

Credit Information System in Albania

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Abstract The booming lending period and many lenders (16 banks and 21 non-bank financial Institutions in Albania) brought about unprecedented competition in credit markets within Albania. Economists usually view lending and competition favorably, but in Albania resulted in a number of unforeseen non-performing loans. Findings report increased problems of borrower over-indebtedness, reduced loan repayment incentives, and growing debts for lenders¹. The weakening performance of lenders is due in part to the absence of information sharing in these markets. Because growing numbers of lenders (banks and non-bank financial Institutions in Albania) increase the level of asymmetric information between lenders, credit information systems (often called credit reporting bureaus or credit bureaus) can play a crucial role towards improving credit market performance and, in turn, credit access for the poor. Increases in formal sector lending among the poor have created a need for credit information systems that provide potential lenders with borrower information. Improved screening affects from the system causes the level of non-performing loans to decline. In this paper we will present effects of a credit information system to be implemented in Albania. The weakening performance of lenders is due in part to the absence of information sharing in these markets. Because growing numbers of lenders (banks and non-bank financial Institutions in Albania) increase the level of asymmetric information between lenders, CISs can play a crucial role towards improving credit market performance and, in turn, credit access for the poor.

Keywords Credit Information System, Credit Score, Credit History, Non-performing Loans

1. Introduction

Most of the assets of the commercial banks include different kinds of deposit which are in fact the debts of the banks during banking and economical activities which are exposed to different forms of risk; the most important kind is

Credit Risk (CR) Financial institutions (FIs) are very important in any economy. Their role is similar to that of blood arteries in the human body, because FIs pump financial resources for economic growth from the depositories to where they are required Commercial banks (CBs) are FIs and are key providers of financial information to the economy. They play even a most critical role to emergent economies where borrowers have no access to capital markets. There is evidence that well-functioning CBs accelerate economic growth, while poorly functioning CBs impede economic progress and exacerbate poverty The magnitude and the level of loss caused by credit risk compared to others is severe to cause bank failures. Lending has been, and still is, the mainstay of banking business, and this is more true to emerging economies where capital markets are not yet well developed. To most of the transition economies, however, particular, lending activities have been controversial and a credit risk matter. This is because business firms on one hand are complaining about lack of credits and the excessively high standards set by banks, while CBs on the other hand have suffered large losses on bad loans: It has been found out that in order to minimize loan losses and so as the CR, it is essential for CBs to have an effective CRM system. Lenders experience positive net revenue impacts from lending if they increase the classification power of their credit scoring systems. If loan officers' subjective assessments of otherwise intangible borrower characteristics contain additional information about a borrower, a lender may improve the default forecast quality of his internal credit scoring systems by utilizing this subjective information. The Basel II regulatory framework requires lenders to use all available information about a borrower, both subjective and non-subjective, but at the same time produce consistent and objectified borrower ratings. However, soft information is often laden with inconsistencies due to the lack of comparability of different raters' assessments and the existence of incentives to manipulate the soft rating. The industry trends continued with companies that developing modeling in various applications. Why Credit? The reason is that credit score is so important today in credit process. Facts that after a 20-years history companies are going beyond credit, to build scoring models after this all experience in Developing of

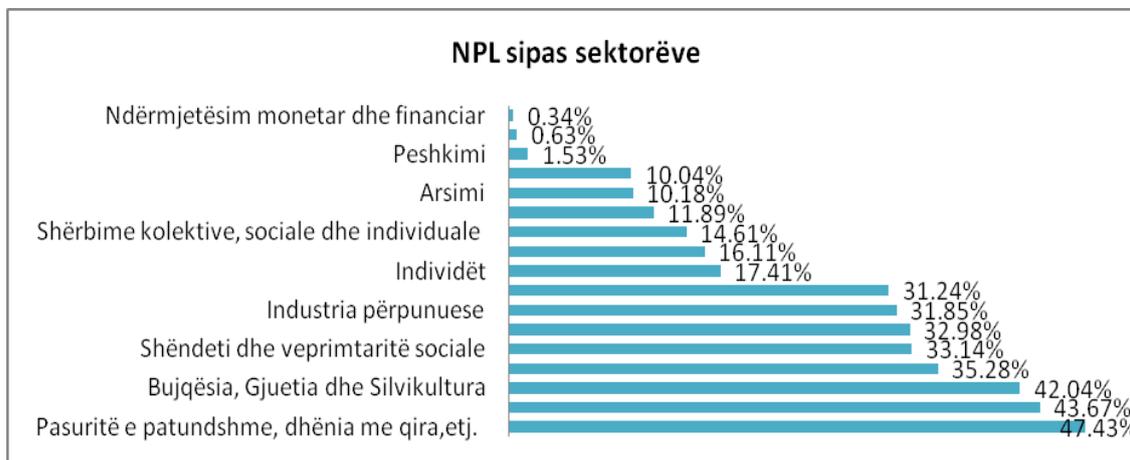
¹ Campion 2001; McIntosh and Wydick 2005

