

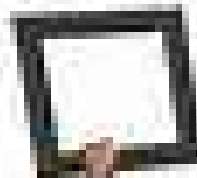
جمعية البنوك في فلسطين

Association of Banks in Palestine



Credit Bureau

CREDIT REPORT



Excellent

Very Good

Good

Average

Poor

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Abstract

Lending is one of the major functions of banks ,actually interest rate charged on loans constitute a huge part of bank's earnings Thus Credit become the business of banking and one of the most important basis used to judge bank's quality and performance. This fact increase the awareness

and the interest to control the credit risk and work on reducing its negative effects on the profitability and the financial position of the banks.

In 2006 PMA launched the first part of the credit Bureau system in order to control the credit risk. The importance of this system as described by the PMA is to decrease the risk of defaulting ,the percentage of non performing loans and to simplify the procedures for granting a credit and as a result increase the profitability of the banks.

Significant of the Research

In 2006 the PMA Launched the first version of the Credit bureau system which is currently used by all the banks and the lending institutions in Palestine , The importance of this researches comes from the fact no research study or evaluate the system ,trying to identify its advantages and importance as well as its problems.

This research comes to fill the previous gap and study the Credit Bureau system.

Objective of the study

- This research aims to Study the credit Bureau system which is currently applied in the banks and lending institutions in Palestine.
- The research aims to evaluate the Credit Registry and the credit scoring in term of their effectiveness in evaluating the credit worthiness of borrowers both individuals and companies, and their impact on controlling the credit risk by reducing the non performing loans and as a result increase the profitability of banks.
- gives recommendation to overcome the current problems and the limitation of the system which leads to improve the system.

Study Questions

This research will answers these questions

- What is the credit Bureau system ?
- What is the credit scoring system and its benefits?
- Is the credit Bureau effective in evaluating the credit?
- Does the credit Bureau reduce the non performing loans and the provisions in banks?
- Does the credit Bureau increase the profitability of banks?
- What are the limitations for the system ?
- Does the system need improvement and what are the recommendations to improve the system?

Credit Bureau

The credit Bureau is a developed database that comprises several systems allied with best international practices, to be used by banks and microfinance institutions (MFI's) in conducting their credit adjudication processes and managing their credit portfolios. These developments part of the PMA's transformation plan to become a fully fledged central bank.(PMA)

The credit Bureau includes three systems:

- The PMA Credit Registry (PMACR)
- Bounced Checks System
- Credit Scoring System

The PMA Credit Registry (PMA CR)

Credit Registry is a database that is populated with credit and demographic information on individual and company borrowers and their guarantors

- Provide elements of accuracy, quality, comprehensiveness and timely information regarding borrowers & guarantors as they are related to information provided by banks and MFI's.
- Reliance on unique ID for creating the credit files on the database.
- No reporting threshold. All credits are reported

The Bounced Checks System

Bounced checks system is a comprehensive database through which information is gathered on the details of returned checks that have been issued by individuals and businesses, whether due to insufficient funds or some technical reasons.

| | |
|----------|---|
| A | The Client Committed to pay his checks |
| B | Having From 1 to 5 returned checks |
| C | Having from 6 to 15 returned checks |
| D | Having more than 16 returned checks |

The Credit Scoring System

Credit Scoring is a system that provides accurate Assessment of individuals, companies or guarantors credit risk based on their available information in the credit registry database at the moment of enquiry about the borrower. The system predicts the likelihood of borrower defaulting on credit within specific time frame.

The credit score consists of :

- Score.
- The probability of default of each borrower within the 12 months
- The borrower risk grade.
- The Reason code.

| | Individuals | Companies |
|--------------------|-----------------|-----------------|
| Green Group | score >=309 | score >= 295 |
| Grey Group | 309>score >=248 | 295>score >=215 |
| Red Group | score<248 | score<2015 |

Literature Review

While the concept of credit is 5000 years old, the credit scoring is only 50 years old. Credit scoring is basically an approach to classify distinctive groups when the lender cannot consider all the characteristics that describes the groups but just describes those that are closely related. Fisher (1936) as cited in (Thomas, Edelman & crocks, 2002) initiated to solve this problem of identifying distinctive classes in a total population. Further it was concluded that good and bad creditors could be classified by using the single method, as described by Durand (1941).

Thomas, Edelman and Crook (2002) described “Credit Scoring is the set of decision models and their underlying techniques that aid lenders in the granting of consumer credit. These techniques decide who will get credit, how much credit they should get and what operational strategies will enhance the profitability of the borrower to the lenders”.

Research Methodology and Design

Research Design

In this study the target were the employees in the facilities department in the headquarters of local banks in Palestine. The unit of analysis was the facilities department's level (at the level of the banks).The nature of study is Descriptive study depending on primary and secondary data.

