# Look Beyond the Business for Risk Intelligence Insights

A closer look at associated persons can sharpen perspectives on business risk

EBOOK

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*Important questions for lenders to ask:*

Who should they look for information on?

How can they find individuals associated with the business or associates with fiduciary responsibility?

Where can they access information that may not be included in traditional credit reports?

**Small and medium businesses (SMBs) represent a massive opportunity for lenders who can more accurately evaluate their potential risk.**

However, traditional business data alone may not offer a more robust enough view of SMB credit risk. To attain a multi-dimensional view of the businesses themselves and the individuals associated with them, lenders must understand where to look and what to look for.

Viewing small businesses through the single lens of a tradeline credit report may be insufficient. And the standard practice of checking the credit of the business owner may also not be enough.

*Help more small businesses get the credit they deserve with a richer set of credit signals. Leverage a range of business and associated persons insights to make better risk decisions.*

# Desire for credit remains stable, but new account openings are down

**Since September 2022, lenders have originated fewer new loans, largely due to more stringent loan requirements.**

But demand for credit among SMBs remains high, and lenders are looking for ways to meet it. A closer look reveals a key distinction — while some small businesses are displaying signs of caution, others appear to be experiencing more worrisome levels of credit stress.

*Lenders who want to confidently approve more small businesses should distinguish between companies who are merely being careful and those who present a greater risk of delinquency or default.*

## Small Business credit snapshot[1]

| JAN 2022 – SEPT 2022 | SEPT 2023 – MAR 2024 | |
|---|---|---|
| **Lending demand accelerates** | **Lending demand stablizes** | **Lenders adopt “wait and see” strategy** |
| **49%** increase in credit inquiry volume | **5%** decrease in credit inquiry volume | **38%** decline in new account openings |
| *Post-pandemic credit demand boosted by increased inquiry activity from under-resourced SMBs* | *SMB appetite for credit holds strong, driven by SMBs in lower socioeconomic-level geographies* | *Tighter lending standards lead to fewer new accounts* |

### SMBs showing signs of caution and credit stress

*Signs of caution:*

- ▼6% *tradeline balances*
- ▼23% *trade credit balances*
- ▼1.5% *revolving utilization*

*Signs of credit stress:*

- ▲7% *deliquencies*
- ▲1% *charge offs*

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# Looking beyond the business

*Small businesses are building resilience by selling less valuable properties while retaining or acquiring more valuable ones.*

To better understand a company's risk profile, lenders are starting to examine other relevant factors, such as property holdings and personal derogatory events among individuals who can be associated with leadership roles in a business.

While businesses of all sizes continue to sell off real estate, small businesses have retained their larger properties, which have experienced an increase in assessed value.

**Since September 2023, small businesses have experienced:**[1]

**13%** *decrease in total property count*

**5%** *increase in average building size*

**4%** *increase in average assessed value*

## Personal derogatory events can predict increased business credit risk

The level of visibility lenders have into SMB credit risk depends on what data they consider.

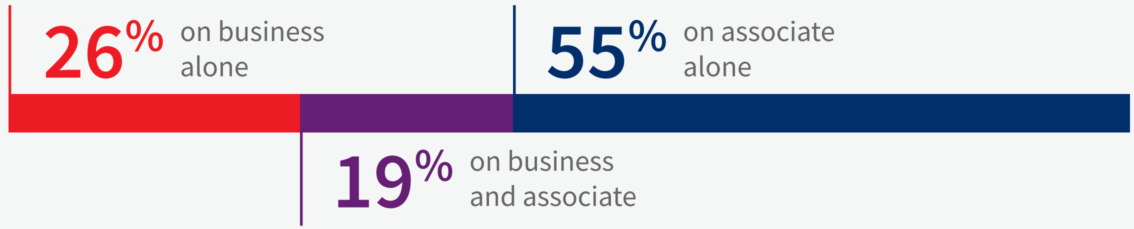
If they look only at the business data, they will see a strong correlation between derogatory public records (tax liens, judgments, bankruptcies) and increased risk.

