

# ICICI BANK CUSTOMER FIRST SERIES

A consumer education initiative

Credit Bureau Series: Article 2 of 2

TIMES BUSINESS ASSOCIATE COMMUNICATION

## What Is There In It For Me?

Last week we saw how Rani's one act of not paying her credit card dues had repercussions on her other financial needs. With credit information bureaus, it will be difficult for customers with defaults in one bank to go and borrow from another bank. Banks and other financing companies can now know the credit history of customers like Rani, before lending and so be able to keep defaulters out. But how do the vast majority of borrowers who meet their credit obligations on time benefit from the services of a credit information bureau?



### The Good, The Bad and The Ugly

A credit information bureau helps a lending institution separate the wheat from the chaff – the credit-worthy from the defaulters. It tracks the past behaviour of the consumer on honouring credit commitments and gives him a credit score. A good customer creates a trail, visible to all lenders. Good customers can then get loans on better terms. This is unlike the prevailing situation where everybody pays the same rate irrespective of their creditworthiness. A consumer with a good credit history can shop around for the most favourable terms lending institutions will compete to give him.

### Process Crunch

If Rani has an impeccable repayment record, it won't matter if she walks into a bank for the first time, seeking a loan. The bank will check her credentials with the credit bureau and be happy to lend to her. A credit bureau enables a bank to know about a potentially good customer. The bank thus starts its relationship with such new customers on a positive note. The speed and cost of processing a loan application also comes down to the advantage of the consumer, when information is easily available and accessible from a credit bureau.

### Top of the Class

The key to a good credit score is timely payment of all obligations and using available credit wisely. A credit card whose dues are paid and limits not breached, a car loan whose EMI is paid regularly; a personal loan that is repaid on time, are all credit behaviours that impact the credit score positively. Rani's credit score is low from her credit card default. If she has a car loan that she pays regularly, her overall credit score will improve. Better repayment behaviour can take her ahead.

### Improvement, Please

Rani cannot go back and change the

way she dealt with her loan dues. Cleaning up of her credit history can be done only with time. She can settle past dues. She can seek help to wind up pending dues. She can stay current on all her payments. Her bank cannot remove her credit history from the records of the bureau, but consistent payment behaviour over a period of time will help improve Rani's credit scores. However, if there has been any error by the bank in reporting customers' credit history to the bureau, the bureau can rectify at the instance of the bank.

### End Overextension

Some borrowers like Rani may have simply taken on loans that they cannot repay, since their income is insufficient. They may have EMIs with different lenders and may struggle to pay them off as well as manage their current expenses. They need to consolidate their debt, since the credit bureau will consolidate their repayment behaviour across lenders. They need to close loans that they cannot service and prune their spending to stay within their capacity to repay.

### Usurious Sharks

If lenders who are members of a credit bureau are unwilling to lend to a borrower, such a borrower may end up effectively shutting himself out of the formal markets for loans. He may then end up borrowing from informal sources, where lenders may charge them usuriously high rates of interest. A credit information bureau helps the formal lending system, to the benefit of both lenders and borrowers.

Your credit score and credit infor-



Kantabel, detergent and brush will not work here. His credit scores are too bad to wash off!



### Question

A credit score can be improved by

### Answer

- A. deleting the past repayment history
- B. creating a good current repayment record
- C. no means

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mation report are very important and decide whether you get a credit facility as well as the terms on which you get it. So it is important that you take good care that you do nothing that impacts them adversely.

Center for Investment Education and Learning

### DID YOU KNOW?

Excessive use of credit cards well above repayment ability is cited among the major reasons for bankruptcy in the United States, second only to unemployment.

### FAQs

How many months' past history of credit behaviour is considered for a credit score?

Credit bureaus usually consider credit history of a period up to the last 36 months in calculating the credit score of a consumer.

Does age, employment history or income affect my credit score?

The credit score is not affected by the age, gender, employment history, income levels, assets available and such personal details of the individual. However, the loan provider may consider these with other factors while making a decision on whether or not to sanction a loan.

Can I get my credit report?

Credit bureaus do not give the credit information report to individuals. However, if a loan or other credit facility has been declined because of the information in a credit information report, the Act, once in place, will require you to be given a copy of it on payment of a nominal fee.

We welcome your questions, suggestions and feedback on this column. Please use the 'Email Us' link at [www.icicibank.com](http://www.icicibank.com) or send as an SMS to 52030. Please include your full name, address and phone number. Your comments may be edited for clarity and space.

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