

# For Debtors, Credit History Is Way of the Future

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Taking out a loan from a Russian bank and then skipping the country may not carry serious repercussions, as local banks do not yet share individuals' credit history internationally.

But for the criminally inclined, a getaway abroad might not be necessary.

Given Russia's brief experience with lending and its lack of comprehensive credit reporting mechanisms, even domestically the sharing of information on debtors is still in its infancy.

With the Association of Russian Banks and the government paying more attention to the creation of credit bureaus, market watchers now hope that a more transparent lending system will eventually translate into cheaper and simpler loans for consumers.

Also, as the consumer loan market continues to boom, a number of foreign credit information agencies are considering a move to Russia.

Last year, consumers borrowed \$9.5 billion, an increase of 107.1 percent from 2002, according to Central Bank statistics.

Currently the legality of banks pooling information on clients' credit ratings is very questionable, said Roman Dashko, a partner with Haarmann, Hemmelrath & Partner.

"There is no legislation addressing credit bureaus [in Russia], but there are clear restrictions on disclosing information regarding clients' bank accounts and transactions to third parties," he said.

In January then-Deputy Minister of Economic Development and Trade Arkady Dvorkovich, now head of President Putin's Board of Experts, said the government plans to introduce a bill that would ease the entry of credit bureaus into the market.

Finance experts expect the legislation to come before the State Duma later this year.

However, some legal experts be-

lieve that existing legislation does not prohibit banks from providing information to credit bureaus if they have the borrower's written consent to do so, said Natalya Nikolayeva, vice president of regulatory relations at Citibank Russia.

Some banks already include a credit information release clause in their lending contracts, but this is not yet standard practice.

Indeed, Citibank is one of many financial institutions considering joining the National Bureau of Credit Histories, a membership organization created by the Association of Russian Banks to share credit history information among domestic banks.

"Twenty-seven banks are already members of NBCH and 30 more are getting ready to join," said Alexander

Dikulin, general director of NBCH.

Although foreign banks such as Citibank cannot open branches in Russia, they are allowed to establish subsidiaries that are legally considered Russian banks.

They can, therefore, become members of NBCH, which is open exclusively to Russian financial institutions.

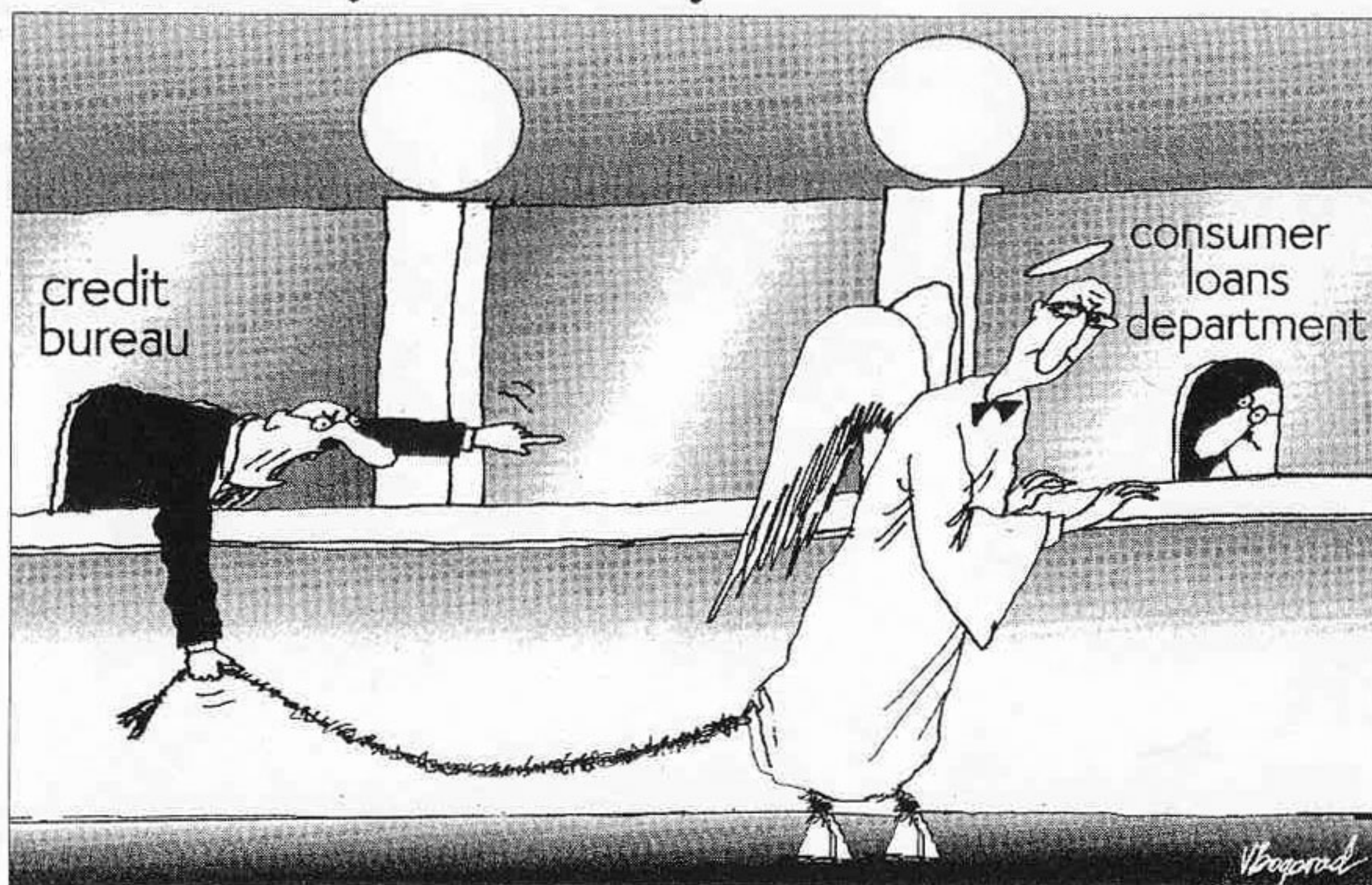
The organization will standardize its information-sharing systems this summer, said Dikulin, so member banks will be able to begin accessing a common credit history database by September.

