



# Understanding Credit Bureaus and How to Build a Good Credit Record

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# The Credit Reporting Act (CRA) 2010



- was passed in August 2010 and became effective in October 2010
- The Credit Reporting Regulations (CRR), which serve to operationalise the Act, took effect in January 2011
- Provides for the sharing of credit information between specified bodies; the licencing and supervision of Credit Bureaus and sets the framework for the credit reporting environment



# What is a Credit Bureau?



- A credit bureau collects information from creditors and available public sources on a borrower's credit history
- The bureau compiles information on both individuals and companies
- Public information from court records, court judgments, and bankruptcies as well as other sources, helps create a comprehensive credit report



# What is a Credit Report?



- A Credit Report is a detailed record of historical events with respect to a borrower's credit facilities and other related information.
- This report may include vast amounts of information for lenders to analyse and translate in a short period of time
- Reports can be in excess of 20 pages.



# Types of information can be collected:



- Consumer's name, addresses and TRN or other unique identifier
- Information about the consumer's financial means and credit worthiness in relation to transactions involving the borrower
- The amount and nature of loans and advances or other credit facilities granted to the consumer
- The nature of security taken in respect of credit facilities (including lease financing or hire purchase)
- The nature of any guarantee /similar non-fund facilities
- History of financial transactions involving the borrower for a maximum period of seven years (including antecedents and adverse court judgements)
- Any other relevant credit related information gazetted by the Minister



# Data for the credit report



**Credit Info Providers**

**Instalment Loan**



Value  
Term  
Payment History

**Mortgage**



Value/ LTV  
Term  
Payment History

**Credit Card**



Value/Usage  
Credit Limit  
Payment History

**360 degree Total**



Total Value  
Total Activity  
Full Payment History



**Applicant**

**Other Data**



**Collateral Information**



**Court Judgments  
Bankruptcy**



**Enquiry/  
Search History**



**Demographic Information**

# Creditworthiness



## Active Credit Accounts Primary or Joint Debtor

- Arrears history
- Total balances
- Total expenditure
- Total credit limits/exposure
- Collateral

## Terminated Credit Accounts Primary or Joint Debtor

- Arrears history
- Termination reason

## Active Credit Accounts Guarantor

- Responsibility
- Arrears history
- Total liability

## Terminated Accounts Guarantor

- Responsibility
- Arrears history
- Termination reason



# Entities eligible to be Credit Information Providers



- Bank licenced under Banking Act
- A Financial Institution licensed under the Financial Institutions Act
- Building Society licenced under Building Society Act
- A Society registered under the Co-operative Societies Act
- Businesses selling goods under agreements by the Hire Purchase Act
- MicroFinance company exempt from the Moneylending Act
- Insurance company registered under the Insurance Act
- A Dealer in securities licenced under the Securities Act
- Credit bureau or Publisher of suits and judgments
- Development Bank of Jamaica, National Housing Trust and The Student Loans' Bureau
- Others designated by the Minister





# Benefits of Credit Bureaus



- Credit bureaus are critical in helping lenders make faster and more accurate credit decisions
  - Decrease in processing time
  - Lower default rates and higher profitability
  - Lower collateral requirements
  - Lower processing costs
  - Lower monitoring costs
- Credit histories not only provide necessary input for credit underwriting, but also allow borrowers to take their credit history from one financial institution to another, thereby making lending markets more competitive and, in the end, more affordable.



# Documents, collateral, guarantors and time



Table with columns for months (JAN, FEB, MAR, APR, MAY, JUN, JUL, AUG, SEP, OCT, NOV, DEC) and rows for various financial metrics. Includes a 'TOTAL' row at the bottom.