Data collection Method

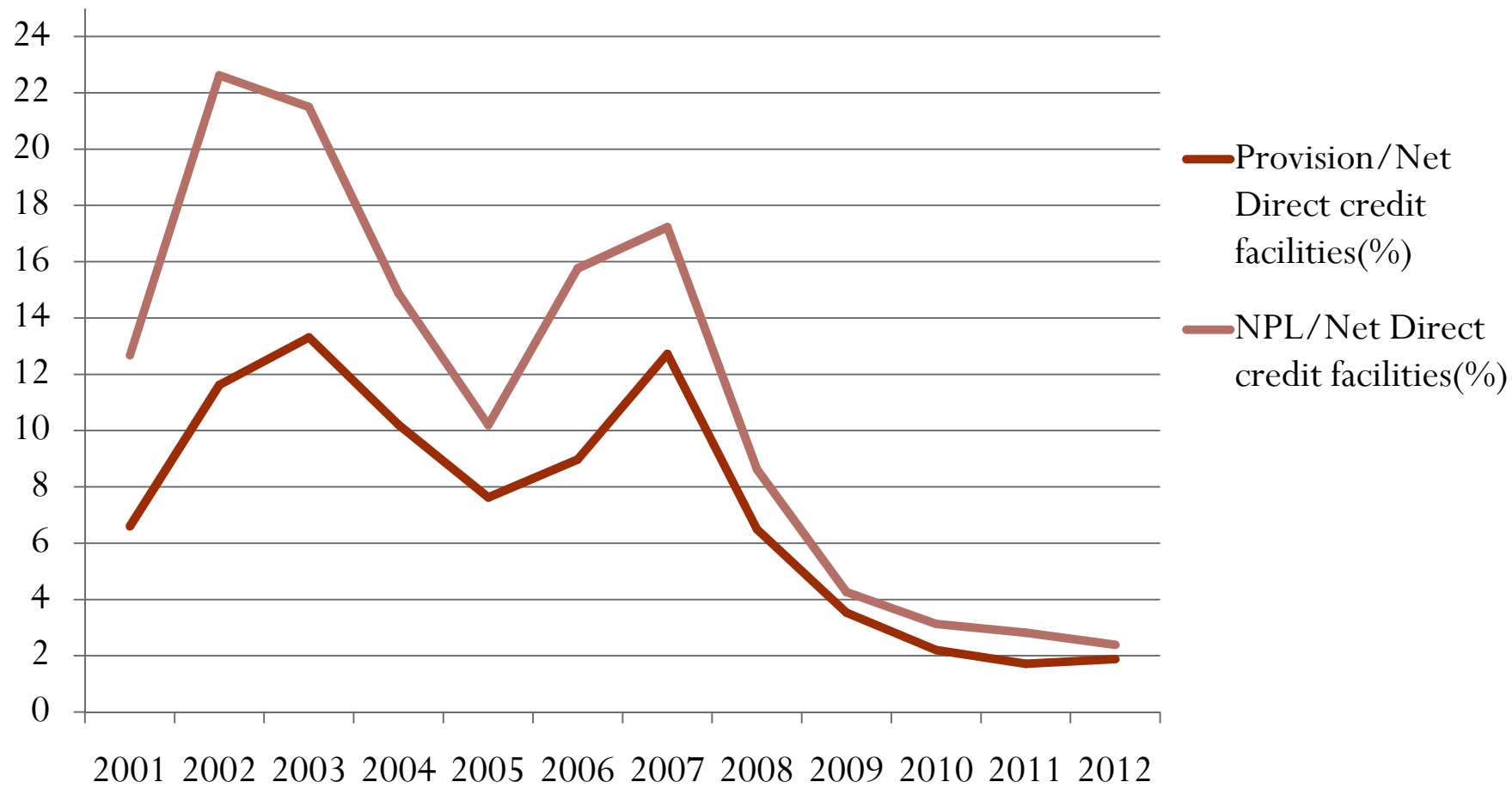
The primary data was collected by personal interviews with the credit managers and by distributing 50 questionnaires to the employees working in the facilities (credit) department in each headquarter of the local Palestinian banks. The number of returned questionnaire was 38.

The secondary data were the annual reports of the Palestinian Monetary Authority (PMA) ,the PMA publications and the annual reports and publications of the Association Of Banks In Palestine.