Nationalization of banking and credit industries. How do companies try to stay competitive regarding the use of credit? How do companies prepare for increasing regulatory constraints? More diversified use of credit cards, lowering of down payments, increased risk tolerance, Automated Underwriting Systems (AUS). The few opportunities to build credit for Families with low or poor traditional credit. Niche market high potential returns for risky lending. Credit scoring first emerged in the late 1950s to support lending decisions by the credit departments of large retail stores and finance companies. By the end of the 1970s, most of the nation's largest commercial banks, finance companies, and credit card issuers used credit-scoring systems. Over these two decades, the primary use of credit scoring was in evaluating new applications for credit, and creditors used their own experience and data, sometimes with the aid of consultants, to develop the models. Although often available at the time from local credit bureaus (today more commonly referred to as credit-reporting agencies), credit history records were limited in scope and relatively expensive to access. Thus, lenders essentially had no practical way of obtaining the complete credit histories of noncustomers and so could not effectively target them for solicitations on the basis of credit history. By the late 1980s much had changed. Creditors were no longer restricted to the credit histories of their own customers and credit applicants. Rather, lenders could purchase the generic credit history scores of individuals who were not their account holders and, with that data, market consumer credit products tailored to various credit scores to appropriate potential borrowers. The use of credit scoring then spread to additional loan products including home mortgage and small-business lending. Scoring technologies also were applied in new ways, such as in assessments by institutions of whether to purchase individual loans or pools of loans backing securities. Finally, credit-scoring technologies were developed to focus on outcomes beyond credit-risk assessment to include, for example, account profitability and various aspects of account management. As the use of credit scoring was growing, so was the demand for consumer credit and the number of credit instruments offered to finance such activities. Since the early 1900s, merchants have been offering installment credit to allow customers to stretch out their payments for the purchase of furniture, major appliances, and other large durable goods. Charge cards, such as those offered by oil companies and large retailers, first emerged in the 1950s, but in most instances full payment were expected within the billing cycle. In the 1960s, retailers began converting their charge cards into credit cards, a credit instrument that allowed the consumer to extend payments over a long period. Generic revolving credit, that is, a re-usable credit account not tied to a specific retailer, dates to the 1950s with the emergence of the first bankcards, but it began to flourish with the introduction of credit cards carrying the Visa and MasterCard logos; its usage more than doubled over the 1970s, with much of that growth taking the place of small

installment loans. The substitution accelerated in the 1980s and 1990s as credit cards--some tied to home equity lines of credit--became widely accepted for the purchase of larger durable goods and as a ready source of funds through cash advance features.

