



Many Kenyans experience constraints in accessing finance. FSD's mission is to support the development of inclusive financial markets in Kenya as a means to stimulate wealth creation and reduce poverty.



## CREDIT REPORTING WHAT DOES IT MEAN FOR ME?



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# CREDIT REPORTING

## WHAT DOES IT MEAN FOR ME?



### What is credit reporting?

Credit reporting is a system which enables banks to share information about how borrowers repay their loans.

### Why is credit reporting being introduced in Kenya?

Where borrowers fail to repay their loans – default – then the banks bear the cost. In order to remain in business banks are forced to pass on the cost of defaults to other customers through increased interest rates and other fees. Put simply – good borrowers are paying for bad. This is unfair. Credit reporting allows banks to better distinguish between good and bad borrowers. Someone who has failed to pay their loan at one bank will not simply be able to walk to another bank to get another loan. Over time better information on potential borrowers should mean that it will be both cheaper and easier to obtain loans.

### Will your bank tell other banks about whether you are paying your loans?

Yes. If you have defaulted on a loan, then your bank must share this with all other banks. This is called *negative information*. In Kenya, the law now requires that banks have to share negative information about their customers with other banks.

### What other 'negative information' does your bank have to share with others?

Banks are required to pass on information if your cheque is dishonoured or if your account is compulsorily closed. Other information that must be reported includes: proven frauds and forgeries; cheque kiting; false declarations and statements;

receiverships, bankruptcies, and liquidations; credit default and late payments; use of false securities; and misapplication of borrowed funds.

### What if you are a good borrower?

If you have taken a loan and are repaying it regularly and on time, banks can share this information with other banks. This is called *positive information*. The law allows banks to report positive information but does not insist on it.



### How do banks share information?

Banks must pass on *negative information* to a credit reference bureau on a monthly basis. Any bank that provides such information is also free to request information from a credit reference bureau on a potential borrower.

### What is a credit reference bureau?

A credit reference bureau is a company licensed to collect and combine credit information on individuals from different sources and provide that information upon the request of a bank. At present the law only allows information from banks to be combined and only participating institutions can have access to it. Furthermore, banks can only request a report on a borrower who has actually applied for a loan from them.

Such reports help the bank decide whether you as a potential borrower will be able to repay a new loan. If the report shows that you have a 'delinquent loan' – one on which you are no longer making payments – you are likely to be denied new credit.

### How safe is this information about you now that it is held outside your bank?

The law requires credit reference bureaus to meet international data security standards in the transmission and storage of information in their custody. Regular data security audits are conducted by the Central Bank of Kenya and bureaus that do not keep data safe risk losing their licences.

### Can you challenge wrong information about you given to or passed on by a credit reference bureau?

Customers have the right to view any information about them held in a credit reference bureau, if that information has been used to deny them credit. The law and regulations also set out procedures for settling disputes. If a dispute is not settled within a specified time period, the disputed information will have to be removed from the databases of all credit reference bureaus.

### Should you request that your positive information be shared?

Banks and other credit providers use credit reports obtained from credit bureaus as part of the lending decision process. Having only one half of the picture (*negative information*) runs the risk of it becoming the only deciding factor – a blacklist with the potential of restricting access to credit.

That is why many customers will also want their *positive information* to be reported regularly to credit reference bureaus. If banks are aware of a customer's good payment history, that consumer could benefit from lower interest rate, easier terms and/ or less collateral. It will be easier to shop around – go to another bank that might offer you better terms. By signing the consent to share positive information when asked to by your bank, you could benefit.

### The future

Information from other sources – water, power and phone payment made regularly; tax liens and other claims on spare cash; court data, etc – can also help banks to assess your ability to pay. Collectively, negative and positive information and the addition of information from other sources is known as *full file information* and gives a more complete picture of the potential customer.

Once the basic credit reporting system has been established in Kenya, it is hoped that we can move to full file information sharing. With better information about customers, banks will be able to make more informed credit decisions, reducing costs and improving approval speeds. This will be good news for both customers and banks.



POSITIVE INFORMATION

NEGATIVE INFORMATION

NEGATIVE INFORMATION

FULL FILE INFORMATION