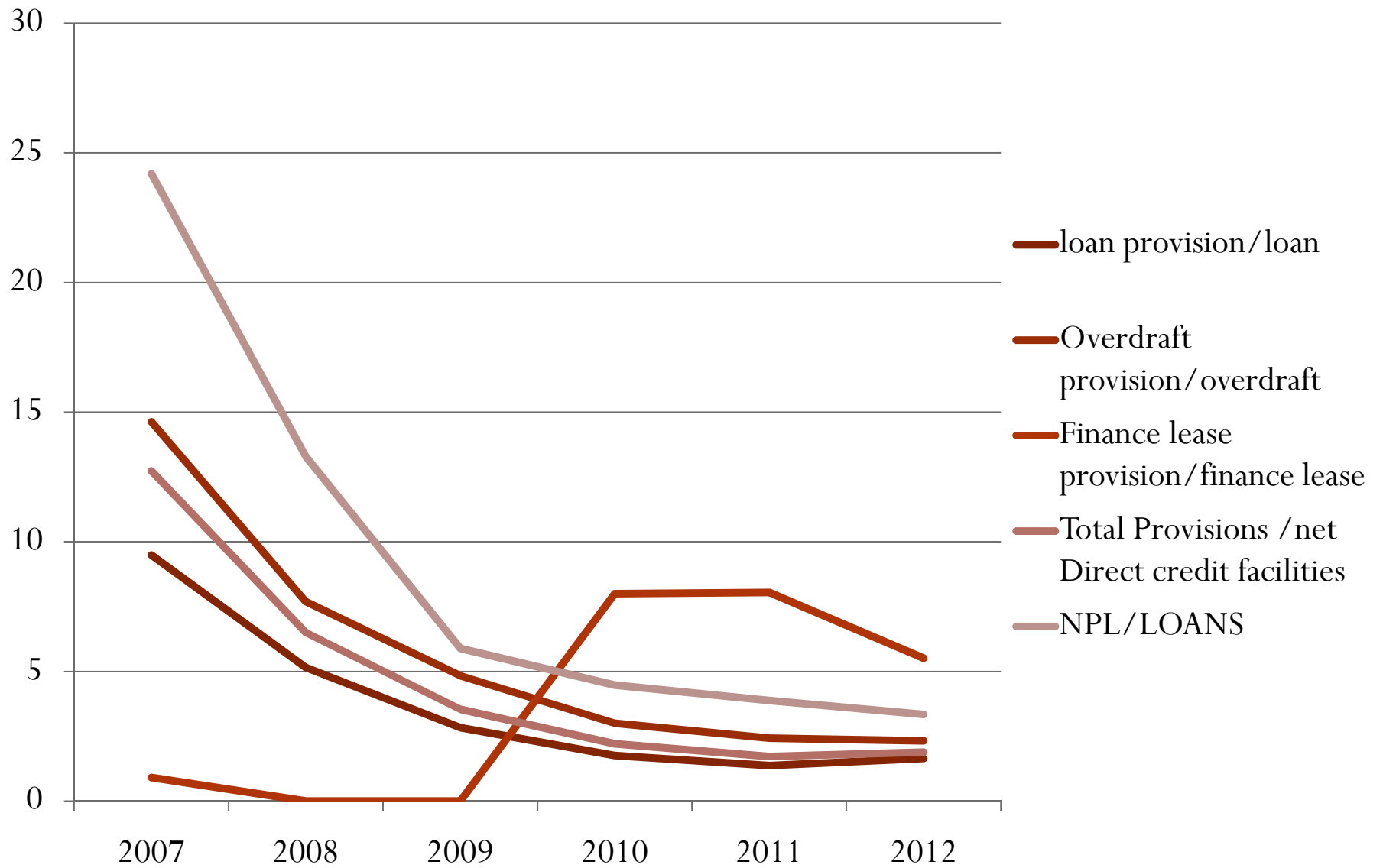
Data Analysis

| Million (\$) | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|--|-------|-------|-------|-------|--------|--------|--------|--------|--------|--------|--------|--------|
| Net Direct credit facilities (million \$) | 1219 | 957.1 | 1072 | 1427 | 1791.8 | 1691.6 | 1512.7 | 1716.6 | 2158.1 | 2823.6 | 3480.8 | 4121.5 |
| Provisions (million \$) | 80.5 | 111.2 | 142.7 | 145.7 | 136.7 | 151.8 | 192.5 | 111.5 | 76.2 | 62.3 | 59.9 | 77.6 |
| Provision/Net Direct credit facilities(%) | 6.6 | 11.6 | 13.3 | 10.2 | 7.6 | 8.9 | 12.7 | 6.4 | 3.5 | 2.2 | 1.7 | 1.8 |
| NPL (million \$) | 154.5 | 216.5 | 230.4 | 212.3 | 204.3 | 266.7 | 260.6 | 148 | 92 | 88.5 | 98.1 | 98.6 |
| NPL/Net Direct credit facilities(%) | 12.6 | 22.6 | 21.4 | 14.8 | 10.1 | 15.7 | 17.2 | 8.6 | 4.2 | 3.1 | 2.8 | 2.3 |

Source : PMA Reports



| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---------|--------|--------|--------|--------|--------|
| Loan Provision (million \$) | 102.2 | 57.4 | 44.2 | 34.7 | 34.6 | 48.3 |
| Overdraft Provision (million \$) | 90.2 | 54.1 | 32 | 27 | 24.5 | 28.7 |
| Finance lease Provision (million \$) | 0.1 | 0 | 0 | 0.6 | 0.7 | 0.6 |
| Total Provisions (million \$) | 192.5 | 111.5 | 76.2 | 62.3 | 59.8 | 77.6 |
| Loans (million\$) | 1077.3 | 1114.2 | 1562.9 | 1978 | 2531.7 | 2950.2 |
| Overdraft (million \$) | 616.8 | 703.7 | 663.6 | 900.4 | 1010.3 | 1238 |
| Finance lease (million \$) | 11.1 | 10.4 | 7.8 | 7.5 | 8.7 | 10.9 |
| Total Direct credit facilities (million \$) | 1705.2 | 1828.3 | 2234.3 | 2885.9 | 3550.7 | 4199.1 |
| Net Direct credit facilities (million \$) | 1512.7 | 1716.8 | 2158.1 | 2823.6 | 3490.9 | 4121.5 |
| loan provision/loan | 9.4 | 5.1 | 2.8 | 1.7 | 1.3 | 1.6 |
| Overdraft provision/overdraft | 14.6 | 7.6 | 4.8 | 2.9 | 2.4 | 2.3 |
| Finance lease provision/finance lease | 0.9 | 0 | 0 | 8 | 8.0 | 5.5 |
| Total Provisions /net Direct credit facilities | 12.7 | 6.4 | 3.5 | 2.2 | 1.7 | 1.8 |
| NPL | 260.6 | 148 | 92 | 88.5 | 98.1 | 98.6 |
| NPL/LOANS | 24.1901 | 13.2 | 5.8 | 4.4 | 3.8 | 3.3 |



Questionnaire Analysis

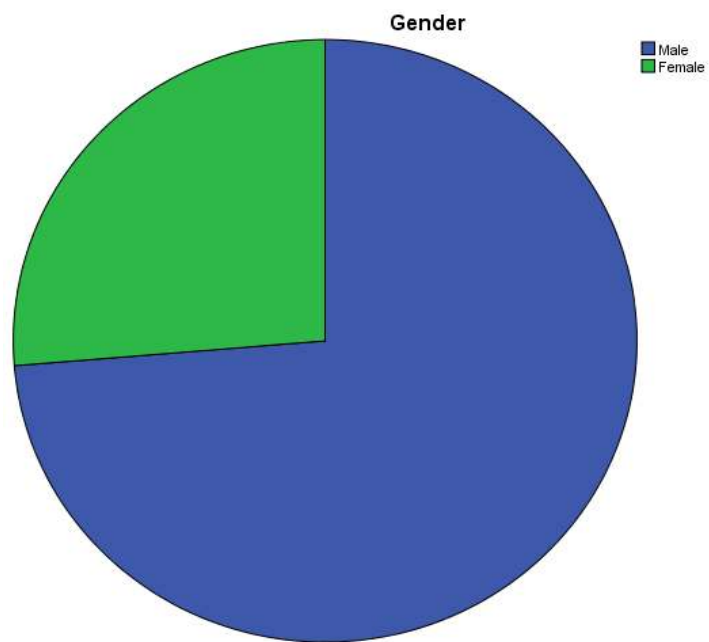
RELIABILITY & VALIDITY

| Reliability Statistics For the questionnaire | |
|--|------------|
| Cronbach's Alpha | N of Items |
| .887 | 25 |

The Cronbach's alpha for the questionnaire = 0.887 > 0.7 and it is high this reflects the reliability and indicates a high level of internal consistency for our scale with this specific sample.

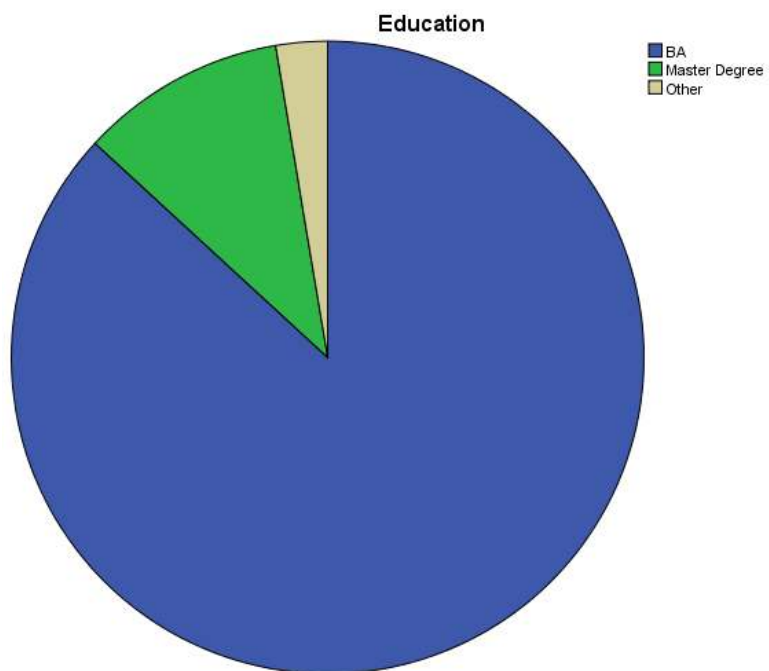
GENDER

| | Frequency | Percent |
|--------------|-----------|---------|
| Valid Male | 28 | 73.7 |
| Valid Female | 10 | 26.3 |
| Total | 38 | 100.0 |