1.1. Albania Reality

The first decade of transition, focused on stabilizing liberalization reforms by creating suitable conditions for the growth of the banking system. By the early 2000s, the banking system in Albania is considered not active in credit sector. The enter of powerful foreign banks, either as "new Entry" or through privatization of state banks brought credit growth in the economy, making the among the second decade of transition it marked the beginning of a "boom" of credit in the economy. In late 2011 the Albanian banking sector continued consisted of 16 commercial banks entirely under private ownership, with about 92 percent of its total assets invested by foreign capital. Assets of the banking system rose by a higher rate in 2011, in nominal terms (13.1 per cent) as well as a contribution to the Gross Domestic Product (reaching 85 per cent), which indicates an event stronger. In 2011 The deposits had a significant increase of 13.1 percent, mainly as a result of growth of deposits of individuals, reflecting customer orientation towards saving and strengthening of their faith banking system. The sector challenges declining domestic demand and tight lending conditions, the loan portfolio of banks in 2011 rose by 15.3 per cent, with an upward trend during the quarter. The increase was made possible mainly by providing loans to the private sector, and was evident in loans granted in local currency. Loan to deposit ratio at the end of 2011 stood around 61 percent, showing that the banking system is less dependent on external funding and has sufficient capacities to develop. The maturity structure of new loans data in 2011 shows that banks are mainly focused on short-term lending (63 percent of total new loans), as well as the local economy reflects the need for immediate liquidity. The level of non-performing loans amounted to 18.8 percent in December 2011, influenced not only by the difficulties in some sectors of the economy, but also by the slowdown in the growth rates of loans in the last 2-3 years. As a result of the growth of bad loans, and in accordance with the requirements regulatory Bank of Albania, banks increased provisioning of them, which has significantly affected the net result of the banking activity and profitability indicators of the system, who have been lower compared with the previous quarter, despite the system's net result for the full year figure stood at positive. Referring to the statistics of the third quarter of 2014 taken from statistics published by the Bank of Albania, indicator of banks' loans to customers according to the following schedule is presented by sectors of the economy, the sector with the highest quality credit 'Real estate, rent, etc. The ratio of loans to total loans to this sector is 47.43%.



Graphic 1. NPL s (%). BoA

2. Credit Information System, CISs

CISs (CISs) compile databases that potential lenders can access to help them evaluating a consumer's credit application. They provide information to potential lenders about an applicant's credit record, producing a "credit report" that contains details of the payment and credit history of an individual, financial accounts and the way they have been managed, as well as other information of interest to the credit industry². Reports of CISs help banks stem out misconducts in the banking sector since customers whose credit reports indicate as having been involved in mal practices are subjected to stringent terms and conditions. This is also expected to help banks suppress the levels of Non-Performing Loans while increasing their loan books. Credit information sharing to bank customers, is expected to minimize the problem of information asymmetry in the financial sector. Information asymmetry between banks and borrowers is one of the main contributors to high cost of credit. Thus banks tend to load a risk premium to borrowers because of lack of customer information. This in turn, increases cost of borrowing, meaning repayment of loans escalate which translates to a high level of default.

The Credit Information Sharing (CIS) apparatus is therefore expected to facilitate the development of information capital to reduce information asymmetry or increase information symmetry and allow cost of credit to decline substantially. It is therefore the Central Bank's expectation that savings arising from the sharing of credit information will translate to lower cost of credit. CISs assist lenders to make faster and more accurate credit decisions. They collect, manage and disseminate customer information to lenders in the form of credit reports. These credit reports will help lenders to decide whether to extend an applicant's loan, credit card overdraft facility or extend any other product, which is reliant on customer's ability to repay at a determined cost.

2.1. CISs and Commercial Banks

In establishing the CISs, what needed to be done first was to convince banks and other financial institutions that if one institution benefits, they all benefit³. Customers are then well served and, consequently, receive products that they can afford. Thus there will be fewer loan losses, as the credit institutions loan money responsibly, and then fewer write-offs. In the end, much as with the fraud detection models, savings can be passed on to customers in the form of lower interest rates and better customer service. However,⁴ cautions that although individual banks may find it hard to resist following these trends as a result of market pressure, such an increased homogeneity of business models may augment the vulnerability of the banking sector as a whole.

The individual financial institutions can use the information from the CISs for credit scoring and evaluating client credit worthiness. The process of modeling the variables important in the extension of credit is referred to as credit scoring.⁵ Based on statistical analysis of historical data of the customers; certain financial variables are determined to be important in the evaluation process of a credit applicant's financial stability and strength. This analysis produces coefficients which are translated into score weights. Subsequently, information on these important variables is obtained for new bank customers. An overall score for these new applicants is produced by adding the weighted scores which were generated from the responses to the different variables. If this overall score is above a predetermined cut-off point, the loan applicant receives a certain line of credit. If not, the applicant is denied credit.

Commercial Banks in Albania are financial institutions that are authorized by law to receive money from businesses and individuals and lend money to them. They are open to the public and serve individuals, institutions and businesses. They are mainly established with the aim to make a profit by

3 Leonard, (1996)

4 Cavelaars and Passenier,(2012)

5 Leonard, (1995)

2 Ferretti, (2006)

carrying out these activities. Their operations are licensed, supervised and regulated by the central bank.

