

BAHAMAS CREDIT BUREAU PROJECT

Credit comes from the latin word "credere" which means "trust". It is the trust that the lender places in the borrower to pay back. This trust is based in the knowledge that the lender has regarding the borrower's capacity (income) and the willingness (character) to repay.

As a consumer, here's what you should know about credit and credit reporting

1. What is credit?

Sometimes you need to borrow money from a bank or your local credit union to pay for anticipated or unanticipated expenses that you cannot cover through your regular income or savings. Banks, credit unions, and other similar institutions may offer to lend you this amount in the form of a loan, to help cover your expenses in the short term. A loan is a form of credit. You may be a user of a cell phone and may pay your bills at the end of the month or billing cycle. In this case, you are using a service (the cell phone service) on credit. Credit can mean money that you borrow or a service or a product that you buy without paying upfront, but, rather, agree to pay in instalments.

2. Why is it important to manage your credit carefully?

A young professional who earns a salary may need to save over a long period of time to buy a car, or a house, if he or she had to pay the full amount upfront. Credit enhances the quality of life of this person by allowing him or her to buy the car or house immediately and pay off the price in monthly payments, based on what he or she can afford.

Those that provide credit offer an important service, by making money or products and services available to those who need them, when they need them. To cover their costs of offering credit, creditors will charge an interest rate or a service fee (or both). You will need to pay the interest amount or service fee, in addition to the amount borrowed. Managing your credit means, paying back the creditor any amount owed plus the interest and service charge in the time period under conditions agreed.

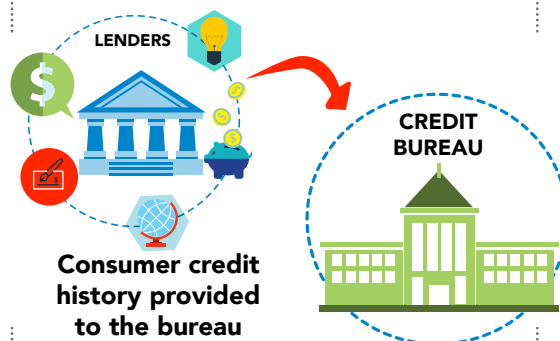
Managing your credit carefully will work in your favour because:

- The terms of repayment of the credit or servicing of the debt remain favourable to you.
- When you go back to the same creditor or lender, they are more likely to approve another loan or offer you a service or product on credit again, because they know that you are likely to pay it off, as agreed.

- You may also be able to benefit from a lower interest rate, a lower service fee or other favourable terms, because the creditor thinks you are a good borrower and wants to reward you for being responsible.
- By paying your loan off on time, or making bill payments on time, you build a "positive track record" with the creditor, who will want to do further business with you.
- By being able to show that you are good borrower with a positive track record of repaying your credit obligations, you may be able to access credit without having to put down physical collateral.

3. Can banks and other types of lenders see my borrowing track record?

At the moment, in The Bahamas, banks and lenders look at your application for a loan, for instance, and call up all references that you have listed on it, check with your employer, and your previous lenders to see if you have been a responsible borrower. But, a new law has been passed in The Bahamas, that will allow for the creation of a credit bureau, that will make it easier for banks, credit unions and other types of creditors to see your borrowing track record or "credit history". The new law called the "Credit Reporting Act, 2018" was passed in Parliament in April, 2018.



4. What is a credit bureau?

A credit bureau is a company registered under The Bahamas Companies Act that will collect and put together information on your borrowing behaviour to create your "credit history." A credit history is a summary of the lending relationship between a consumer or a small business and a creditor or provider of goods and services on credit. A

credit history generally contains your identification information (such as your name, address, national insurance number), information on your accounts (name of creditor, date a loan was given, type of loan, amount of the loan), payment information (monthly payment, original and current balance, on-time/late payments), and arrears information (if any).

The credit bureau will be allowed to collect this information from banks, insurance companies, mortgage companies, credit unions, telecommunications companies, utility companies, and even public sources like courts, civil records offices, etc. Each borrower in The Bahamas will have a credit history. A credit history provides reliable information which a creditor may use to make informed decisions, because it gives an indication of the probability of being repaid. The credit bureau will provide this credit history in the form of a report called a "credit report" to certain users as identified by "the Credit Reporting Act".

5. Why is the credit bureau collecting information from telecommunication companies and utility companies?

Not every borrower has a loan from a bank or other formal lenders. These borrowers won't be able to show a formal credit history. Almost everyone in The Bahamas, however, is likely to have a water bill or a telephone bill. Payment of these bills also show a borrower's willingness to pay bills on time, which can be used to build a credit history. The idea of allowing the credit bureau to collect data from telecom and utility companies, is to give borrowers that don't have access to formal credit, for instance, the opportunity to show creditors that they are responsible in meeting other payment obligations in a timely and consistent matter, and could therefore be potentially good borrowers of credit.