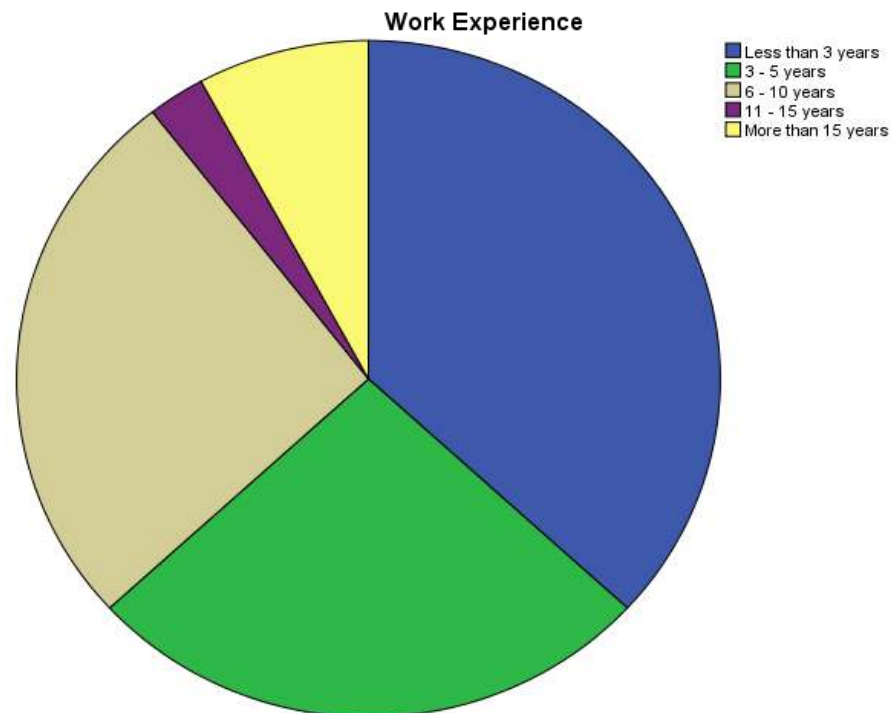
EDUCATION

| | Frequency | Percent |
|---------------------|-----------|---------|
| Valid BA | 33 | 86.8 |
| Valid Master Degree | 4 | 10.5 |
| Valid Other | 1 | 2.6 |
| Total | 38 | 100.0 |



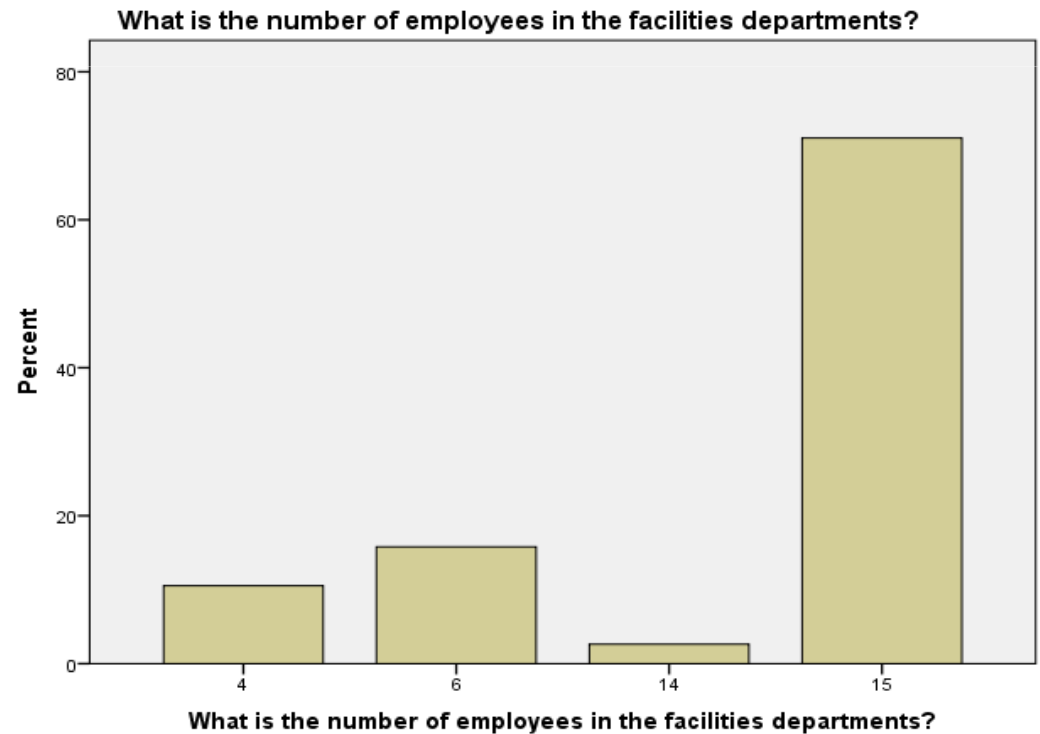
WORK EXPERIENCE

| | Frequency | Percent | |
|-------|--------------------|---------|-------|
| Valid | Less than 3 years | 14 | 36.8 |
| | 3 - 5 years | 10 | 26.3 |
| | 6 - 10 years | 10 | 26.3 |
| | 11 - 15 years | 1 | 2.6 |
| | More than 15 years | 3 | 7.9 |
| | Total | 38 | 100.0 |