However, the existence of similar events among associated persons (owners, partners, board members, executives, and other key decision makers) may represent an even more valuable predictive signal.

*When lenders only consider business indicators to assess credit risk, they may miss potentially critical insights.*

### Segmentation of derogatory events associated to the business, associated person or both between Jan-Sept 2022[1]

*13,000 businesses affected (out of 477,000 evaluated)*




*These events may not be seen on traditional credit reports.*

When assessing small businesses and their associates, you are more likely to encounter derogatory risk on the associates than the businesses. This is due primarily to the difference in event volume between individuals and businesses.

Analysis found that there was an increased likelihood of delinquency when a derogatory event was present compared to businesses without in a two and a half year period.

### Derogatory events are key leading indicators of future risk[1]

*Increase in delinquency within 2.5 years*

▲103% *after business only event*

▲105% *after either business or associate event*

▲101% *after associate only event*

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**Future delinquency rates are similar, regardless of which party experienced the derogatory record.**

However, a critical difference appears when we realize how much easier it is to identify derogatory events with associated persons than businesses. For example, most small businesses do not have a credit score,[2] and fewer than half obtained a bank loan between 2016 and 2020.[3] Additionally, 62% of small business owners use personal credit cards to start or operate their business.[3] These and other factors suppress the volume of derogatory events on a business.

*Using associate data dramatically increases the likelihood lenders will be able to identify derogatory events.*

- Derogatory business events have an approximate **1.5%** hit rate
- On the other hand, **71% of the 33 million** active small businesses can be linked to a business associate
- **12%** of these SMBs are linked to at least one associate with a derogatory event on file

*What does this mean for lenders?*

Lenders should consider leveraging a wide range of sources that allow them to evaluate associate credit risk.

**By layering data related to associated persons onto their understanding of small businesses, lenders can acquire a more comprehensive understanding of potential credit risk, which can help them:**

Refine loan origination strategies to target the most profitable customers

Customize debt recovery efforts

Institute proactive servicing and delinquency prevention strategies

# Acquiring a more holistic view of small business credit risk

*Alternative data enables us to provide highly predictive insights on businesses and associated persons, empowering lenders to improve credit risk decisioning and drive growth.*

**As of 2023, there were ~33 million small businesses in the U.S. comprising 99% of all businesses, SMBs represent a substantial opportunity for lenders looking to grow their portfolio.[4]**

But how can you differentiate cautious companies from risky ones? How predictive of future performance is the data you currently have? And what unforeseen opportunities exist among companies from disadvantaged geographies?

*LexisNexis® Risk Solutions can help you answer these questions.*

By leveraging alternative data and incorporating information about associated persons for small companies, we can provide insights to help you segment your customers and target candidates you haven't previously considered.

*Our industry leading linking technology allows us to connect the dots between businesses and their associates — providing lenders with a better understanding of stability, growth potential and credit risk.*

Want to know more about how alternative data can help enhance your small business lending strategy?

**Visit <insert url> to start growing with small business risk intelligence insights**


Sources:

1. LexisNexis® Risk Solutions, Information Hub, June 2023
2. The Ascent (Motley Fool), "Most Small Businesses Don't Have a Credit Score. Here's How to Get One for Free," Updated July 21, 2021
   https://www.bai.org/banking-strategies/credit-card-and-auto-loans-falling-into-delinquency-hit-highest-rate-in-a-decade-and-defaults-have-not-peaked-fed-says/
3. U.S. Federal Reserve, "Small Business Credit Survey; 2021 Report on Employer Firms," February 3, 2021
4. SBA, "Frequently Asked Questions About Small Business," March 2023


About LexisNexis Risk Solutions

LexisNexis® Risk Solutions includes seven brands that span multiple industries and sectors. We harness the power of data, sophisticated analytics platforms and technology solutions to provide insights that help businesses and governmental entities reduce risk and improve decisions to benefit people around the globe. Headquartered in metro Atlanta, Georgia, we have offices throughout the world and are part of RELX (LSE: REL/NYSE: RELX), a global provider of information-based analytics and decision tools for professional and business customers. For more information, please visit LexisNexis Risk Solutions and RELX.

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