

Headline	CIC paves way for Credit Information System		
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## **TOP OF MIND**

By **RAYNAN A. LAROSA**

# **CIC paves way for Credit Information System**

The country's lack of credit information is a perennial problem that has plagued us for decades. Loan applications are either delayed or denied, and more often than not, lenders impose exorbitant interest rates and collaterals to buffer the credit risk associated with the loan.



Studies show that small and medium enterprises (SMEs) alone make up more than 95 percent of enterprises in the Philippines, and it appears harder to grant financing assistance to them.

Lenders often require documentation not possessed by individuals and SMEs, such as audited financial statements and income tax returns. Of course, blame cannot be placed on the lenders as there is no way for them to assess the borrowers' payment habits, so why risk capital loss?

This puts individuals and SMEs at a serious disadvantage, being deprived of access to financing, which ultimately redounds to the country's stunted growth and development due to stagnant capital not being circulated within the economy.

In 2008, Republic Act No. 9510 or the Credit Information System Act (CISA) of 2008, was enacted recognizing the need to establish a comprehensive and centralized credit system in the Philippines. The law created the Credit Information Corporation (CIC) which is primarily tasked to collect and disseminate relevant credit information that will directly address the need for reliable credit information concerning the credit standing and track record of borrowers, thus potentially improving chances of loan approvals and enabling lenders to make appropriate decisions regarding loan applications.

As such, banks, quasi-banks, their subsidiaries and affiliates, life insurance companies, credit card companies and other entities that provide credit facilities ("submitting entities") were required to submit basic credit data and updates on a regular basis to the CIC. The submission of basic credit data includes any negative and positive credit information that tends to update the credit status of borrowers. Moreover the said submitting entities are also required to notify their borrowers of the said submission of basic credit data.

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On the part of CIC, it is also mandated to regularly update the basic credit data of the borrowers on at least a quarterly basis.

Under CISA, basic credit data is defined as “positive and negative information provided by a borrower to a submitting entity in connection with the application for and availment of a credit facility and any information on the borrower’s creditworthiness in the possession of the submitting entity and other factual and objective information related or relevant thereto in the submitting entity’s data files or that of other sources of information.” Positive credit information pertains to “information/ data concerning the credit performance of a borrower, such as, but not limited to, information on timely repayments or non-delinquency” while negative credit information means “information/ data concerning the poor credit performance of borrowers, such as, but not limited to, defaults on loans, adverse court judgments relating to debts and reports on bankruptcy, insolvency, petitions or orders on suspension of payments and corporate rehabilitation.”

Thus, when the need arises, the financing companies may use the basic credit data from the pool of credit information gathered and collected by CIC from the submitting entities. Conversely, CISA also vests rights to the borrowers in relation to his basic credit data. The borrower’s rights include the right to access his credit information, the right to know the causes or grounds of refusal of the application of credit facilities and the right to dispute erroneous, incomplete, outdated or misleading credit information before the CIC.

Since 2008, significant milestones towards full implementation of the law have been achieved, including agreement with banks to provide the necessary credit data. Recently, the Securities and Exchange Commission (SEC) also issued Memorandum Circular No. 3, Series of 2016, which requires financing companies to submit to CIC their five-year historical and current credit data on or before Aug. 31.

The CIC, likewise, aims to gather credit information from utility companies such as Meralco, water concessionaires, telephone companies as well as credit cooperatives, insurance and microfinance companies.

The developments on the enforcement of the CISA appear encouraging. Availability of reliable information can help ease the borrowers’ financial constraints without the need to impose excessive interest rates, or high dependence on collaterals, and in general giving them access to credit facilities. Similarly, creditors may reduce their overall credit risk and help increase the public’s spending money, which hopefully could improve the general economic structure of the country.

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