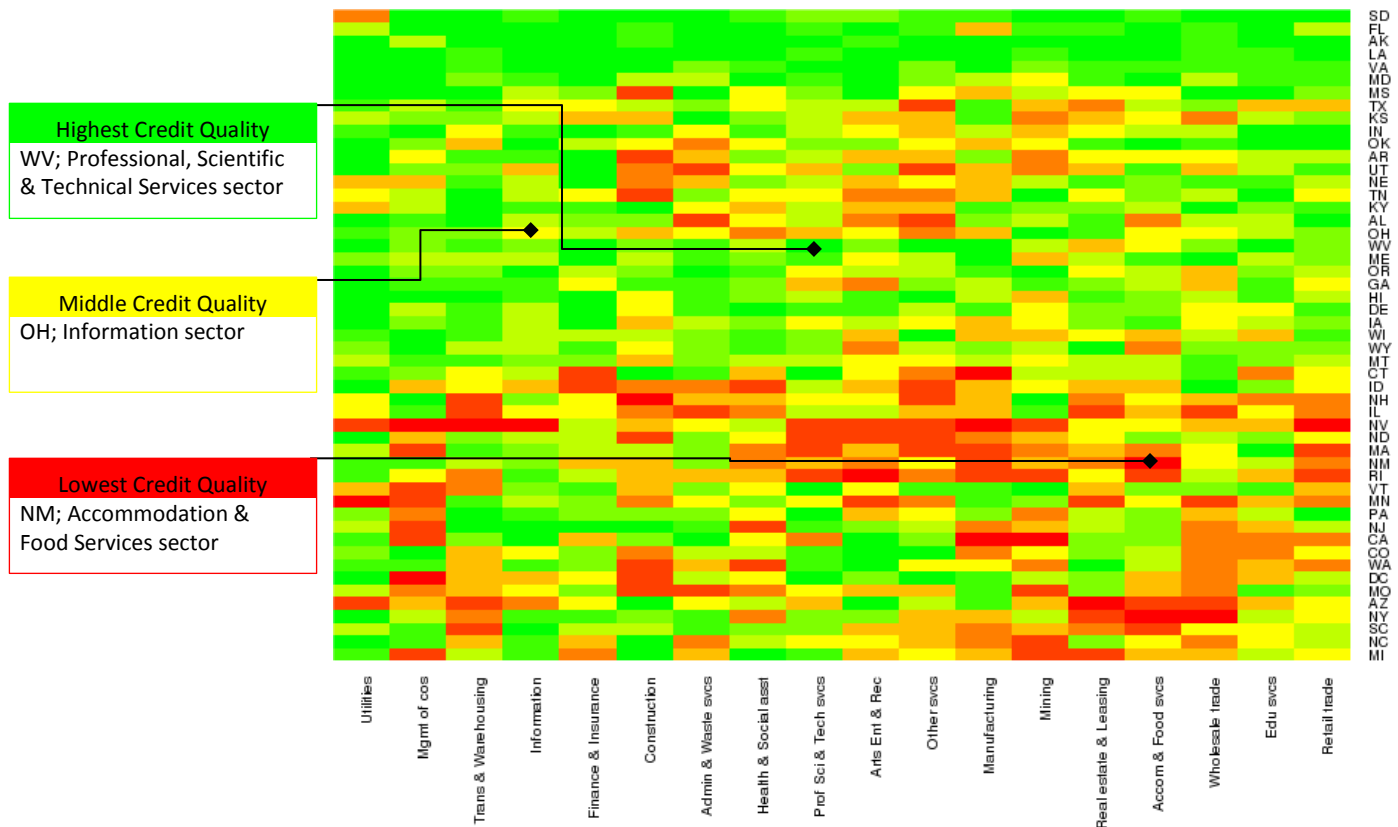


## GIVING CREDIT ITS DUE

In this Research Note we introduce an enhanced version of the Credit Quality Map – a visual representation of business credit quality across states and industry sectors.



The Credit Quality Map represents business segments based on their current default rate and trailing twelve month (TTM) trend. This composite measure provides a succinct and actionable market perspective that complements individual business credit scoring.

The Credit Quality Map helps managers:

- ✓ Identify new customer segments
- ✓ Improve pricing
- ✓ Tune credit policies and risk guidelines

Additionally, the map groups states and industries based on their credit quality *similarity*. Such information can help construct more diversified portfolios.

The Credit Quality Map is powered by WAIN Street’s Business Default Index – the most comprehensive, monthly gauge of nationwide business defaults.