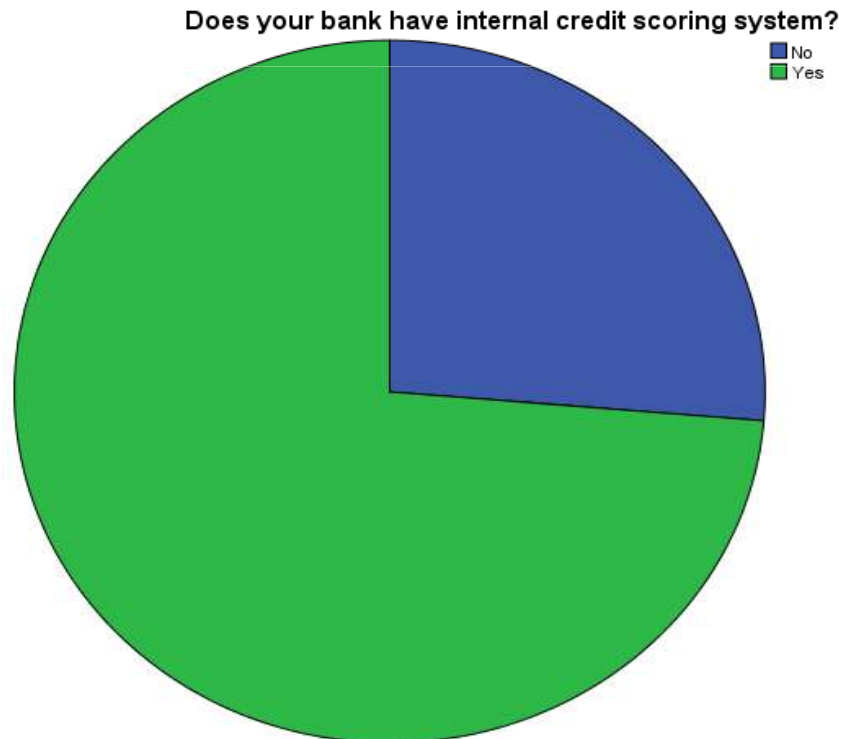
The number of employees in the facilities department?

| | Frequency | Percent |
|-------|-----------|---------|
| Valid | | |
| 4 | 4 | 10.5 |
| 6 | 6 | 15.8 |
| 14 | 1 | 2.6 |
| 15 | 27 | 71.1 |
| Total | 38 | 100.0 |



Does Your bank have internal credit scoring?

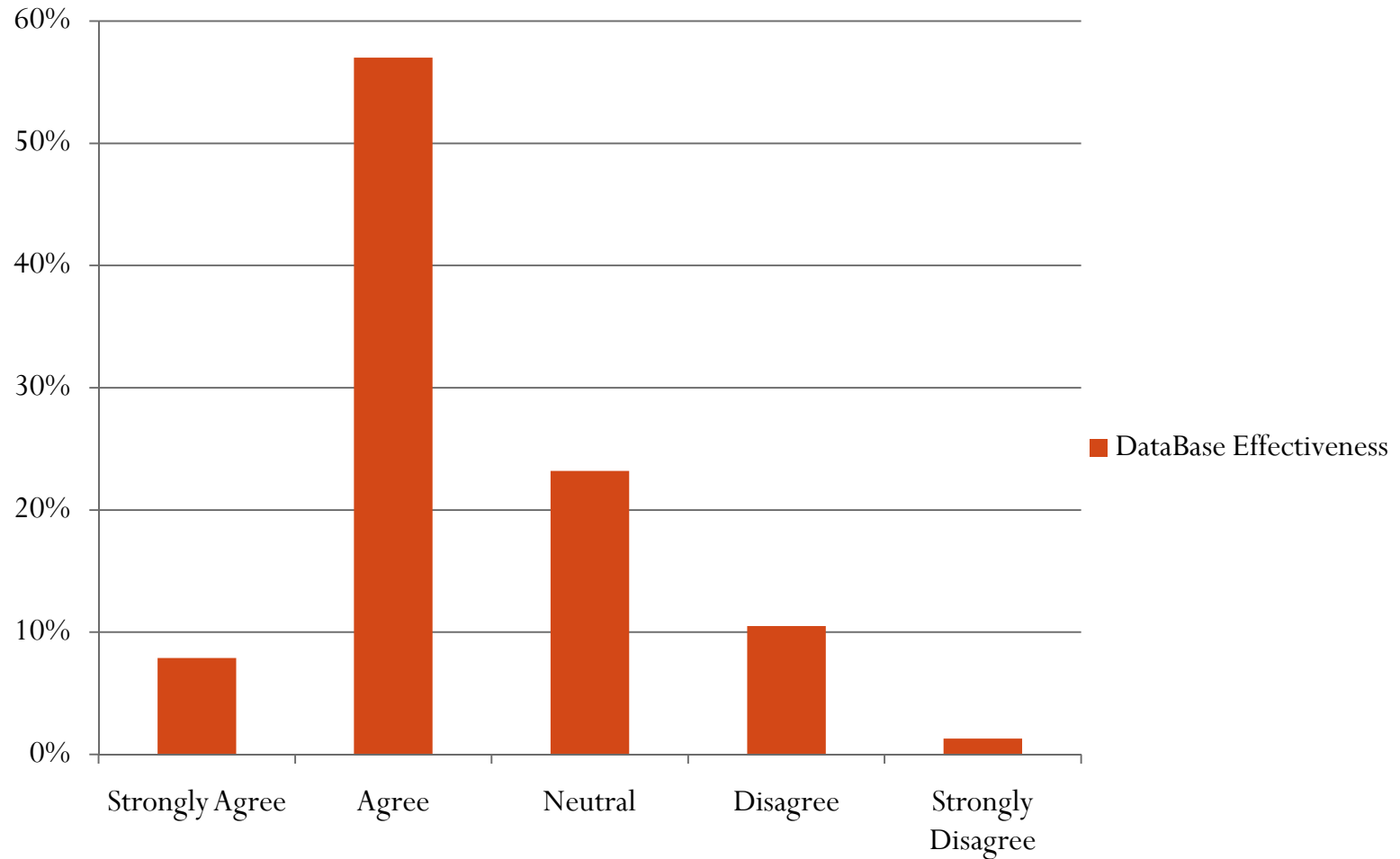
| | Frequency | Percent | Valid Percent | Cumulative Percent |
|------------------|-----------|---------|---------------|--------------------|
| No | 10 | 26.3 | 26.3 | 26.3 |
| Valid Yes | 28 | 73.7 | 73.7 | 100.0 |
| Total | 38 | 100.0 | 100.0 | |



