases business bureau data, and correlated this information with risk patterns in business behavior for different industries to create a set of models specifically designed for new businesses.

Figure 3 shows the improved predictive capabilities of SBSS solution for start-up businesses. In development testing, the Divergence of the SBSS Start-up score was found to be 50% more predictive than using the base SBSS score. And it was over 100% more predictive than using either previous versions of SBSS or a FICO® score.

» Credit Offer Index—evaluating more than just propensity to repay

Measuring the capacity for a small business to take on debt has always been a challenge. Generally, it has been a function of financial ratios derived from income statements, balance sheets or subjective measures. Often, these financial statements aren't audited, fully completed or readily available, thus creating roadblocks in quickly assessing the risk of many businesses.

To help overcome these challenges, FICO staff—leveraging years of work with clients to build capacity measures—helped to create a new tool, the SBSS Credit Offer Index. The new index was built using application, financial, consumer bureau and business bureau data collected during the SBSS model development process.

The Credit Offer Index is a benchmark against what businesses of similar profiles have requested in the past. It returns the percentile ranking of the current request versus other small businesses of similar profile as well as the mean amount requested for those types of small businesses.

The index can be utilized whether financial data is supplied as part of the application process or not—which is particularly beneficial since many times financial data is not available or collected. Small business credit grantors can use the index as an initial check to see if the request is in line with industry experiences for this type of small business.

Figure 3: Trade-off curves comparing Start-up score with other originations scores

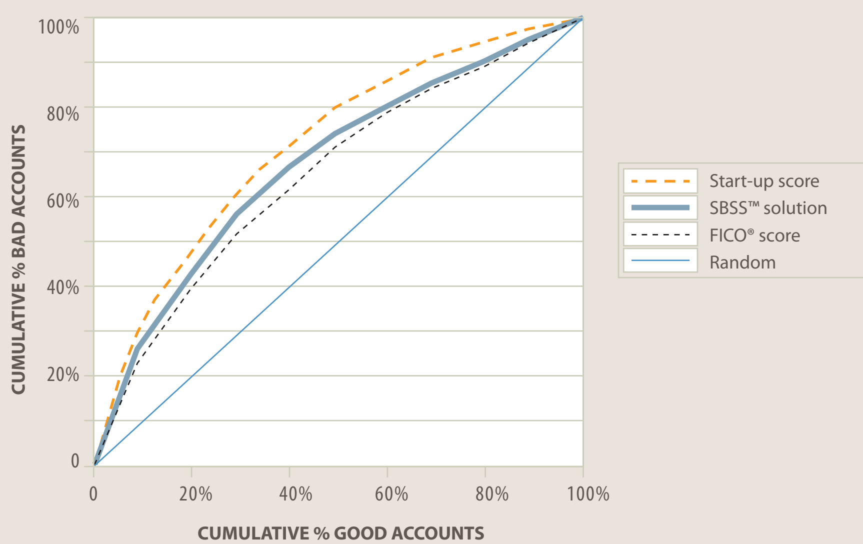
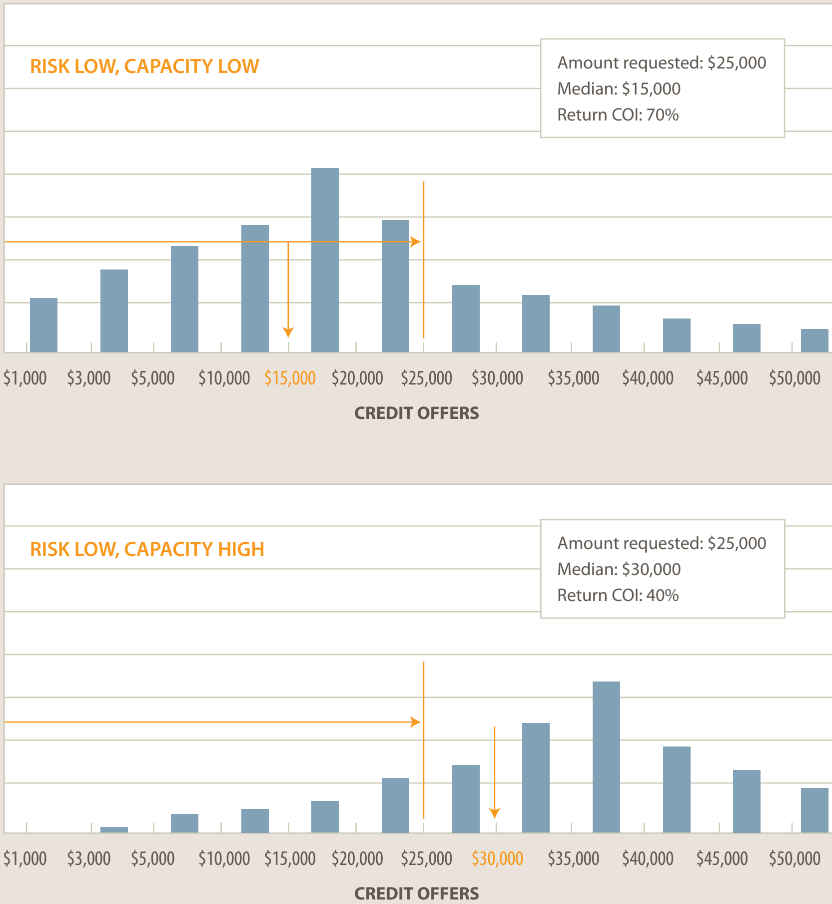


Figure 3 shows that the SBSS Start-up score for scoring new small businesses provides greater predictive power in assessing risk for this market segment than does the base SBSS score or the FICO® score. For example, at the lowest 30% of good accounts it is able to identify 60% of bad accounts, versus about 55% of bad accounts identified by the base SBSS score.

Figure 4: Rank credit offer within segment and return COI



In addition to measuring propensity to pay, small business credit grantors need to measure capacity to pay when assessing loan amounts. The new Credit Offer Index in SBSS solution does that. As this chart shows, it gives credit grantors a benchmark of industry practices, including a percentile ranking of the current request versus other small businesses of similar profile, as well as the mean amount requested for those types of small businesses. Based on these measures, a lender can see that the business shown on top in Figure 4 has a lower capacity to pay than does the business shown on the bottom.

As shown in Figure 4, credit requests that are flagged as higher than industry standard (for instance in the 80th percentile) may warrant closer scrutiny or result in offering a lower, more secured loan amount. On the other hand, credit requests that are identified as lower than industry standard (for instance in the 20th percentile), may create an opportunity to increase the business relationship by offering more credit.

Either way, the FICO® SBSS™ Credit Offer Index provides small business credit grantors with greater comfort that the dollar amount requested falls within or is outside of normal industry ranges by quickly providing capacity insights. For example, the SBSS Credit Offer Index was applied to a subset of one small business credit grantor's applications. By consistently using the Index to identify areas of higher exposure than industry practices (on small businesses with similar profiles), this small business credit grantor could have realized almost $2 million reduction in losses.

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