

Questions and Answers about the Credit Reference Bureau

1. What is a Credit Reference Bureau (CRB)?

The Financial Institutions Act (FIA) 2004 defines a credit reference bureau (CRB) as a legal entity established as a company that allows financial institutions to exchange information on their clients' repayment history and debt profiles and which compiles a database that collects, stores, consolidates and processes information related to persons, companies and enterprises.

Put simply, a CRB gathers information about how borrowers use credit. This information is then used by loan providers to decide whether or not to grant credit to borrowers in future. In short, a CRB helps borrowers to be responsible in using credit and lenders to avoid high credit risk.

Through the CRB, the institution that is lending you money will have enough information about the way you repay the loans you already have, so that they can make responsible decisions about granting credit.

2. What does a Credit Reference Bureau do?

Credit reference bureaus collect and assemble personal and financial information on individuals and businesses. Besides the financial sector, data is sometimes supplied from entities such as utility providers like UMEME, external debt collection agencies, public institutions such as the Registrar of Companies and the courts (i.e. public records) where the consumer or business has or has previously had relationships. These data suppliers usually report their experience with the consumer or business to the credit reference bureau. The data provided is then aggregated into the credit reference bureau's data repository or files. The resulting information is made available on request to contributing companies for the purposes of credit assessment of borrowers. In Uganda the primary providers of data are commercial banks, credit institutions and microfinance deposit-taking institutions, public institutions and the courts.

3. Why is a Credit Reference Bureau important?

A credit reference bureau acts as a giant 'storage facility' or 'search engine' for borrowers' credit information, providing a centralised database of borrowers' credit history and activities.

The primary information that is on the database is supplied by participating institutions (PIs) – commercial banks, credit institutions and micro finance deposit-taking institutions – that are licensed and regulated by the Bank of Uganda.

If you apply for a new loan or credit facility, a loan provider will look at your credit report and quickly see whether you are a person who repays your debt responsibly and as per the terms of credit repayment.

This way, a loan provider can minimise their risk and have confidence when offering you credit. By looking at how you repay your credit facilities in other regulated participating institutions they have the assurance and the evidence that you have the means and ability to repay.

Without the credit report, the loan provider would be less likely to grant you credit, or they may charge you much higher interest rates as they need to cover a higher risk of non-performing loans.

In the past the loan provider spent hours, maybe days, telephoning for references and making credit checks on how well their loan applicants were repaying other accounts before a loan was granted.

Credit reference bureaus help put an end to this time consuming means of confirming someone's good or bad credit record by collecting all of the information on a large database – enabling lenders to make risk decisions within a short time.

Credit reference bureaus are also vital to our economy as they:

- Allow for timely access to credit
- Allow consumers and commercial entities to buy now and pay later
- Help participating institutions to assess the credit risk so that they are able to extend loans
- Help participating institutions keep the cost of borrowing down by not having to raise charges or interest rates to compensate for the poor payment behaviour of a few borrowers
- Help credit grantors exclude non-performing clients from the process
- Give individuals access to credit without them having to save the full amount before they can buy
- Increase the level of economic activity in the country

4. What are the objectives of having a Credit Reference Bureau in Uganda?

- Support the growth of Uganda's financial sector by improving participating institutions' ability to predict default through the provision of timely and accurate information on borrowers' debt profiles and repayment history.
- Collect information on clients' borrowing status and history from a range of credit sources and prepare credit reports.
- Reduce information differences between borrowers and lenders through a system that enables information sharing among participating institutions.
- Provide the necessary infrastructure to ensure information integrity, security and up-to-date information on borrowers.
- Reduce over-indebtedness and risky multiple borrowing that often result in loan default
- Increase the number of borrowers as more people become eligible for financial services.

5. What are the benefits of having a Credit Reference Bureau in Uganda?

Both borrowers and participating institutions will benefit from the availability of credit reference bureau services in Uganda.