2.2. CISs Based on Credit Scoring Models Produce Credit Scores

A credit score is a numerical expression based on a level analysis of a person's credit files, to represent the creditworthiness of the person. A credit score is primarily based on credit report information typically sourced from CISs. Lenders use credit scores to evaluate the potential risk posed by lending money to consumers and to mitigate losses due to bad debt. Lenders use credit scores to determine who qualifies for a loan, at what interest rate, and what credit limits. Lenders also use credit scores to determine which customers are likely to bring in the most revenue. The use of credit or identity scoring prior to authorizing access or granting credit is an implementation of a trusted system. Credit scoring can be formally defined as a statistical (or quantitative) method that is used to predict the probability that a loan applicant or existing borrower will default or become delinquent⁶. This helps to determine whether credit should be granted to a borrower⁷. Credit scoring can also be defined as a systematic method for evaluating credit risk that provides a consistent analysis of the factors that have been determined to cause or affect the level of risk⁸. The objective of credit scoring is to help credit providers quantify and manage the financial risk involved in providing credit so that they can make better lending decisions quickly and more objectively. In the United States, the Circuit Court has found considerable actuarial evidence that credit scores are a good predictor of risk of loss.⁹ Similarly, a recent actuarial study has concluded that credit scores are one of the most powerful predictors of risk; they are also the most accurate predictor of loss seen in a long time.¹⁰

2.3. CISs Impact Borrower Repayment and Reduce NPLs

According to¹¹ the private sector credit relative to GDP is positively correlated with information sharing in their study of credit market performance and institutional arrangements in 129 countries for the period 1978–2003. Firm-level data suggest that information sharing may indeed have a differential impact on credit availability for different firm types.¹² Combine cross – sectional firm - level data from the 1999 World Business Environment Survey with aggregate data on private and public registries collected in [Miller (2003)]. They find that private credit bureaus are associated with lower perceived financing constraints and a higher share of bank financing (while public credit registries are not), and that these correlations are particularly strong for

small and young firms.

To remain competitive, CIS worldwide must not stand on their laurels; they must introduce innovative services to meet the evolving needs of their clients. The impact of credit rating or scoring agencies on financial markets has become one of the most important policy concerns facing the international financial architecture. Ratings indicate a relative credit risk and serve as an important metric by which many investors and regulations measure credit risk.

¹³ Find empirical evidence that the lending market would collapse due to credit risk in the absence of information sharing institution and reputational banking. However, their study also showed that establishing CISs encouraged borrowers to repay their loans by allowing lenders to identify borrowers with a good payment history. Their study showed that an information sharing institution positively impacted the credit market in the following ways: *Without CISs, borrowers had a tendency to repay loans only when they planned to maintain their current lending relationship. However, in economies with a credit information institution, borrowers had a higher chance of repaying their loans regardless of whether they were planning to continue their current lending relationship or not. Thus, it can be implied that credit sharing institutions, by documenting borrower behavior, can positively impact borrower repayment and reduce NPLs.*

The Credit Register in Albania became effective in February 2008. The Regulations require all licensed banks and non-bank financial institutions to share information on Non-Performing Loans (NPLs) through the Credit Register which is part of the Central Bank of Albania (CBA). The role of Credit Register is to collect, collate and process data received from approved sources of information and generate credit reports to be used by lenders.

2.4. Register of Credit in Albania and Its Role

Credit Registry (RC) of the Bank of Albania has started to operate on 3 January 2008, which is the electronic database on borrowers of the banking system. Currently banks have pumped into active portfolio register their credit and charge data every day for new loans disbursed. The creation of public credit registry was an important step forward towards the consolidation of infrastructure loans. The register of credit in Albania gives stakeholders a concise information about credit exposure of each borrower, related party exposure to the borrower, information on related collateral, borrower information on the performance of the system etc. This information translated into economic terms as a "moral collateral" for everyone interested result that the collateral be the most positive possible. With the increasing number of loan products in the world and in parallel with the growth of demand for loans by individuals and legal entities, problems began to emerge first in the form of delays in repayment of installments to dishonor. The

