Improve Your Lending with Scores from RiskCalc™ Small Business

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September 2018
Improve Your Lending with Scores from RiskCalc

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Agenda

1. Introducing to RiskCalc Small Business
2. RiskCalc Small Business as a Scoring Framework
3. History of Financial Statement Data
4. Motivation to Go Beyond Financials
5. Evolution of Research Effort
6. How Predictive is RiskCalc Small Business?
7. Demonstration
8. Our New Partnership
9. Q&A
10. Wrap Up & Next Steps
Moody’s Analytics RiskCalc Small Business

Moody’s Analytics Small Business model provides the most accurate score by combining, financial statement, trade line information and loan payment data for firms $5M – 10M and below.
Financial, Trade Credit, and Loan Payment Data Combined Yields Material Model Accuracy Uplift, Translating into Benefits Throughout the Customer and Loan Lifecycle

Financial Statement Data
Captures financial statement information to evaluate creditworthiness and financial health of the business

Firmographic Data
Identifies the size, industry, and geographic characteristics

Trade Line and Loan Payment Information
Captures the number of loans and any past due or late payment history behavior of the borrower

A Stronger Score
» Higher accuracy than financial-only or behavioral-only models
» Adapted to small business data and origination processes
» Leveraging worlds largest proprietary business financials database
A Framework to Evaluate Credit Risk of Small And Medium-Sized Firms
Enhanced score based on trade line information, financial statement data and loan payment data

- **(Good)** Peer EDF Trade Line Information
- **(Better)** Trade Line Information Financials
- **(Best)** Trade Line Information Financials Loan Behavior Information
Largest repository of private company financials statements and defaults

- 19.5 Million Unique Private Firms
- 100 Million Financial statements
- 3.1 Million Defaults Worldwide

» Note, over 50% of Moody’s CRD contains firms with $5M in Assets or less

» In addition to our Credit Research Database, research performed across trade credit vendors to identify common small business attributes.
Motivation to Go Beyond Financials

- Small companies usually do not have reliable financial statements
- Obtain a score or probability of default (PD) in the absence of financial statements
- Use different combinations of information available to the lender
- Early indication of trouble based on the trade and loan payment behavior
- Improved predictive power especially for smaller firms
- Higher data frequency from the behavioral information adds value in risk monitoring
Evolution of Our Research Effort
Leveraging our expertise to improve small business lending

Moody’s Analytics Credit Research Database (CRD)

- Financial Statements (Ratios constructed from income statement and balance sheet)
- Loan Payment Behavior (past payment behavior, Credit utilization)
- Loan Defaults

RiskCalc Small Business

Trade Credit Data

- Explored multiple data sources (e.g. Cortera)
- Analyzed impact of hundreds of trade attributes in predicting loan defaults
- Evaluated both vendor specific and agnostic models
### Increasing Predictiveness As You Provide More Data

#### Trade Line Info:
- Debt payment status: **Current**
- Total balance owed: **$25,000**
- Highest balance in last 12m: **$45,000**
- Presence of tax liens and Civil judgments: **Yes**
- Is there any tradeline past due in last year: **Unknown**
- Years in Business: **10**

#### Peer Financial Ratio Score – 1%

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#### + Financial Ratios
- Return on Assets: **15%**
- Debt coverage: **10x**
- Sales growth: **20%**

#### + Loan Behavioural Info:
- How long is banking relationship: **>2 yrs**
- Loan payment status: **Past due 30-60 days**
- Utilization: **55%**
- Late payment in last 1 year: **No**

#### ABC Cosmetics

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Demo
Recently Announced Partnership
Moody’s Analytics & Cortera

Cortera gathers trade credit data on small businesses by understanding their supply chain

We are bringing Cortera’s trade credit data into RiskCalc Small Business and lending solution supporting increasing efficiency.
Conclusion

- RiskCalc Small Business brings our scoring expertise to small business lending and risk assessment.
- While data availability can be a challenge for small businesses, minimum inputs can be provided to determine a score – without financials.
- Combining various data (firmographic, trade line, financials, loan behavior) into default probability yields more predictive results.
- RiskCalc Small Business allows users to leverage the website or batch capability.
- MARQ Score supports common understanding across lenders and risk minded professionals.
Q&A
Thank You!

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September 24th – 26th in Omaha, Nebraska

Moody’s Analytics Summit
October 22nd – 24th in Phoenix, Arizona

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