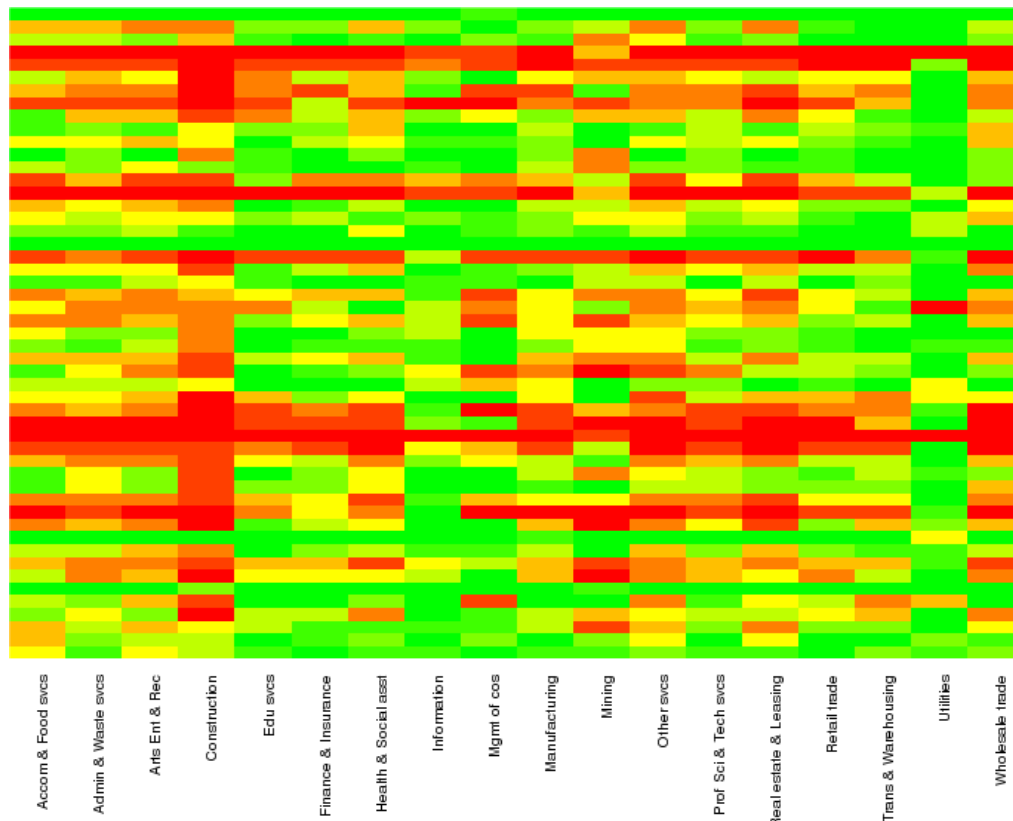
### Constructing the Credit Quality Map

Each cell in the map represents a sub-index of the Business Default Index (BDX) based on a state and industry sector.

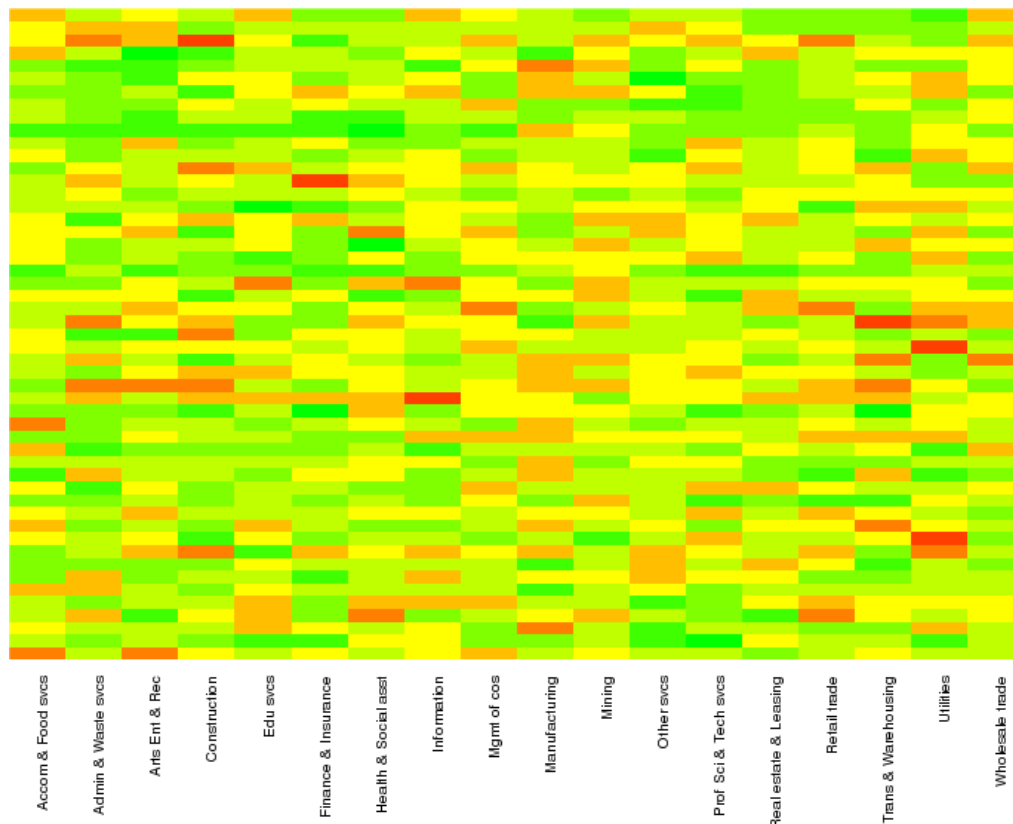
A cell’s value is composed from the latest default rate and trailing twelve month (TTM) trend. The TTM trend is computed as a time weighted diffusion index of the monthly default rates. Such a composite metric effectively discriminates between a cell with a high default rate and recent deterioration versus a cell with a high default rate and recent improvement.