"Because amassing information will take time, we won't be able to derive credit ratings and use them to grant consumer credit immediately," Dikulin said.

"We'll start the information-sharing process but keep on using the current system instead of credit ratings at least for the first year of the bureau's existence."

The current system means that banks consider a loan applicant's property and wages in determining creditworthiness.

However, because many people earn more money than they officially



declare, less orthodox methods are also in use.

A large Moscow-based bank, which wished to remain unnamed, secretly videotapes interviews with loan applicants and analyzes their clothing, behavior and body language to determine the truthfulness of their statements.

Banks try to safeguard themselves from defaulting customers by requiring applicants to have a permanent registration, or *propiska*, as a prerequisite for obtaining credit.

This requirement makes it virtually impossible for foreigners to obtain credit at Russian banks, though exceptions are sometimes made for expats who own real estate in Moscow.

Like banks, foreign credit bureaus are also interested in creating — and profiting from — greater credit market transparency in Russia.

The majority of credit bureaus in Western Europe and the United States are private companies that generate revenues by collecting people's payment histories, compiling credit reports and selling them to banks and financial institutions.

By providing this sort of information, they help lenders assess risks.

Credit bureaus first appeared in Europe and the United States in the 19th century. In the late 1990s, financial analysts and foreign credit bureaus

explored the viability of setting up credit bureaus in Russia, but concluded that the country's consumer credit market was still too underdeveloped.

Today per capita debt from personal loans remains very low in Russia — \$68 compared to \$253 in Poland, \$3,100 in Germany, and \$24,000 in the United States.

Leading banks estimate that the average consumer loan is about \$500. The Institute of Financial Studies, a non-profit research organization, found that automobile purchases account for 35 percent of consumer credit and may reach 50 percent in the near future.

As the market surged last year, it captured the interest of foreign credit information agencies such as Experian, TransUnion and CRIF, which are all considering establishing operations in Russia.

"Two months ago Experian estimated that there are 12 ongoing projects — at various stages of development — for the creation of credit bureaus in Russia," said Georgy Gorskov, a consultant for Experian who is advising the government on credit history legislation.

As they provide greater market transparency, the establishment of credit bureaus will be good news for people who fulfill their bank payment

obligations on time.

"Credit bureaus will enable banks to manage their risks better, while growing their portfolios, so banks will make it easier for consumers with good credit histories to gain access to loans and credit cards," said Marlena Hurley, vice president of Delta Capital Management, which is currently advising TransUnion and CRIF in their search for partners in Russia.

"In time, consumers will also benefit from lower interest rates because the lender will be able to adjust the rates to the risk profile of each borrower," she said.

Individuals, however, will probably not see an immediate improvement in consumer lending procedures, nor a drop in credit rates, because it will take several years to accumulate a formidable credit history database, Citibank's Nikolayeva said.

Potential benefits from the emergence of credit bureaus could be further delayed by Russian banks' mistrust of them.

However, Home Credit and Finance Bank acknowledges the need for a universal credit history database to decrease risks.

But, because "the credit bureau mechanism is still unclear," a spokeswoman said, the bank plans to wait and see how credit bureaus develop before it joins one.