6 Mester, 1997

7 Morrison, 2004

8 Fensterstock, 2005

9 Johnson-Speck, 2005

10 Mille, 2003.

11 Djankov, (2007)

12 Love and Mylenko (2003)

13 Brown and Zehnder (2007)

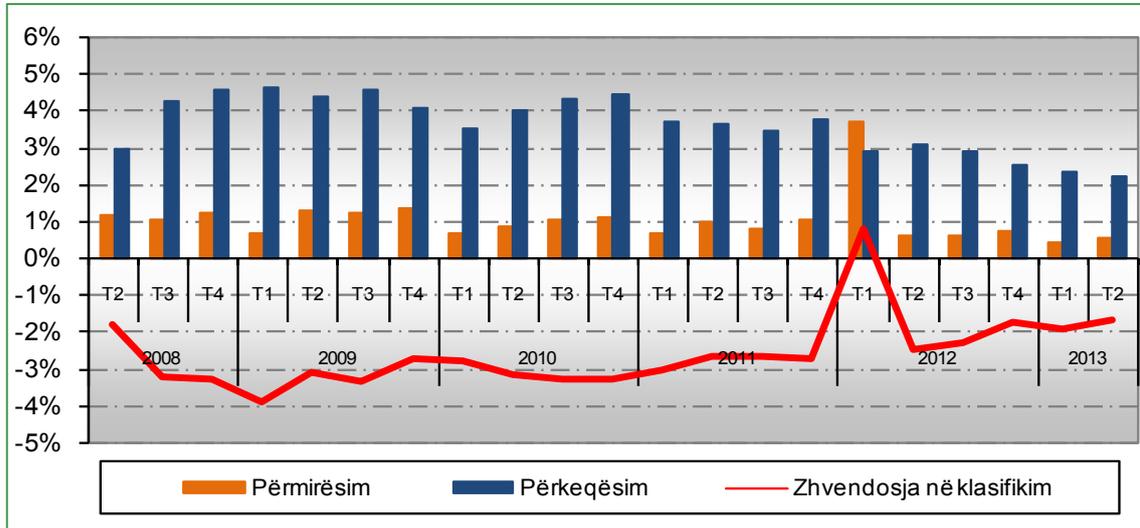
number of clients began to grow more and more, but at the same time, no information is complete and accurate on their performance in the banking system. So by the need to avoid the lack of information on lending as and to focus this information were created credit records who today operate in most countries in world. Bank of Albania has taken a series of measures and directed banks to improve risk identification and monitoring, such as improved risk management framework and the establishment of limits on where the risks are considered important; review the policy for managing credit risk, liquidity; strategies for improving credit crisis and liquidity management; re-analysis of indicators to determine the risk profile of the bank; etc. However, the stability of the banking system, there is still need for structural reforms, both at a micro level and at makro. So, automation of production ratio of CS¹⁴ is a necessary step. A growing appetite for borrowing necessitates the use of more sophisticated techniques to help quickly in the work of credit risk assessment. Raising rates on loans problem across all countries in the region that recalls the traditional lending techniques have not helped in producing the desired levels of quality of the loans granted. With functioning credit registry in Albania occurred despite improvements, still have an upward direction walking in bad loans. According to data published by BOA¹⁵ for the period up to 2013, it turns out to have a deterioration of the loan portfolio to businesses. It was also a slight improvement in 2012 as business loans as well as for individual. The improvement in terms of business portfolio as well as the loan portfolio for individuals related to the launch of private.

2.5. Lending and Credit Information Systems

The decision-making process for granting loans is considered as a continuous process. Companies or individuals seeking credit and after the loan is approved, followed by the signing of the contract and the disbursement of the loan. Credit is more traditional services offered by banks to their customers, the core banking activity. What they are identified by those interviewed for this report are that: "Credit controls our lives today..." restricts or expands our financial stability; It increases or decreases the quality of life; opens or closes the doors to employment and promotion opportunities, affecting our revenues; restricts or expands the purchasing power. With the continuous development and changes in the credit industry, credit products are playing an increasingly important role in the economy. Newly created website provide opportunities for customers to search and solve their problems without limitation credit limits. Due to this trend, the creditor should be now ready, willing and able to lend to businesses in countries other worldwide. Credit institutions are facing competition in all world. The requests drastically increased and increasing competition resulting from a new economic environment for new opportunities but also put forward new requirements for lending technology. The role is important in management credit. The lending volumes increasing number of loans that were not good on a growth trend. Financial institutions have to invest considerable resources to develop effective and sophisticated tools to assess and control risks credit.