DATA EFFECTIVENESS

| | N | Minimum | Maximum | Mean | | Std. Deviation |
|---|-----------|-----------|-----------|-----------|------------|----------------|
| | Statistic | Statistic | Statistic | Statistic | Std. Error | Statistic |
| The financial data for borrowers and guarantors is updated momentarily | 38 | 2 | 5 | 2.97 | .144 | .885 |
| The Personal data for borrowers and guarantors is updated | 38 | 2 | 4 | 2.45 | .111 | .686 |
| The data Provides elements of accuracy, quality, comprehensiveness | 38 | 1 | 4 | 2.42 | .129 | .793 |
| Comprehensiveness of the content of the credit registry database. | 38 | 1 | 4 | 2.34 | .132 | .815 |
| The data provided by the system is enough to analyze the creditworthiness of the client | 38 | 1 | 5 | 2.26 | .140 | .860 |
| Speed of access to information | 38 | 1 | 3 | 1.97 | .103 | .636 |
| Valid N (listwise) | 38 | | | | | |

Database Effectiveness

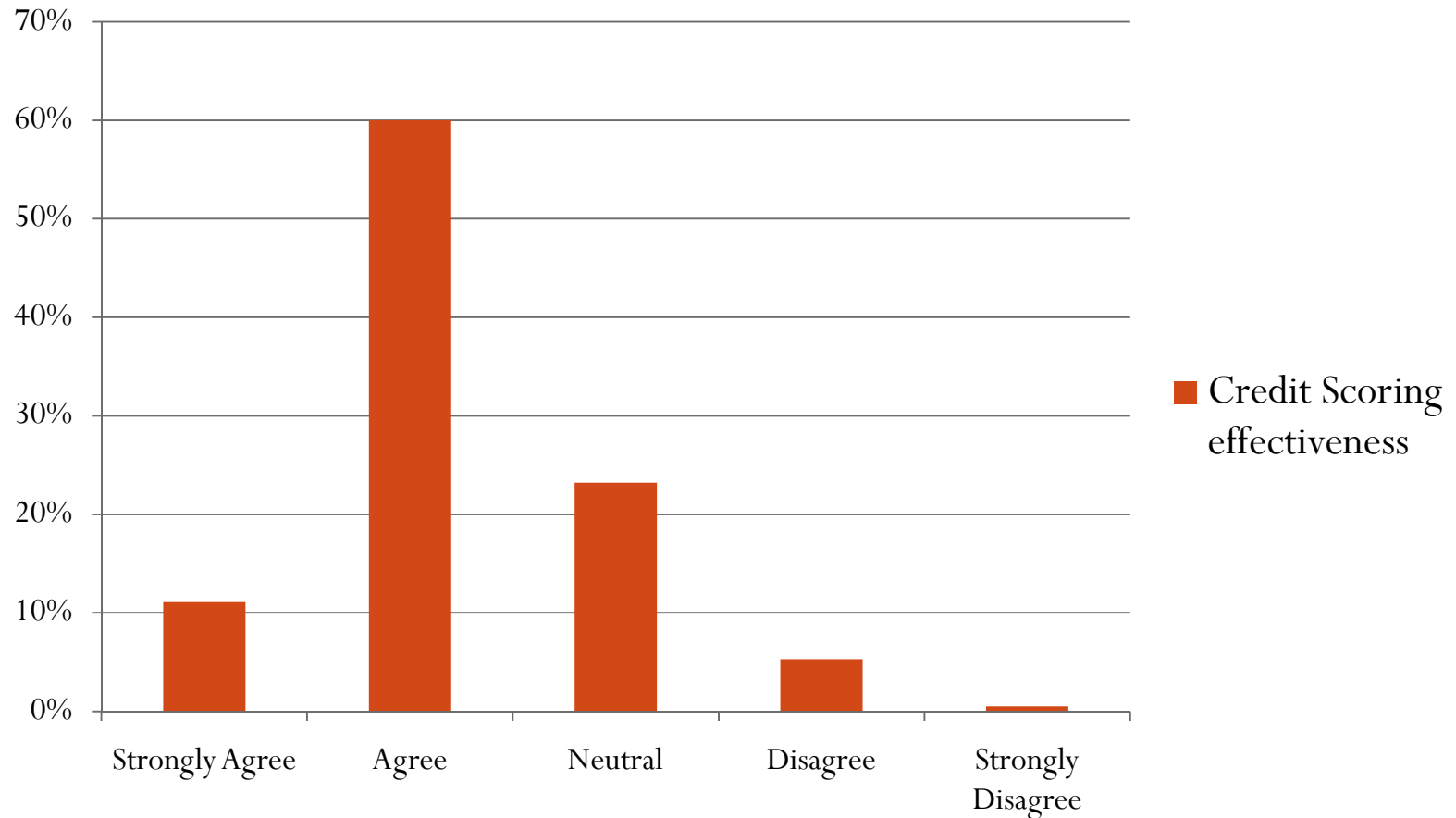


The database of the credit Bureau system is effective with a mean =2.4 which is approximately close to 1 (the best case).

Credit Scoring

| Credit Scoring | N | Minimum | Maximum | Mean | | Std. Deviation |
|--|-----------|-----------|-----------|-----------|------------|----------------|
| | Statistic | Statistic | Statistic | Statistic | Std. Error | Statistic |
| I totally depend on the credit scoring to take the credit decisions | 38 | 1 | 5 | 2.66 | .147 | .909 |
| The reason code in the credit scoring is very clear and accurate | 38 | 1 | 4 | 2.39 | .096 | .595 |
| The data related to the systems helps in identifying the exact size of risk related to each client | 38 | 1 | 4 | 2.11 | .118 | .727 |
| The credit scoring helps to accelerate taking the credit decisions | 38 | 1 | 3 | 2.11 | .098 | .606 |
| The system helps to reduce the credit risk of borrowes and gurantors | 38 | 1 | 3 | 1.95 | .099 | .613 |
| Valid N (listwise) | 38 | | | | | |