**W A McGonagle**  
Flywheel & Driftwood

**W A McGonagle**  
Flywheel & Driftwood

Description	Payments Hours	Rate	Amount
Date 1	37.00	10.00	370.00
Hourly Pay			370.00
			50.00
			420.00

**W A McGonagle**  
Flywheel & Driftwood

Pay Period: 1-Jun-07  
Pay Date: Weekly  
Pay Type: Bank Transfer  
Payment Method: Works Number 1234R, Tax Code Works S22L, NI Number EW 43 65 43 A, NI Table Letter A

Description	Payments Hours	Rate	Amount
Date 1	37.00	10.00	370.00
Hourly Pay			370.00
			50.00
			420.00

**Year to Date**

Taxable Gross Pay	2864.00
Income Tax	386.10
Employee NIC	249.04
Employer NIC	289.79

**Net Pay** 258.58

**JFS** Service Guarantees Bank & Branch

**ACCOUNT SUMMARY**

Account	Balance	Interest	Admin Charge	Current	Overdue	Total
01-01-07	\$1,234.56	\$123.45	\$12.34	\$1,368.00		\$1,368.00

**CURRENT CHARGES ARE NOTED & PAID**

Account	Balance	Interest	Admin Charge	Current	Overdue	Total
01-01-07	\$1,234.56	\$123.45	\$12.34	\$1,368.00		\$1,368.00

**TOTAL CURRENT CHARGES**



# Benefits to Consumers



- Greater access to loans
- Good credit history will be rewarded – interest rates should reflect the risk
- Borrowers less likely to need collateral/guarantors when applying for loans
- Motivates borrowers to pay on time

...however, bad payers don't always consider a credit bureau to be a benefit



# Who is most likely to get a loan???



# What is done with the information

- The Bureau analyses the information collected in order to come up with a conclusion as to credit worthiness
- This conclusion is represented in the form of a numeric score





# What is a Credit Score?

- A credit score is a number assigned by a computer that uses a mathematical formula to analyse the historical credit information on a credit report. It converts qualitative data into a numerical score.
- This number represents the assessed risk along a numeric scale, associated with extending credit to an applicant based on their credit history.



# A credit score is just a number



- CreditInfo Jamaica is using a scale from 250 to 900
- Similar scale to US FICO score but Jamaican data and scores
- 645 is a very slightly lower risk than 644
- 644 is a very slightly lower risk than 643
- According to statistics
- (though CreditInfo is using an expert model until history of Jamaican performance is available)



# Using a Credit Score



- Each Risk Grade has an associated Accept Rate and Bad Rate
- Lower Risk = lower Bad Rate and lower Accept Rate
- Though different for each institution
- Average loss per Bad and average profit per Good enables optimal cut-off

Risk Grade	Score From	Score To	Description	Action
<b>A1</b>	740	900	Very LOW Risk	Accept
<b>A2</b>	725	739	Very LOW Risk	
<b>A3</b>	710	724	Very LOW Risk	
<b>B1</b>	695	709	LOW Risk	
<b>B2</b>	680	694	LOW Risk	
<b>B3</b>	665	679	LOW Risk	
<b>C1</b>	642	664	Average Risk	
<b>C2</b>	620	641	Average Risk	
<b>C3</b>	599	619	Average Risk	
<b>D1</b>	575	598	High Risk	Refer
<b>D2</b>	560	574	High Risk	
<b>D3</b>	530	559	High Risk	
<b>E1</b>	380	529	Very High Risk	Reject
<b>E2</b>	271	379	Very High Risk	
<b>E3</b>	250	270	Very High Risk	





# Credit Scoring using credit info is ....



- Scientific
- Quantifiable
- Consistent / repeatable
- Not judgmental
- Explicable
- From diverse sources & difficult to manipulate
- Quick
- Adjustable
- Effective
- Predictive
- Monitor-able
- Used for planning / Pricing



# What are the credit information and score used for ?



- Helping to decide about the extension of a loan or other credit facility to the consumer.
- Helping to decide a financial or other commercial transaction involving the consumer,
- Underwriting of insurance involving the consumer
- Screening for employment or other purposes in accordance with the specific written instructions of the consumer