All cell values are then ranked to provide the final segment values such that the highest value corresponds to highest credit quality with consistent improvement and lowest value corresponds to worst credit quality with consistent deterioration.

## Under The Hood



**Credit Quality Rank**  
 The Credit Quality Rank depicts the relative credit quality of segments based on their current default rate.  
 Green indicates highest credit quality and red indicates lowest credit quality.  
 Looking down a column, one can observe the variation in credit risk across states within an industry sector.



**Credit Quality Trend**  
 The Credit Quality Trend summarizes each segment's trailing twelve month default rate trend as a time weighted diffusion index.  
 The highest value is represented in green and corresponds to consistent 12-month improvement. The lowest value is represented in red and indicates consistent 12-month deterioration.

## About the WAIN Street Business Default Index

The Business Default Index (BDX) is the first component of the WAIN Street Business Credit Health Index™ (BCH Index). Every month, the BCH Index aggregates multiple micro-level indicators concerning nearly 30 million businesses to reflect the holistic credit health of obligors nationwide.

### Methodology

The BDX is based on the credit performance of a subset of nearly 18 million businesses that have been tracked by WAIN Street for over 12 months. A weighted aggregate, the BDX reflects the incidence and severity of defaults.

Defaults arise whenever there is non-performance of an obligation. The BDX incorporates the spectrum of defaults – delinquencies, charge-offs, and bankruptcies. Business-level defaults are pooled within demographic segments based on industry, geography and employee size. Default events within a segment are aggregated using weights designed to reflect default severity. Segments are assigned weights to reflect the *economic impact* of the businesses within the segment. Index values are obtained as the weighted harmonic mean across segments.

The BDX is seasonally adjusted and quoted as an annualized rate.

The index inception date is December 31, 2009.

### Industry coverage

The BDX is designed to track “private, non-farm businesses” and excludes the following NAICS codes:

Description	NAICS Code
Agriculture, forestry, fishing and hunting	11
Rail transportation	482
Postal service	491
Financial vehicles	525
Religious, grantmaking, civic, professional, and similar organizations	813
Private households	814
Public administration	92

## About WAIN Street

WAIN Street empowers credit markets to better serve middle-market and small business enterprises. By harnessing data on nearly 30 million US businesses, the WAIN Street Business Credit Health Index™ (BCH Index) provides an aggregate view of credit health trends with the ability to drill-down to granular demographic segments. The BCH Index is a platform that enables consistent measurement of middle-market and small business credit portfolio quality. This facilitates coherent industry-wide communication around portfolio credit risk and unlocks new opportunities.

Middle-market and small businesses account for over \$1 trillion of aggregate credit exposure. The BCH Index and complementary WAIN Street services facilitate discovery, more effective management, and pricing of risks and opportunities that exist in this market. These capabilities create greater financing options for middle-market and small businesses, enhance liquidity for lenders, and promote financial innovation to stimulate entrepreneurship and new job creation in the US.

## For more information:

Vidur Dhanda  
Publisher  
WAIN Street  
vdhanda@WAINStreet.com  
413-303-9765  
www.WAINStreet.com

## Copyright Notices and Legal Disclaimers

The opinions expressed in this publication are for general information only and are not intended to provide or be construed as providing specific investment advice or recommendations for any entity. No content may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of WAIN Street.

This publication is based upon information obtained from sources believed to be reliable. However, due to the possibility of human, mechanical or other error or omission, WAIN Street does not guarantee the accuracy, adequacy or completeness of the material, is not responsible for any errors or omissions therein and makes no representations or warranties as to the results to be obtained from its use. In no event shall WAIN Street be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses in connection with any use of the content even if advised of the possibility of such damages.

© 2014 WAIN Street, LLC. All rights reserved. Redistribution, reproduction and/or photocopying in whole or in part is prohibited without written permission.

---