FINREGLAB STUDY SHOWS CASH-FLOW DATA CAN EXPAND SMALL BUSINESS LENDING

WASHINGTON, D.C., June 3, 2025 – A new empirical study from FinRegLab finds that cash-flow data can help lenders underwrite small businesses more accurately, particularly when evaluating early-stage companies and financially constrained entrepreneurs that often struggle to access credit because lenders consider them to be higher risk.

The report, titled *Sharpening the Focus: Using Cash-Flow Data to Underwrite Financially Constrained Businesses*, analyzes over 38,000 small business loans originated by two fintech lenders between February 2015 and January 2024. The research was conducted with Sabrina T. Howell and Siena Matsumoto of the Stern School of Business at New York University. The analysis reveals that cash-flow variables derived from electronic bank account data provide a stronger and more accurate basis for predicting loan performance than business owners' personal credit scores alone—especially for businesses that face constraints because they are relatively new and because their owners have low credit scores.

Small business formation has surged over the past five years, including companies with a high propensity to create job growth, online influencer businesses, and a range of "side hustle" businesses. But accessing credit is often difficult for early-stage businesses because banks have increasingly adopted minimum time-in-business and revenue thresholds. Many small business lenders also rely heavily on owners' personal credit scores when underwriting smaller loans, even though about one-third of U.S. adults are estimated to have thin or no credit files and another 25 percent to have below "prime" scores.

"Cash-flow underwriting is not just a technical innovation—it's a practical solution to long standing barriers in small business finance," said FinRegLab CEO Melissa Koide. "This research demonstrates how lenders can improve risk assessment and broaden access to capital for entrepreneurs."

Key findings include:

- **Models that added cash-flow variables to personal credit scores and other traditional inputs predicted default risk more accurately across all borrower segments analyzed.**
- **Gains were particularly large for low-score entrepreneurs whose businesses are less than five years old.** Impacts were stronger than for all low-score entrepreneurs or for all owners of younger businesses separately.
- **Cash-flow data provided real-time insights into the financial health of the small businesses.** Although account deposits and balances were generally the most powerful variables, factors such as withdrawals, balance volatility, and low/negative balance incidents were also predictive.

As policymakers and financial institutions seek to fuel economic growth and sustain recent business formation activity through expanding access to responsible credit, cash-flow underwriting presents a scalable, data-driven solution. It enables banks, credit unions, community development financial institutions (CDFIs), and fintechs to serve new markets while maintaining sound lending standards.

FinRegLab also issued an updated version of *Transforming Small Business Credit: Technology and Data Adoption in Mission Based Lending* today. The report updates implementation lessons from pilots by five CDFIs and minority depository institutions and a range of other initiatives by community-based lenders that are using cash-flow data for small business lending. The pilots include Allies for Community Business, Ascendus, LiftFund, Ponce Bank, and Texas National Bank.

About FinRegLab

FinRegLab is a nonprofit, nonpartisan innovation center that tests new technologies and data to increase access to responsible financial services that help drive long-term economic security for people and small businesses. With our research insights, we facilitate discourse across the financial ecosystem to inform market practices and policy solutions.

About the Project

This research initiative was funded by a grant from the U.S. Department of Commerce, Minority Business Development Agency, and support from Visa and Plaid, which provided account connectivity services to the pilot programs to allow loan applicants to authorize their account data to be accessed for underwriting.

For media and other inquiries about this research, email contact@finreglab.org. To receive periodic updates about FinRegLab's research on credit underwriting and financial services for small businesses, please subscribe to FinRegLab's newsletter here.