Credit Scoring effectiveness



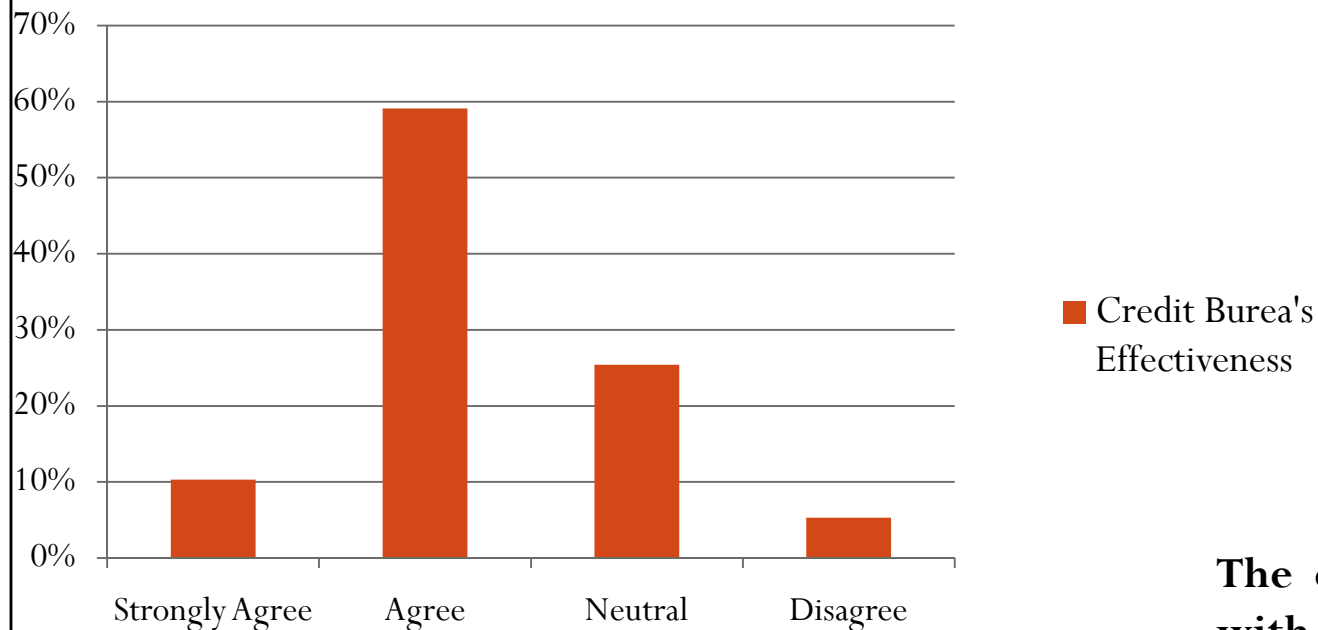
The credit scoring is effective with a mean =2.24 this means that although the credit scoring is effective but it need improvement.

Credit Bureau

| | | Responses | |
|-------------------------------|----------------|-----------|---------|
| | | N | Percent |
| Credit Bureau's Effectiveness | Strongly Agree | 43 | 10.3% |
| | Agree | 247 | 59.1% |
| | Neutral | 106 | 25.4% |
| | Disagree | 22 | 5.3% |
| Total | | 418 | 100.0% |

a. Group

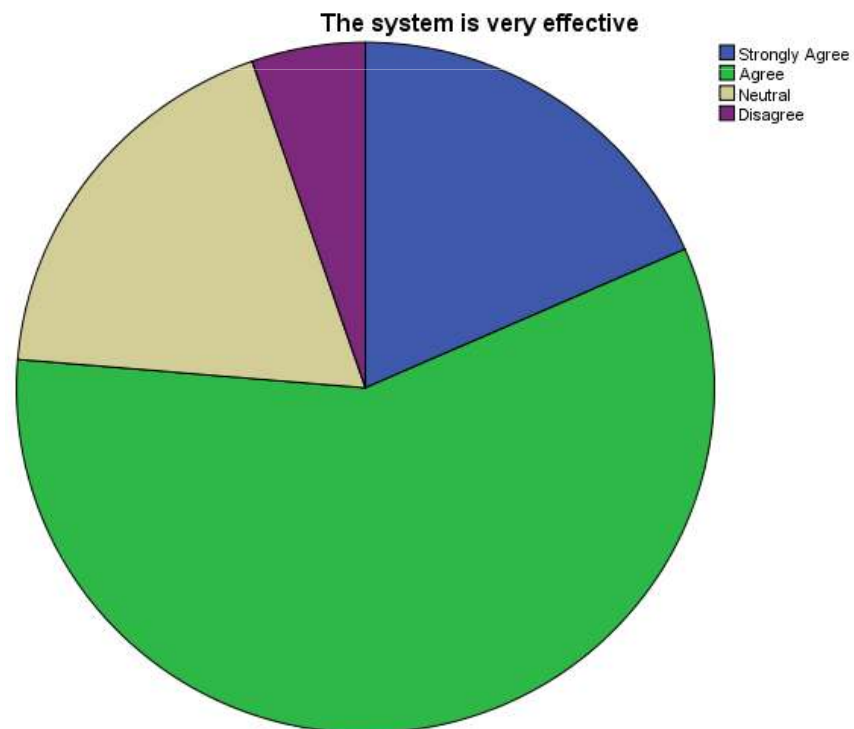
Credit Bureau's Effectiveness



The credit bureau is effective with a mean 2.25 .