¹⁴ Credit scoring

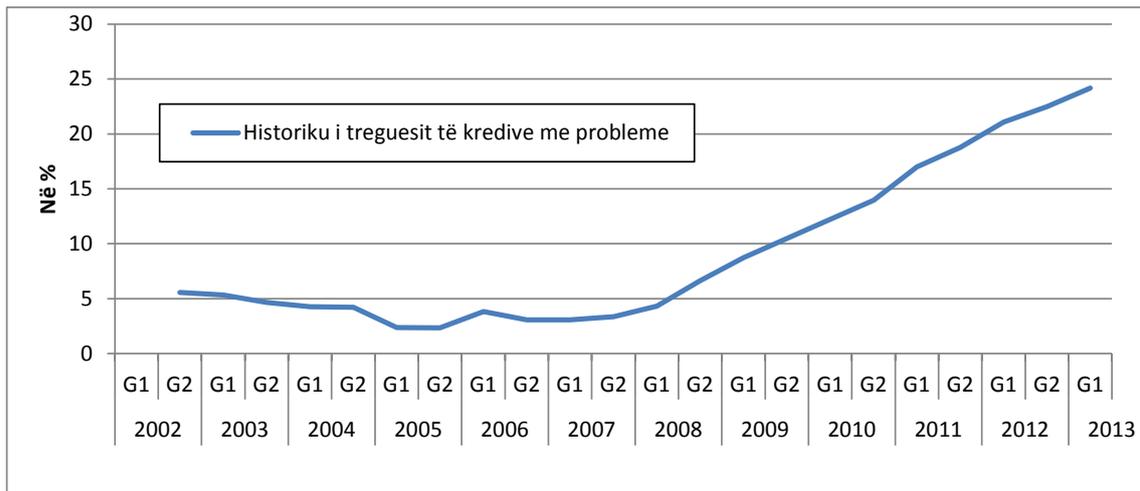
¹⁵ Bank of Albania



Graphic 2. The total number of crethe graphic nr 2 dits for businesses that have been improvements

And loans that have deteriorated. Resource BoA

The graphic below gives the layout and digital-performing loans with problems over the years, which are given below for the period December 2002 - June 2013.



December 2002 - June 2013. BoA

Graphic 3. Historic Indicator of problem loans for the period

Referring to international standards should be able to improve the problematic phenomenal connected with developments in the lending sector strategies in Albania. To have a greater breadth in efforts to minimize the bad loans is creating the credit information agency/ The data bureau. It through its instruments will be able to come to aid in minimizing these bad loans and setting a standard for the data collected, processing them and coming to the aid of banks and non-bank financial operating in the Albania. This give a relatively little tradition of free trade, involving authorities in Albania is seen as an essential element for the establishment of an industry in place effective credit information. However, in Albania, one must understand the limitations and evaluate the credit registry, the registry regardless of credit is several degrees below the opportunities that brings financial market compared with an

CIA/CIS¹⁶ products. Limitations credit registry in relation to an CIA/CIS are significant and reflect the sources of information, the availability of value-added services and in some cases, permanent reliability and value of the data collected. Also, through the availability of data more complete, credit institutions can raise their levels of competitiveness through products tailored to the customer based on the risk characteristics of their own, bringing benefit to both parties as the lender as well as consumer.