Borrowers:

- Borrowing will become easier as borrowers with a good loan record may not always be required to provide big securities like land titles to get a loan
- Loan providers will know more about borrowers and may offer lower interest rates or larger loans
- Getting loans will be quicker due to timely access of loan records
- Loan providers will not need so many documents every time borrowers request a loan
- Borrowers will be guided on getting loans that they are able to repay
- The price of loans will come down as loan providers compete for the good borrowers
- Borrowers can build up good reputational collateral and use it to obtain better terms from lenders
- Benefit from newer products like credit cards that PIs will be able to offer

Participating Institutions:

- Credit reference bureaus assist PIs in the evaluation of credit risk, which enhances the soundness of PIs and efficient allocation of resources.
- Institutions will have easy access to the credit histories of their customers from a credible source.
- Good credit reports enhance the development of a credit culture for borrowers to repay their loans.
- PIs can attract new customers through knowing their past behaviour.
- PIs can also obtain more revenue in fees and interest income from a larger customer base.
- PIs will be able to offer new and better products, such as credit card, due to the availability of information on customers' credit risk profiles

Generally speaking, credit reference services allow people and firms to turn their reputations (credit and social history) into collateral for loans to finance businesses, home improvements, and consumer purchases and to respond to other opportunities and needs that require financial services. Borrowers can use their credit reports as substitutes for formal financial statements and traditional collateral to access loans usually unavailable from the formal financial sector.

Credit reference bureaus also increase access to client information, thereby lowering costs on loan appraisal, collections, and losses. They can increase competition for smaller borrowers, which expands access to credit and lowers the interest rate asked for these traditionally underserved segments of the Ugandan population. Through this widening of the credit market, CRBs help open up a world of

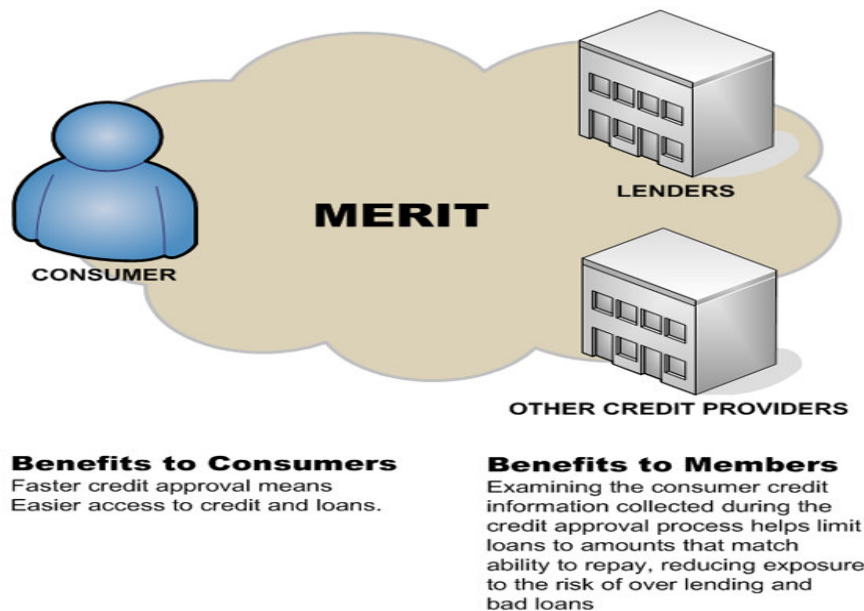
opportunity for Ugandans to have better access to credit to be able to invest, educate their children and live more decent lives.

6. How a Credit Reference Bureau specifically helps me as a borrower?

By maintaining a healthy credit record, and maintaining timely repayments, the credit reference bureau is able to develop a positive profile or a history of how you manage credit - this is known as *reputational collateral*.

If this information is not shared it remains secret and other lenders never get to know that you are a good client. Your healthy credit habits and your loyalty to repaying your loan agreements should be rewarded.

Your credit report becomes your collateral as lenders develop faith to lend more based on how well you have repaid others in the past. In more and more cases around the world collateral is being done away with as loan providers rely on credit information and credit profiles to conduct unsecured business lending decisions.