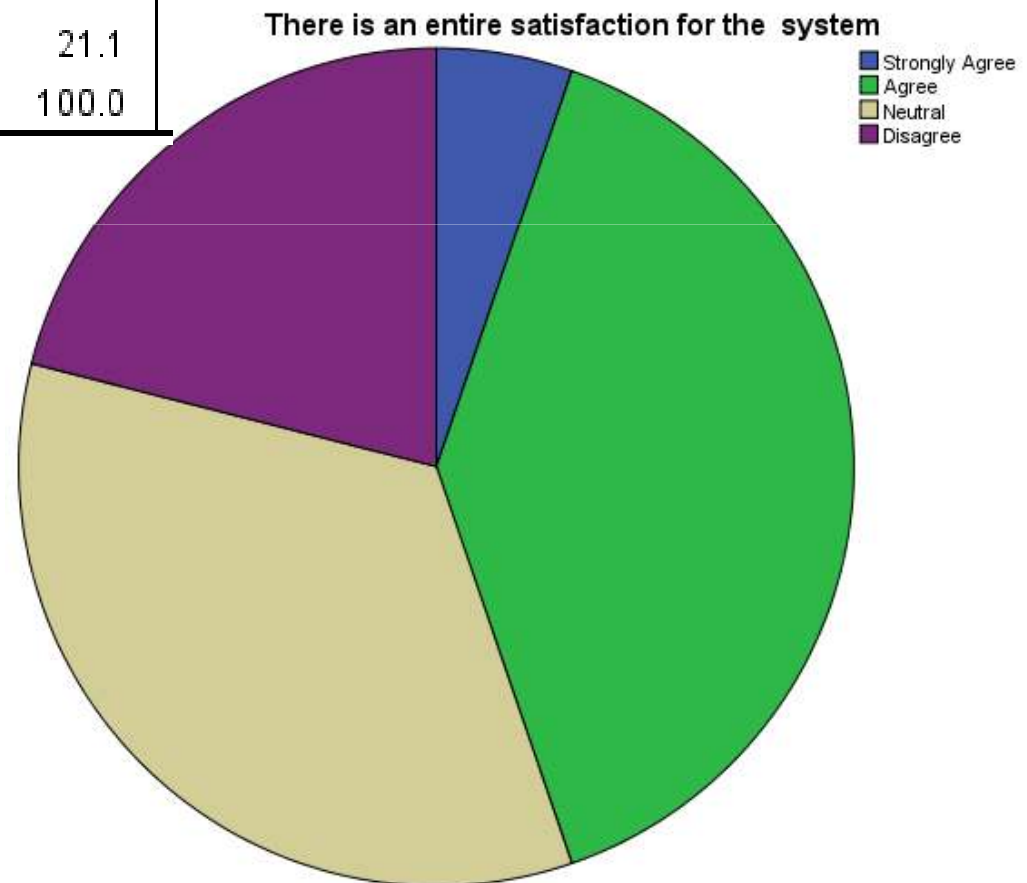
THE SYSTEM IS EFFECTIVE

| | Frequency | Percent | |
|-------|----------------|---------|-------|
| Valid | Strongly Agree | 7 | 18.4 |
| | Agree | 22 | 57.9 |
| | Neutral | 7 | 18.4 |
| | Disagree | 2 | 5.3 |
| | Total | 38 | 100.0 |



EMPLOYEES' SATISFACTION

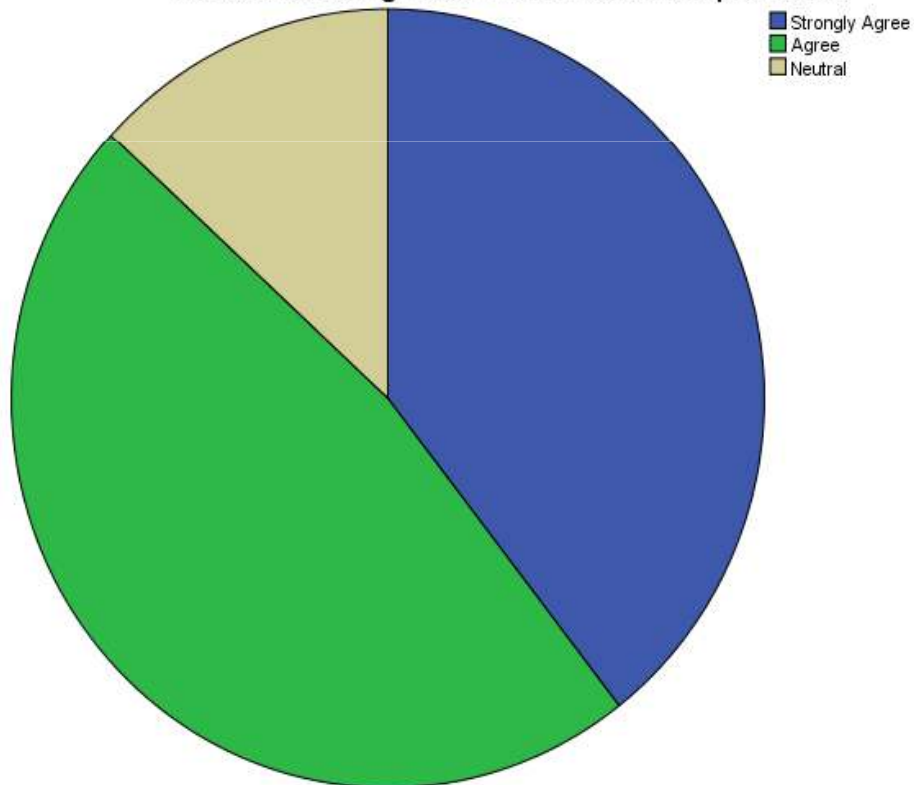
| | Frequency | Percent |
|----------------------|-----------|---------|
| Valid Strongly Agree | 2 | 5.3 |
| Agree | 15 | 39.5 |
| Neutral | 13 | 34.2 |
| Disagree | 8 | 21.1 |
| Total | 38 | 100.0 |



SYSTEM NEED MODIFICATION AND IMPROVMENT

| | | Frequency | Percent |
|-------|----------------|-----------|---------|
| Valid | Strongly Agree | 15 | 39.5 |
| | Agree | 18 | 47.4 |
| | Neutral | 5 | 13.2 |
| | Total | 38 | 100.0 |

The credit scoring need modification and improvement



PROBLEMS

- The new Borrower has NO scores.
- The data is not enough to judge the credit worthiness of the borrowers accurately.
- Lack of consistency between banks database and PMA.
- The credit score is more representative for individuals than companies because of many thing such as the number of taken facilities and some times without guarantee .The PD will be misleading.
- Many banks shop around big companies ,so the number of inquiry from banks could be high.
- The system cannot distinguish between borrower take loans for his personal issues or for his trade issues.

- The system must distinguish defaulting in full installment or in a part of installment !!!!
- The system is only use to check for borrowers or guarantors using historical data but it didn't take into consideration the amount of the new loan to explore the future or used to calculate the amount of many for specific risk and visa versa
- The reason code is not clear ! Specially in case of Borrowers and guarantors.
- The system treats all the facilities as non revolving facilities and this a big problem for this reason the PD is not accurate!!

RECOMMENDATIONS

- Technical issues ,such as export the data to excel , give aggregate data for summation of the ceiling of the facilities for direct and indirect facilities.
- The ability to control the size of the resulted report by choosing specific period to search within.
- To enrich the database of the system by integrating the municipalities data (bills and taxes),and the Village councils.
- Integrate with the companies registration department!!
- Integrate with the ministry of finance to include the taxes such as income taxes specially for companies.

- Enter the audited financial statements as variable to credit score of the companies!!
- Distinguish between Bad creditor and a guarantor of a bad credit.
- Clarify the reason code of the credit score and the weights!
- The system must be able to enter the results of onsite visits during the credit life cycle , the ability to predict the future credit worthiness for the borrower.
- The ability to be used to calculate the maximum amount of many for specific interest rate to avoid the defaulting or to reschedule the loan!