The Basel framework allows a bank to calculate credit risk capital requirements according to either of two approaches: a standardized approach which uses agency ratings for risk-weighting assets and internal ratings based (IRB) approach which allows a bank to use internal estimates of

¹⁶ Credit information agency

components of credit risk to calculate credit risk capital. Institutions using IRB need to develop methods to estimate these key components of credit risk calculating credit risk capital. The IRB approach is based on: - Probability of default (PD), defined as the likelihood that an obligor will default before making all contractual payments within a stated timeframe. – EAD, defined as the expected value of the bank's exposure at the time of the borrower's default. EAD is the gross amount due at default, which is the amount by which regulatory capital would be reduced if the exposure were to be fully written off and – LGD, defined as the economic loss on a credit instrument after the borrower has defaulted. It is a percentage of the EAD which the bank expects to lose and it must include discount effects and direct and indirect cost of collection. According to the Basel definition¹⁷, a default is considered to have occurred with regard to a particular obligor when either or both the following two events have taken place: the bank considers that the obligor is unlikely to pay its credit obligations to the banking group in full without resource by the bank to actions such as realizing security; the obligor is past due more than 90 days on any material credit obligation to the banking group. The purpose of this paper is to study chain-ladder model (a quantitative model) for estimation of LGD and empirically evaluate how this model work in practice for credit cards revolving portfolio.

2.6. LGD¹⁸ Estimation

There are different definitions and consequent calculation methods, adaptable to different types of portfolio. The main distinctions can be made between the following two approaches:

- Workout LGD
- Market LGD

Workout LGD: here the LGD is estimated based on observations ex post, on historical datasets containing a sufficient number of default for which it is possible to identify all the components of LGD. Estimates derived from here will be applicable to portfolios with similar characteristics to the sample¹⁹. An approach of this kind makes sense for retail portfolios. Market LGD: for defaulted bonds and loans which trade in the market, one may observe prices directly so long as a trade has actually occurred. The rating agency recovery studies are based on this approach and it is more applicable to segments such as Large Corporates, Banks and Sovereigns. The objective of an LGD model is to estimate recovery rates to be applied to the whole portfolio in order to predict losses, where model inputs are cash flows observed for defaulted contracts together with

any relevant driver that is significant for LGD prediction and model outputs are estimated LGD values to be assigned to the whole portfolio.

Whichever method is adopted, the steps of estimation can be summarized as follow:

- Sample construction: time horizon, data availability, discount rates etc. The sample should fit the default definition required by the framework as well as business collection process.
- Preliminary analysis: workout approach, data quality, univariate analysis. Once built the target variable (LGD or RR (Recovery rate) we should see the correlation of target variable with the other potential variables.
- LGD estimation: choosing the most estimate methodology to portfolio, performance evaluation in the development sample.
- Validation: choosing the best model, simulations
- Application: measure model performance on current portfolio

3. Conclusions

- Reduces information asymmetry between lenders and borrowers;
- It enables lenders to assess more carefully the risk of each borrower and enhance the quality of their portfolio;
- Minimizes the problem of "selection of the wrong borrowers" and can cut the cost of credit for a good credit;
- Increase access to different physical persons or legal persons in currency borrowing and thus increases the level of loans to the entity / bank;
- By combining the information from the register on the scoring assessment of each borrower, the decrease of operational costs and thus increase profitability.

Central Bank has among its responsibilities to tackle actual or potential problems in the banking system which it supervises and this in cooperation with commercial banks and other potential actors. Other functions of the Central Bank are to increase public confidence in the banking system and to maintain the value of the currency Lek and financial stability.

To achieve this proposed a multi-tiered approach focusing on:

1. Educate consumers about the role of PK in comprehensive areas;
2. Advancement industry solutions that use alternative financial data to reduce the effects of undue credit files to "cash" for the most favorable access; Increased consumer borrowing base.
3. Review of legal measures to prevent improper use of

¹⁷ <http://www.bis.org/publ/bcbcsca05.pdf>

¹⁸ LGD can be defined as the complement to 1 of the recovery rate, where broadly the element that determines the recovery rate are: the market value and the characteristics of the guarantees, the estimated time of recovery (that depends from the seniority of the debt, the procedures activated) and the level of interest rates.

¹⁹ Attention needs to be paid to the timing of the cash flows from the distressed asset.

the CS to limit access to credit economic community of "thinner".

Firstly, in terms of educating the consumer about the role of CS, it encourages the development of outreach programs and educational materials to inform people with credit "thin", especially those with low income in use of CS areas comprehensive individuals informuhen to build the results of their credit and to many communities where there are opportunities for individuals to inform may be ready to begin the process of developing can take to protect and credit files their kreditit.