7. What is CompuScan?

CompuScan CRB Limited has been selected through a tender process managed by Bank of Uganda to provide credit reference bureau, risk and identification services to the needs of regulated participating institutions. Commercial banks, credit institutions and micro finance deposit-taking institutions will participate in the services and will be able to reduce their risks and their clients will benefit as a result of this service.

In addition to the Credit Reference Bureau, CompuScan CRB Limited will also be responsible for delivering a biometric based customer numbering system for each borrower in Uganda. After enrolment onto the system each borrower will receive his or her Financial Card. The Financial Card will accurately identify borrowers and can be used across all institutions to positively identify someone who presents it, when it is confirmed with the owner's fingerprint, photograph and unique financial card number.

8. What is a Financial Card and how does it work?

It is a card used to verify your identity that uses biometric technology to store your photo and fingerprint information. The data is stored on a smart card – a plastic card with an electronic memory chip inside with your information on it.

It can also be referred to as being an instant information tool for loan providers to know who you are.

It stores information about your name, surname, your address and other details about you and it also gives you a unique identification number, so no-one can pretend to be you and access a loan in your name.

The card will always be required when you have dealings with the credit reference bureau in Uganda, or when a lender needs to enquire about you. The card and your fingerprint work together. The one is the lock, the other is the key.

9. Why do borrowers in Uganda need a Financial Card number?

In Uganda there is not yet a National Identification System. Therefore, the citizens of Uganda that operate in the formal financial sector can benefit from a unique number for each borrower in a variety of ways:

- Existing forms of identification – such as VAT number, TIN number or driver's license number – are not available for all borrowers across the regulated financial sector. Thus, without a unique identification system for these borrowers, it would not be possible to match all records.
- Participating institutions want to give people a sure way of proving they are who they say they are.
- The financial cards can assist with financial security, help tackle identity fraud, prevent illegal activities, and most importantly ensure that borrowers are able to have their own identity in the financial sector.
- If your repayment history is good and that information is not linked to your profile, you only have credibility with the participating institution where you have the loan. However, other institutions do not know that you are good borrower because your records are not shared.
- Identity numbering in a financial sector assists greatly with protecting your reputational collateral and enables you to get the recognition you deserve.

A new entrant or borrower that has been identified is able to be treated as if he or she is already known. This allows lenders to transact with higher levels of confidence.

Using individual numbers for each borrower also benefits participating institutions by assisting to protect losses and can help borrowers by reducing high interest rates.

A Financial Card will assist the growth and development of the financial sector and Uganda's economy as a whole.

10. What is Biometric Identification?

Biometrics refers to the identification of a person based on his/her physiological or behavioural characteristics. It includes fingerprints, facial recognition and can extend to voice recognition, hand geometry and iris (eye) scanning.

The Ugandan Financial Card System for the CRB is based on fingerprint recognition technology.

11. Why has the Bank of Uganda chosen Biometric Technology for identifying borrowers?

A credit reference bureau relies on the unique identification of borrowers' information to successfully and accurately report information.

In Uganda there are presently different forms of identification (such as VAT numbers, TIN numbers, driver's license numbers) often resulting in duplication and sometimes allowing for more than one form of identification.

Biometric technology removes all these uncertainties in positively identifying an individual.

Using the same software platforms in the case of legal entities there are other "biometric" features that always identify an organization that are being used to generate the financial number. Biometric identification also allows for the combating of identity fraud and assists to secure all financial processes and transactions. Using a unique, physical attribute of your body, such as your fingerprint, to effortlessly identify and verify that you are who you claim to be, is one of world's leading edge technological solutions available.

Biometric technology not only simplifies our lives, it delivers uncompromised security.

12. What about my privacy and confidentiality over my personal data?

Borrowers' rights to confidentiality have always been paramount in the minds of policy makers when adopting the credit reference bureau as a new standard for Uganda's financial sector. As in the rest of the world where credit reference bureaus exist, borrowers' rights are well looked after. Additionally, security of data on the CRB and FCS is of extreme importance to Bank of Uganda and CompuScan CRB Limited.

