This article offers a potential solution for both financial institutions and small community governments: special asset securitization trusts. These trusts, while still in a conceptual phase, could operate as revolving debt pools for small cities. Small city governments, special districts, schools, hospitals and other taxing jurisdictions could collectively issue debt obligations that could operate as revolving debt pools for small community governments: special asset securitization trusts. These obligations are treated as debt for federal income tax purposes so that interest is deductible.

This resulting analytical tool, with the name of the issuing institution, considers four factors: 1) the lender use of scoring for automatic loan approvals; 2) the maximum size of loan applications scored; 3) the volume of scored loans on the organization’s books; and 4) the use of scoring to facilitate business and geographic expansion.

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**Why scoring is used:** Lenders that use scoring models claim several benefits: 1) faster loan decisions, 2) substantial efficiencies, and 3) improved underwriting consistency across an entire organization.

**Why other institutions don’t use scoring:** Many of the forty-two respondents that do not use scoring models for small business lending prefer to give individual attention to each loan request. They feel that scoring would interfere with the existing culture of the institution, which emphasizes close customer relationships. Many also report cost as a factor, citing an insufficient scale of business lending to justify the expense of a scoring model.
Credit scoring models, just as consumer and mortgage lending is similarly dominated by scoring users. Also, given the competitive advantage that is possible, it appears that more and more small and mid-sized banks will adopt scoring over time.

Survey Questions
Respondents were asked a variety of questions about their credit scoring programs. A summary of their responses follow:

Length of time used:
Eight of the nine users implemented their scoring programs within the past three years. Only Wells Fargo & Company started its program earlier. This industry pioneer in credit scoring implemented its small business scoring model in 1989.

Automatic approvals:
Six of the nine banks that use scoring automatically grant some loan requests based on customer scores. The other three use scoring to streamline their lending processes, but they continue to subject all loan applications to human review.

Scoring for business expansion:
Three use scoring as a means to attract new customers through mail solicitations, but only one uses scoring to expand outside its normal geographic area.

Home-grown or vendor models:
Interestingly, all nine of the respondents use scorecards purchased from Fair, Isaac and Company of San Rafael, California. Seven use scorecards from an off-the-shelf Fair Isaac (FICO) model, and two use a customized FICO model. Wells Fargo also uses an internally developed model.

Overall reliance on scoring models:
Some of the usage factors and reasons for using scoring were combined on the following table to produce a subjective ranking of respondents by their reliance on the models for business lending.