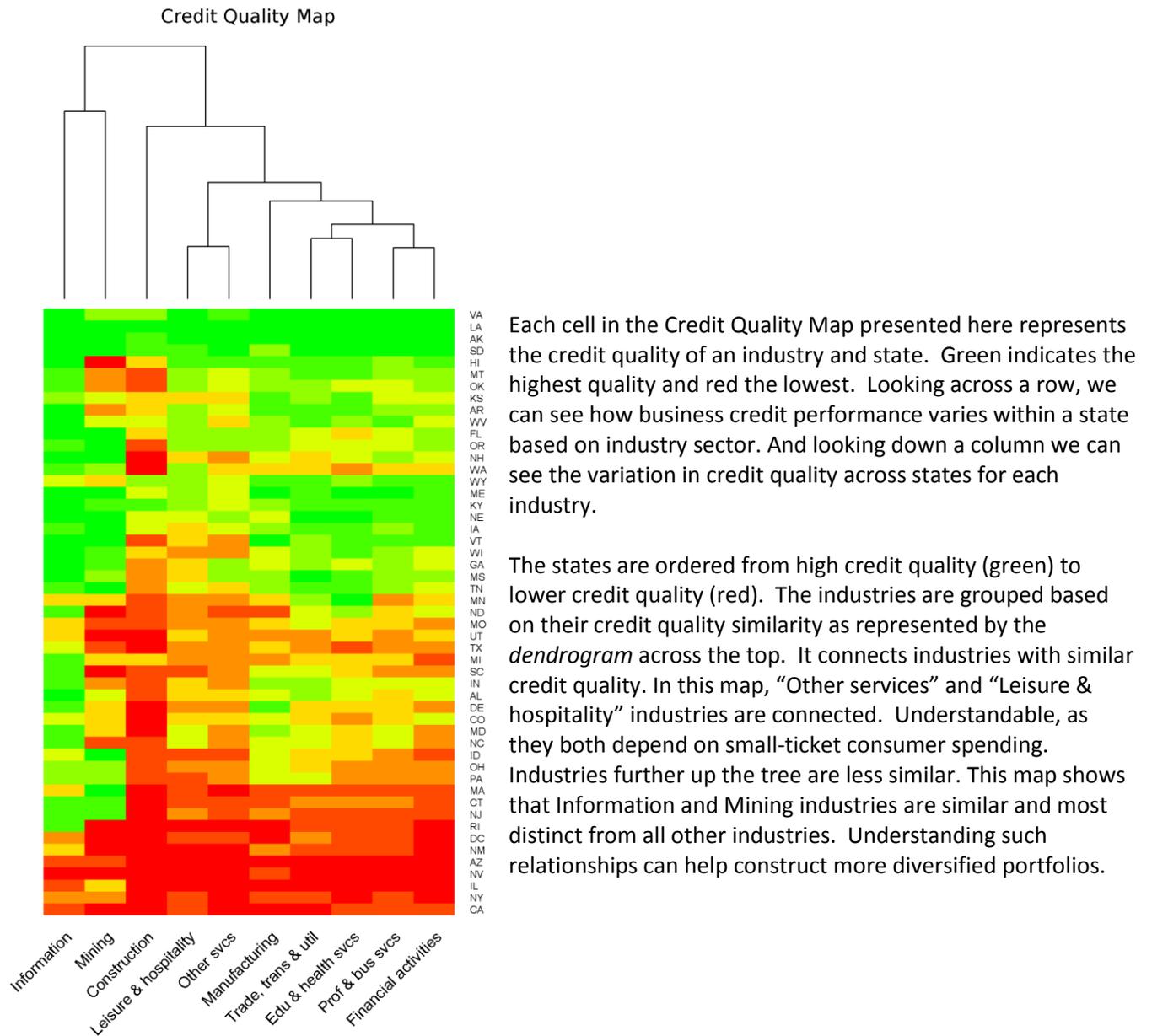
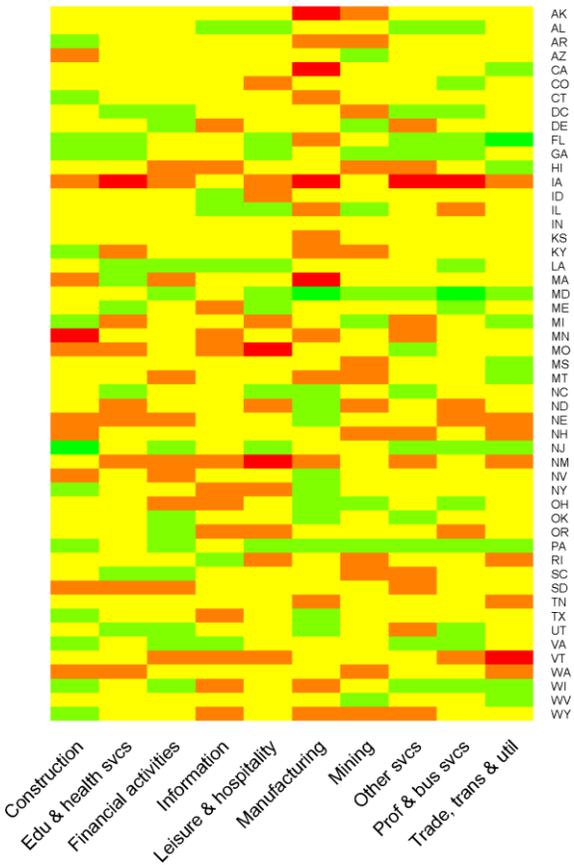


GIVING CREDIT ITS DUE

In this Research Note we examine the variation in business credit quality by geography and industry sector. We use the Business Default Index (BDX) from February 2014 and trailing 12-month values for this analysis.



Credit Quality Trend



For each cell in the Credit Quality Map above, we computed a diffusion index of the default rates of that cell over the previous 12 months—a single number that concisely summarizes the credit quality trend of each cell. In the Credit Quality Trend, a heat map of these numbers is presented with green corresponding to the cell’s credit quality improving each month and red to the credit quality deteriorating each month. Colors in-between represent the ratio of months of improvement and deterioration with yellow indicating that the value has changed equally in each direction.

With these two maps, we are now able to understand a segment’s current credit quality and also how it has trended over the last 12 months. Understanding such granular variations in credit quality can help us better manage our credit portfolios across functions – marketing, pricing, policy and risk management.

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.

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