# Who has right to access a Consumer's credit report?



- Credit Information Providers with the consumer's consent (CIJ operates a closed user group)
- The Bank of Jamaica (Supervising Authority)
- The consumer who is the subject of the report
- Officers of the law pursuant to a Court order
- The Credit Bureau
- Nobody else



# The responsibilities of Credit Information Providers



- Publish a notice in a daily newspaper at least seven (7) days before first providing credit information;
- Advise every applicant for any credit facility that credit information may be supplied to a credit bureau;
- Provide accurate and reliable information;
- Furnish the consumer's consent in writing to the Credit Bureau when requesting a credit report;
- Advise a consumer if credit is denied due to any information in a Credit Report and name the Credit Bureau or Credit Information Provider that provided the report;



# The Rights of Consumers



- One free credit report per calendar year upon written request
- To know the source, nature and substance of all information held
- To know all who accessed their report in the preceding 6 months
- Accuracy and reliability of information (complaints procedure)
- Access to the Register of Credit Information Providers
- Knowledge if credit file caused decline of a credit application
- Know which Credit Bureau was used by any CIP
- Register potential fraud
- Provision of consent before CIPs can access their credit report
- Right of recourse to the Supervising Authority
- Right of appeal to an Appeals Tribunal



# Steps to improve credit score:



- Develop a budget and a financial plan
- Do not over-extend yourself
- Pay your debts on time and honour the payment plan
- If your personal financial situation changes, talk to your credit provider and be open and honest
- Re-structure debt arrangements if necessary
- Monitor your credit reports and possible identity theft
- Knowing your score will help you to negotiate the best possible deal



# The Credit Report



**Creditinfo Report Plus**

Anna Good

Dashboard | Subject Info | CIP Score | CreditInfo Quest | Contracts | Relations | Inquiries | Disputes

**Creditinfo Predictor (CIP)**

**B1** CIP Grade | Trend ↑ | **289** CIP Score

**Creditinfo Quest (CIQ)**

**2** Number of CIQ Fraud Alerts | **1** Number of CIQ Fraud Alerts Third Party

**Contracts**

**Payments Profile**

Payments profile status	Past Due Amount Sum (open contracts)	EUR 50
	Max Nr. of Due Installments (last 12 months) – open contracts	1
	Max Nr. of Due Installments (last 12 months) – closed contracts	0
	Nr. of months since last closed contract with Negative status	13
	Outstanding Amount of last closed contract with Negative status	500

**Affordability and Over-indebtedness**

<b>2</b> Nr. of Open Contracts	Outstanding Amount Sum	EUR 13,050
	Monthly Demonstrated Affordability	EUR 1,590
	Total monthly payment	EUR 1,050
	Monthly Installment Amount/Income	20%
	Nr. of Closed Contracts	1
	Nr. of Open Guaranteed Contracts	1

**Relations**

**1** Number of known relations

**Inquiries**

**9** Number of inquiries during last 12 months

**Disputes**

**0** Number of Active disputes | **0** Sum of false disputes in the past

Use of this report is governed by your agreement with CreditInfo Jamaica Ltd and the Credit Reporting Act 2010



Tabs to components

- Dashboard
- Subject Info
- CreditInfo Predictor Score
- CreditInfo Quest
- Contracts
- Relations
- Inquiries
- Disputes