There are security and integrity guarantees in place to allay any fears borrowers may have about information they are going to provide to the CRB ending up in the wrong hands. These security and integrity guarantees include the following:

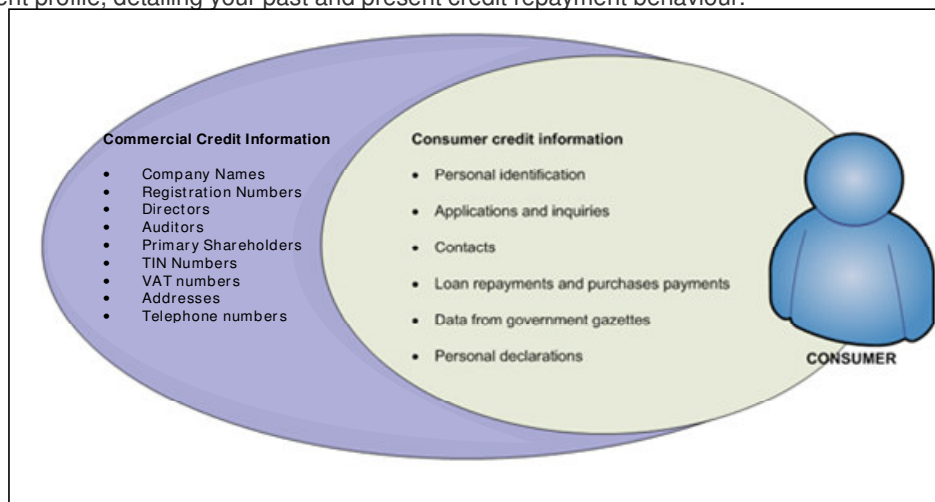
- All information from the CRB is encrypted i.e. is locked and cannot be accessed at all except with permission. The service provider also has strong firewalls to protect their system from intrusion.
- The system is also protected through the use of passwords. Only institutions with a license issued by Bank of Uganda can view information shared on the CRB.
- Borrowers are given the opportunity to express their freedom of choice by not consenting to have their data shared with the CRB when they apply for a loan. However, not to do so may raise the eyebrows of lenders who will wonder why a borrower would refuse to share information.
- The Financial Card (FC) is a unique form of identification of the borrower that holds details about an individual and will be used to identify the individual on the CRB. It contains a memory chip and the data from the chip is only readable using the card reader supplied by the CRB.
- To avoid any doubt, the only data that will appear on the memory chip able to be viewed by PIs are: the borrower's name, financial card number and fingerprints.
- The CRB is regulated by the Bank of Uganda to ensure that it renders a satisfactory service, according to the law.

13. What will the CRB in Uganda know about me?

The credit reference bureau houses consumer and commercial credit information sourced from entities such as:

- All commercial banks, credit institutions and microfinance deposit-taking institutions regulated by the Bank of Uganda
- The Registrar of Companies

By collating the information received from these sources, the CRB is able to collate a comprehensive credit payment profile, detailing your past and present credit repayment behaviour.



14. Why is it important to keep my loan repayments up to date?

Loan providers will want to offer you more credit if you keep your loan repayments up to date by paying them punctually and consistently.

This might entitle you to get better offers from more loan providers in the future.

On the other hand, if you do not keep your repayments up to date, loan providers will be less likely to want your business, and may demand higher interest rates, or may even decline your application.

15. What is Data Sharing?

Data sharing is the ability to share the same data resource with multiple users, like loan providers in Uganda.

