

WESTERN HEMISPHERE CREDIT & LOAN REPORTING INITIATIVE



WORKING PAPER 3:

GLOSSARY

This working paper presents a list of terms commonly used in credit reporting. This glossary is part of the methodology used in the context of the Western Hemisphere Credit and Loan Reporting Initiative (WHCRI). The World Bank and the Centro de Estudios Monetarios Latinoamericanos (CEMLA) lead this Initiative. The objective of the Initiative is to describe and assess the credit reporting systems of the Western Hemisphere with a view to identifying possible improvement measures in their safety, efficiency and integrity. An International Consultative Committee (ICC) has been created in the context of the WHCRI, comprised of several institutions with high expertise in credit reporting systems, to guide its efforts and overall activities.¹

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¹ World Bank, CEMLA, Association of Supervisors of Banks of the Americas (ASBA), Bank of Canada, Bank of Spain, Federal Reserve Bank of New York, Inter-American Development Bank (IADB), International Finance Corporation (IFC) of the World Bank Group, International Monetary Fund (IMF)..

WHCRI GLOSSARY

Adverse action	The denial of credit, employment or possibly housing based on information contained in a credit report.
Adverse selection	Inadvertent lending to risky individuals or businesses due to lack of complete and accurate information about the borrower.
Amnesty periods	A window of opportunity, usually mandated by a government authority, where borrower's with past due debt may have heir negative credit history erased upon payment of their obligation. While this creates a strong incentive for re-payment, however, it ultimately undermines the value of credit information by not making it possible for future creditors to distinguish between individuals or firms with positive or negative payment tendencies.
Asymmetric information	The tendency for borrowers not to share information that might be perceived as negative with potential lenders.
Bank secrecy laws	Laws designed to reassure consumers that information gained through financial transactions will not be used for other purposes. These laws sometimes limit data that can be shared for credit reporting or limit the period of time that data can be maintained.
Bureau score	A credit score based solely on data available within the credit bureau.
Collateral	Assets pledged as security under a loan or lease to assure repayment.
Credit bureau	Organizations which collect and distribute information on borrower behavior received from lenders. Additional services, such as credit scores and early warning systems may also be offered.
Credit history	A borrower's past payment history.
Credit rating policy	Guidelines, usually written, used to assign ratings to loans or borrowers. Typically there are 5 or 6 categories which indicate the level of performance from good standing to default.

Credit rationing	Decreased volume or magnitude of lending resulting from asymmetric information between borrowers and lenders.
Credit information registry	A database of information on borrowers in a financial system. Core information includes borrowers past and present payment history and basic personal information.
Credit report	A consumer or firm's payment history combined with additional information used to identify the individual and give an indication of their ability to pay.
Credit reporting agency	Refer to credit bureau.
Credit reporting system	The broader institutional framework for credit reporting in an economy including existing public and private credit registries, collateral registries, judicial records, etc., and the legal and regulatory framework for credit reporting, privacy and consumer protection.
Credit risk	The possibility that a borrower will fail to repay principal and/or interest on a loan in a timely manner. Also known as default risk.
Credit scoring model	An empirically validated statistical model used to analyze data from registries and from other sources and support the credit decision process.
Default risk	See credit risk.
Dun & Bradstreet	U.S. firm focused on trade credit. Dominates small business credit reporting market in U.S.
Equifax	One of the big 3 credit bureaus along with Experian and Trans Union. Equifax has focused on Latin America.
Experian	One of the big 3 credit bureaus along with Equifax and Trans Union. Based in London, focus on European market.
Habeas data	The right of persons to know and control the collection, use and dissemination of their information in databases—public or private.
Information rents	Benefits obtained from exclusive knowledge of customer base. Refer to proprietary borrower data.

Internal Ratings Based approach (IRB)	Included in the new Basel capital accord (Basel II), a methodology that enables banks to use their own credit rating systems and credit scoring models in computing their capital requirements for credit risk.
Moral hazard	The possibility that borrowers may try to avoid repaying the loan or take actions that otherwise increase risk due to a perceived lack of consequences.
Negative credit information	Late payments, defaults and other irregularities which may appear in a credit history.
Payment history	The “heart” of a credit report. A detailed compilation of past and current payment behavior, usually reported on a monthly basis.
Permissible use	A description of the circumstances in which a credit report may be consulted.
Positive credit information	Credit history documenting timely payment of credit and loans.
Privacy	General term used to refer to ideals for personal data protection in a society that includes limits on the collection, use and withholding of data on individuals.
Private credit registry	Privately operated credit information registries, typically owned by banks or chambers of commerce. Their objective is usually to improve lending decisions made by participants. Private credit registries may either be for-profit or not-for-profit endeavors.
Proprietary borrower data	Data that bank have on the repayment behavior of their own loan customers.
Public credit registry (PCR)	Publicly operated credit information registries, typically operated by the central bank or bank supervisor. The objective of a public credit registry is often to provide data for use by bank supervisors and, therefore, they sometimes have limits on information, e.g., large loan size or aggregated information that does not disclose borrower specifics.
Reputation collateral	A borrowers “good name”. Reduces moral hazard by providing an incentive to meet commitments much the

	same way as does a pledge of physical collateral, particularly important in segments of the credit market where physical assets are limited—such as consumer lending, micro enterprise and consumer lending.
Relationship lending	Lending by banks to their existing customer base based on their proprietary borrower data.
Secondary markets	Programs where lenders can sell loans, typically bundled into securities, to investors in order to free up liquidity.
Sensitive data	Personal data that could result in unfair discrimination against individuals, such as race, gender, national origin, marital status, political affiliation, union membership or health status.
Short term lending	Lending for a period of 1 year or less.
Term lending	Lending for extended periods of time which generally requires relatively stable economic conditions to be viable.
Trans Union	One of the big 3 credit bureaus along with Equifax and Experian. Focus on Mexico and South Africa.
Unsecured loan	A loan made on the borrower's balance sheet and the capability of the borrower's management to administer its assets and produce cash flows.