6. Who are the users that will get credit reports from the credit bureau?

Users are those that have a permissible purpose under the new Credit Reporting Act. These include those to whom you are applying for credit (or

acting as a guarantor), landlords to whom you are applying for a lease, insurers to whom you are applying for insurance, and certain employers that are recruiting for positions that entail financial responsibility. As a borrower, you will also have access to your credit reports from the credit bureau.

7. Can I see what my credit report looks like?

As a borrower whose credit history is stored in the credit bureau, you will be entitled to request one free copy of a credit report from the credit bureau each year. In certain other instances, you will be able to get a free report, such as, if a lender turns down your application for a loan, or if there is an error in your credit report that is subsequently corrected/changed. In all other cases, you can obtain a copy of your credit report from the credit bureau for a fee. Your bank, credit union or other creditor will be able to provide you with details of the credit bureau, once it is launched. You will also be able to find this contact information on the Central Bank's website.



8. How will the credit bureau make sure that my information is stored safely and not distributed to the wrong persons?

Under the Credit Reporting Act, each person involved in the credit information sharing system, including the credit bureau, the providers of information (like banks, telecoms, utilities, etc.) and the users of this information are required to take necessary steps to protect and preserve the confidentiality of the information shared. This means they will be required to put in place the right policies and procedures and necessary technology and staff to safeguard the data. Any failure to comply with the law will result in penalties.

Also, a user that wants to access your credit report must show that you have consented to this access. So, when you go to a bank and apply for a loan, the bank will ask you to sign a consent clause along with the loan application and tell you that it will inquire or pull your credit report from the credit bureau to better assess the quality of

your application and provide you with the best possible product or service. This will ensure that your information is only shared with those whom you want it to be shared with.

9. What if I don't want to consent to a user pulling my credit report?

If you do not provide your consent to a creditor to inquire on your credit history with the credit bureau, the creditor may choose other means to conduct its due diligence on your application for credit. This means that your application for credit could take more time to be approved. You may also not benefit from the best interest rates, as the creditor may not have sufficient information about your credit history to make that decision. A creditor may also choose to decline your application for credit, if it cannot access a credit report and cannot gather sufficient information regarding your credit history using alternate means.

Over time, we expect the credit bureau and credit reports to play an integral part in the lending process or the credit granting process. We expect banks, credit unions, insurers, and others to make credit checks a routine part of the credit granting process or the insurance underwriting process. Over time, we also expect consumers to see the benefits of having a credit history that shows responsible borrowing and repayment behaviour, and to appreciate the value of providing consent to creditors to inquire on their credit histories with the credit bureau.

10. What can I do if I do not agree with the information in my credit report?

You can provide a written note of dispute to the credit bureau. The credit bureau will be required to investigate the disputed information, seek clarification from the provider of the disputed information, and take any steps necessary to correct the information. If the credit bureau feels that no change needs to be made to the information, following its investigation, you can request that a statement of dispute be attached to your credit history file for future users of your credit history. If you are not satisfied with the decision of the credit bureau, you can approach the Review Commission to be appointed by the Minister of Finance, which will independently review your case and make a decision.

11. I have had a hard time paying my bills in the last few years. What will happen when the credit bureau comes?

Almost everyone experiences financial difficulties at some point in time, such

as, when a primary income earner loses his or her job, a family member falls ill, or when unplanned expenses arise. Those that demonstrate responsibility during financial distress, and take actions to resolve their financial problems, also demonstrate strong character. Recovering from a financial hardship can appear on your credit history, and can be viewed favourably by creditors.

The Credit Reporting Act seeks to give every borrower a fair chance to build a good credit history and thus, be able to access credit under fair conditions. A credit bureau cannot report information on a credit that was terminated or settled over five years ago. Also, the Central Bank envisions that there will be a period of time between when the Act is passed, the bureau becomes operational and users start collecting consent to inquire with the bureau. This time, over the next one or two years, is extremely crucial for borrowers to understand the implications of the credit bureau and be given an opportunity to correct their borrowing behaviour, so that they can benefit from the credit bureau once it is up



and running. Keeping this in mind, the Central Bank, as prospective regulator, along with credit providers, is working to inform borrowers of the impending changes and how it can affect you.

12. So what can I do to prepare for the Credit Bureau?

If your credit history is in need of repair:

1. **START PAYING YOUR BILLS ON TIME**
2. **HALT THE INCREASE IN NEW DEBT**
Stop applying for new credit
Pay off debt rather than moving it around
Stop unnecessary use of credit cards:
 - Charge only what you can afford to repay!!
 - Keep balances low; and
 - Pay off balances ahead of time
3. **KEEP REPAYMENTS CURRENT**
Missed or late with payments? Get and stay current
4. **RENEGOTIATE**
Speak to your lender
Restructure debt to improve your ability to meet obligations