16. What information of yours will be shared even without your consent?

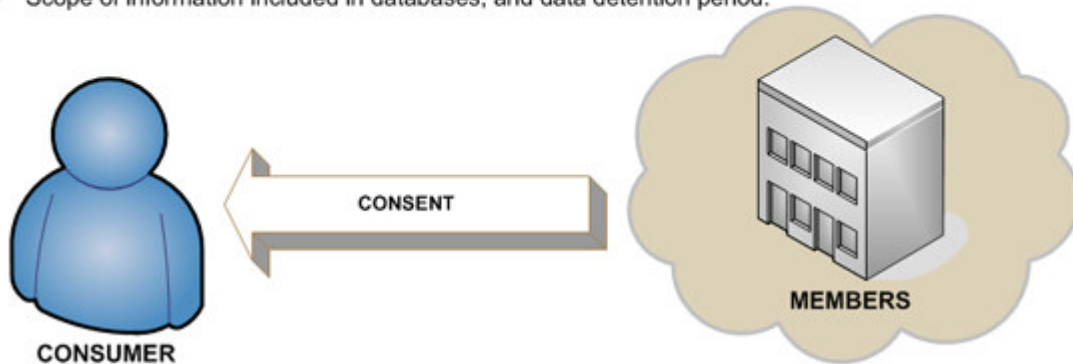
According to the FINANCIAL INSTITUTIONS (CREDIT REFERENCE BUREAUS) REGULATIONS, 2005, consumers that are in default on any loan will have information recorded on the CRB.

17. What is Consumer Consent?

Your credit information never goes into a consumer credit reference bureau database without your knowledge.

The credit reference bureau requires their members (the participating institutions) to clearly indicate the matters listed below in application forms and contracts, and to obtain your consent thereto.

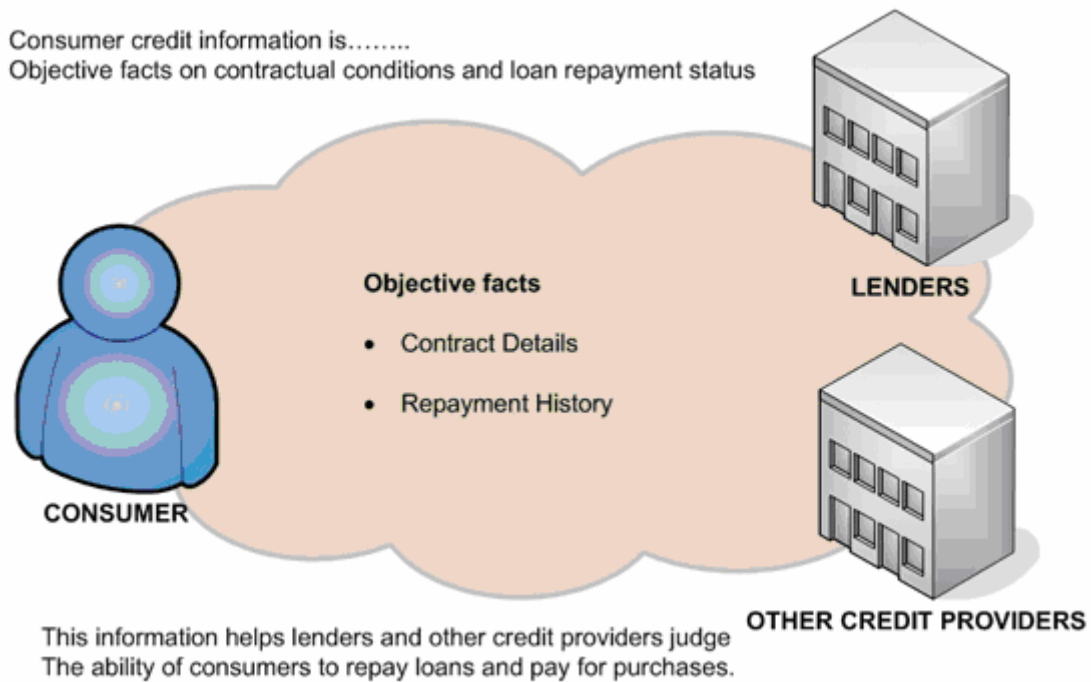
- Consumer credit information will go into credit bureau database.
- Consumer credit information in the database is used by credit bureau members.
- The information is also used by other affiliated credit bureaus.
- Scope of information included in databases, and data detention period.



18. What is consumer credit information?

Consumer credit information consists of objective facts associated with consumer loans and credit arrangements, such as contract details and repayment history.

This information helps loan providers judge the ability of consumers to repay loans and pay for purchases.



19. How long will data stay on the CRB in Uganda?

CompuScan CRB Limited, the credit reference bureau licensed by Bank of Uganda, shall maintain a historical database covering a five year period for the purpose of providing detailed credit information, and shall keep the database for a period of not less than ten years.