Secondly, the level of private industry, there are current efforts to develop non-traditional CS formulas and methods of measurement for consumer credit history of "thin". A number of providers have begun experimenting with approaches that will measure the results of credit referring to the performance of traditional lending and credit markets, but also based on factors such as payment histories.

Thirdly, the legislative and regulatory level are encouraged to consider the state institutions completion of the regulatory framework for the use of CS outside the credit markets. In particular, it is believed that the restrictions on use of CS penalize families with credit histories "thinner" in the absence of risk factors of sound empirical. Individuals or businesses with credit histories "thinner" not taking interest rates and credit conditions, policies, and other services with the same treatment as those who have traditional credit positive results

4. Policy Recommendations

Based on this work and its conclusions, follow recommendations on the following:

1. The implementation of CIS/CIA reduces transaction costs and borrowing costs ultimately surely must have government planning strategies and policies to build CIS/CIA in Albania and to force institutions to report customer data in the institution of CIS/CIA and get credit for CIS/CIA services as this will benefit consumers through interest rates reduced, banks will benefit from asymmetric information and reducing non-performing loans.

2. By increasing the exchange of credit information, access to information should be available soon and with a lower cost to data obtained by facilitating the creation of an environment that supports the exchange of information more competitive against both financial institutions and non-financial reports had access to credit information of borrowers.

3. The Central Bank shall regulate CIS/CIA to provide information on borrowers of loans which can increase their efficiency and will ultimately reduce the asymmetry of information, costs and will translate into reduced negative selection. Regulation by the Central Bank of Albania will address the following issues.

4. CIS/CIA forms of ownership in Albania can be private, public or combination of both. I will recommend the most effective format as the last two, as best can be guaranteed, adhering to the principles for the collection, processing and provision of data to consumers.

5. CIS/CIA could provide reduced costs for consumers and credit institutions; preserving and improving the relations between the parties by making it possible to increase consumer value.

6. Creating CIS/CIA and generation CS is important for consumers as they will be able to access faster, procedures will be reduced as a result customers receive service and easier access when they are completed with a credit history, for a regular customer with a good credit history will have a lower rate of interest applied to the loan and it is summed up in a better standard of living for Hungarian consumers.

7. CIS/CIA creation and generation of CS is important for small and medium enterprises can be reduced as will the cost of borrowing for applicants who have demonstrated good scoring their credit. Small and medium known as businesses with many difficulties credited by credit institutions will have access to faster after the procedures will be reduced as a result will enable you kredititit them and with lower cost as reduced perception of high risk by lenders. Consequently there will be a positive development for these businesses.

8. CS can be a powerful tool to improve the management of credit institutions through its impact on reducing credit risk, etc.

Legal Framework. The legal environment should not impede and, ideally to support the creation and functioning of the credit information system. The accuracy of the information reported is a valuable credit information systems should be protected legally to encourage their activities without eliminating incentives to maintain a high level of accuracy.

Operations. Allowed uses information from credit information systems should be limited clearly, particularly regarding information on individuals should be taken measures to protect the information in the credit information system. Stirring must exist to maintain the integrity of the legal system Hello databezit.Po so should create incentives for credit information services to collect and maintain a wide range of information for a significant portion of the population.

Public Policy. Legal controls on the type of information collected and distributed by the information system of krediseë can be used to advance public policies. Legal controls on the type of information collected and distributed by credit information systems can fight certain types of social discrimination, such as discrimination of race, gender, religion, marital status, race, political affiliation etc. There can be no public policy reason to limit the ability of information services to report negative information beyond a certain period of time, eg, five or seven years.

Privacy. Subjects of information in credit information systems should be notified of the existence of such systems and, in particular, should be notified when such information is used for negative decisions about them. Information subject to credit information systems should be able to maintain credit information service about them. Subjects of credit information systems should be able to challenge inaccurate information and mechanisms that must exist to have such investigative skills in order to correct errors.

Implementation of Supervision. One benefit of the creation of a credit information system is to allow regulators to assess the risk exposure of an institution, thus giving the institution the tools and incentives to achieve this. Should the delivery systems to the efficiency and productivity of credit information systems. Methods such as judicial and non-judicial sanctions should be taken for violation of credit information systems should be sufficiently stringent and transparent, but not so stringent as to discourage operations of such systems.

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