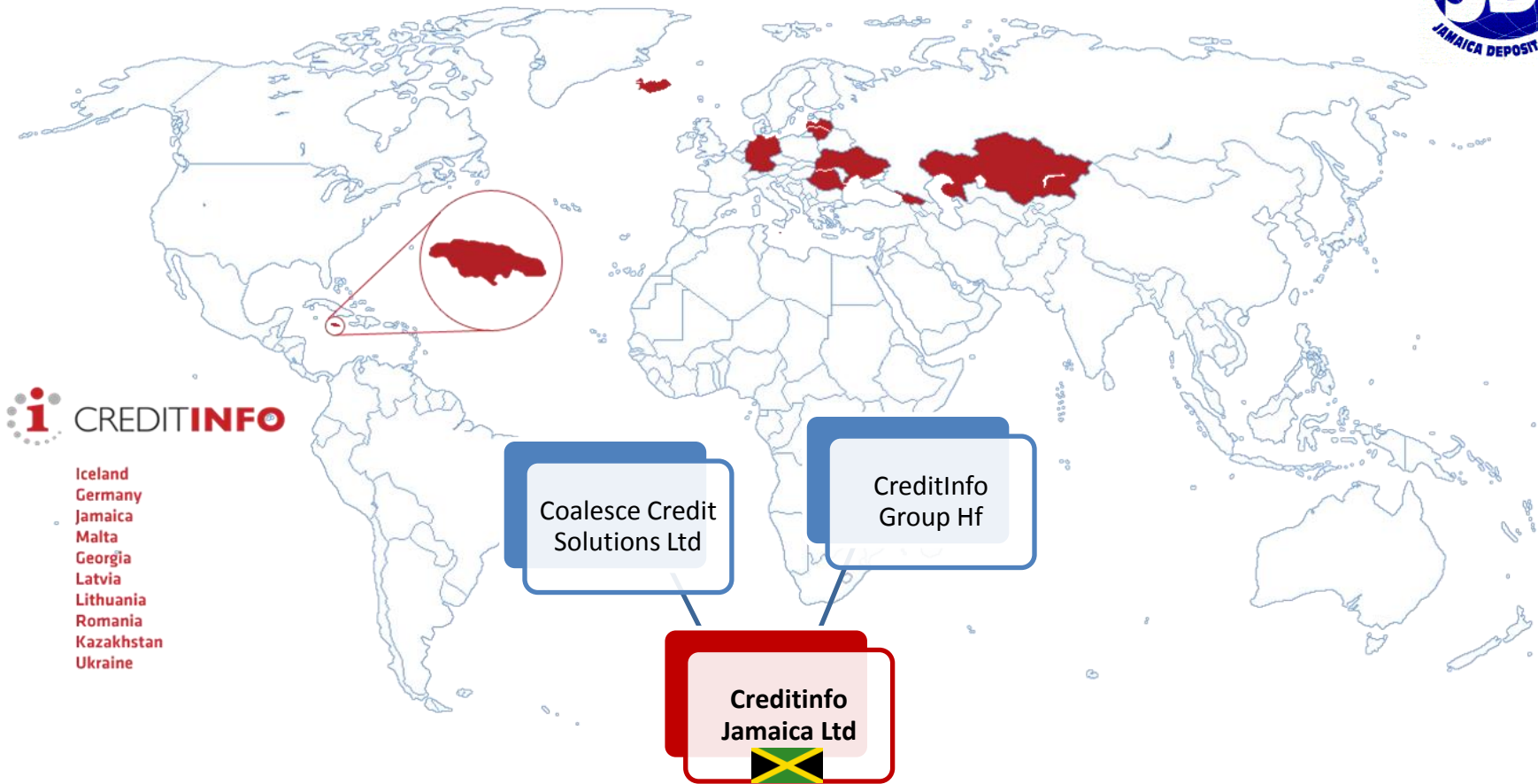
# Credit Bureaus help Risk Management

- Credit scorecards are in every modern economy
  - Marketing: screen out definite rejects
  - New to lender: 360 degree view of history and current commitments (outperform human underwriters every time)
  - Customer management: spot financial stress or changed circumstances
  - Collections: identify Can Pay's from Can't Pay's
  - Debt sale/purchase: work collectable accounts, sell others
  - Data: usually the best picture of your customers
- Anti-fraud and anti-money laundering
- Credit Bureaus are essential supports to financial markets





# Creditinfo Jamaica Limited



- Iceland
- Germany
- Jamaica
- Malta
- Georgia
- Latvia
- Lithuania
- Romania
- Kazakhstan
- Ukraine