20. I had a bad rating at an MFI. Will this carry through to the CRB?

No. The CRB only provides credit information to institutions regulated by the Bank of Uganda. These institutions include all commercial banks, credit institutions and microfinance deposit-taking institutions.

21. Why have I been turned down for credit?

The CRB will not know why you have been turned down for credit because that is a lender's decision.

Only the loan provider with which you have made the application can tell you why your application was declined.

22. If one loan provider has turned me down for credit will other loan providers do the same?

The decision to grant credit is based on the institution's credit granting policy and differs from institution to institution. The credit profile forms provided by the CRB are part of the credit granting process but it is not the sole reference. The CRB does NOT recommend granting or refusing to extend credit facilities to a borrower.

Policies may differ. Therefore, it is not a given that you will be turned down for credit by another loan provider if you have recently been turned down for credit by another one.

23. Do late payments affect a credit profile?

As it is now, paying your loans on time is generally the single most important contributor to a good credit report.

Being late on any loan repayment, for any length of time, is a possible indication of future non-payment of debt and is almost always viewed negatively by loan providers. Ultimately, how this affects a credit profile will depend upon the internal policies of the participating institution.

24. Do enquiries (the number of times I apply for a loan and the CRB has been consulted) affect a credit report?

Enquiries are rarely, if ever, the only reason for poor credit profiles. They only become significant if there are other issues already increasing your risk, such as late payments or very high debt. However, a high number of enquiries over a very short period of time can sometimes suggest too many applications for loans. In deriving a credit profile, there are much stronger indicators of future payment performance, such as past payment history and use of credit, that are more valuable.

25. Does co-signing for a loan affect credit worthiness?

Yes. By co-signing, you are accepting full responsibility for the debt if the other person does not pay as agreed.

A co-signed account will appear on both your credit history and the other person's. All loan accounts that appear on your credit report will impact a borrower's credit standing negatively or positively.

26. Can belonging to a group affect credit worthiness?

Yes. You as a member of the group will appear in the credit reference bureau with links to all the group members. If one or more members in the group fail to pay and in doing so the group performs badly, then that information will appear on your credit profile.

In much the same way, if the group performs well your credit profile will display this positive information.

27. Does having too many loans affect my credit report?

Having several loans that are repaid well may improve the loan providers' overall opinion of your risk profile.

28. What should I do if a loan provider advises me that there is a concern with regards to my credit report?

The credit reference bureau report is built upon information provided by participating institutions. There is rarely a problem due to information mistakenly placed by the credit reference bureau.

There could be many different concerns related to your credit bureau report. These include:

- Defaults that may have been listed against you due to non payment of debt
- Collection company listings where you have been handed over due to non payment of debt
- The way in which you pay the accounts you already have

To obtain advice on the consequences of any one of the above concerns, you should contact the credit bureau directly – CompuScan CRB Limited. The credit reference bureau's call centre staff will be able to provide advice on the appropriate procedures.

It may not always be possible to have the information removed, but CompuScan CRB Limited will be able to advise you as to the actions to take to either rectify or potentially overcome any issues related to your credit report.

29. Do I have any rights to challenge information on the CRB, if I find it to be incorrect?

Yes. If you are certain that specific information about you is being stored at the CRB, and it is affecting your ability to get credit, you should lodge a formal dispute with the credit reference bureau. It must respond to

your request within 20 business days - either to correct the report for the data item requested or to prove their data sources to you.

If your dispute is found to be correct and the CRB had incorrect information, then all loan providers who previously received this incorrect information shall be notified

If your claim is unfounded then you may be required to pay for the costs of the investigation incurred by the institution and the CRB.

During the period of dispute all lenders will know that your credit profile is under dispute if they visit your information for any reason. Please refer to the Financial Institutions (Credit Reference Bureau) Regulations 2005 and the Guidelines for Participating Institutions.

30. How do I contact the Credit Reference Bureau?

Details about how to make contact with CompuScan CRB Limited will become available when the credit reference bureau is officially launched. All contact information will be at the participating institution branch where you borrow.