

Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City, Metro Manila

Nineteenth Congress
First Regular Session

House Bill No. 686



Introduced by **REP. JOEY SARTE SALCEDA**

AN ACT
TO ESTABLISH FAIR AND INCLUSIVE CREDIT REPORTING MECHANISMS
TO ENSURE EQUITABLE CREDIT ACCESS TO THE MOST VULNERABLE
SEGMENTS OF SOCIETY AND FOR OTHER PURPOSES

EXPLANATORY NOTE

In recent years, as more Filipinos get included in the formal financial system, credit reports have also increasingly played an important role in the lives of ordinary Filipino citizens. Most financial institutions, for example, review these reports to make decisions about whether to extend credit to consumers and what terms and conditions to offer them. This means that credit reports significantly help determine whether a consumer has access to favorable and affordable loan conditions.

Information contained in these reports also affect whether a person is able to get a loan to pay for education and housing, to obtain a credit card, as well as the terms and conditions under which consumer credit products or services are offered to them.

Unfortunately, for many Filipinos, such as those who have been only recently included in the formal financial system, and those who do not have the means to comply with traditional standards of creditworthiness, conventional credit reporting could doom their chances of accessing favorable credit terms.

The lack of alternatives in the formal, well-regulated financial institutions for these Filipinos lead them to resorting to more expensive, poorly-supervised and potentially illegal lending operations that impose abusive interest rates and practice predatory lending activities.

Many micro, small, and medium enterprises (MSME) which operate in semi-formal economic spaces, and farmers could also be potentially excluded from credit access under conventional credit scoring.

Under Republic Act No. 9510, the Credit Information Corporation has the powers and functions to receive and consolidate basic credit data, to act as a central registry or central repository of credit information, and to provide access to reliable, standardized information on credit history and financial condition of borrowers. The CIC largely still operates under conventional credit reporting mechanisms.

To ensure that more Filipinos have access to well-regulated, formal, and affordable means of credit, the Fair and Inclusive Credit Information and Scoring Act aims to encourage the development of non-traditional approaches to credit scoring, to include more segments of society that have previously been excluded under more conventional approaches. With fair and more inclusive credit scoring, more small businesses, farmers, informal sector workers, and other vulnerable groups will be able to access more affordable credit that could uplift their economic conditions and enable them to engage in more productive economic activities.

This Act specifically provides for the following:

1. Mandating a credit inclusiveness study to determine whether conventional credit scoring techniques exclude specific segments of Philippine society;
2. Granting the Bangko Sentral ng Pilipinas (BSP) clear regulatory oversight of credit scoring methods;
3. Requiring a regular review of credit scoring models to assess their inclusivity; and
4. Allowing the BSP to prohibit credit scoring models that are deemed to be unduly exclusionary.

This bill also responds to the urgent need to translate more financial system liquidity into credit in the real economy, to help the country recover from the economic fallout of COVID-19. By allowing more people to access loans at fairer and more inclusive terms, this bill will help spur more productive economic activity in the most vulnerable segments of society.

In view of the foregoing, the approval of this bill is urgently sought.



JOEY SARTE SALCEDA



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Be it enacted by the Senate and House of Representatives of the Philippines in Congress assembled:

SECTION 1. *Short Title.* – This Act shall also be known as the “Fair and Inclusive Credit Information and Scoring Act.”

SEC. 2. *Definition of terms.* – As used in this Act, the terms –

(a) “*Alternative Modeling Techniques*” shall refer to statistical and mathematical techniques that are not traditional modeling techniques, including decision trees, random forests, artificial neural networks, nearest neighbor, genetic programming, and boosting algorithms;

(b) “*Consumer Report*” shall refer to any written, oral, or other communication of any information by a consumer reporting agency bearing on a consumer's credit worthiness, credit standing, credit capacity, character, general reputation, personal characteristics, or mode of living which is used or expected to be used or collected in whole or in part for the purpose of serving as a factor in establishing the consumer's eligibility for (1) credit or insurance to be used primarily for personal, family, or household purposes, or (2) employment purposes, or (3) other purposes authorized by law.

(c) “*Non-Traditional Data*” shall refer to data related to telecommunications, utility payments, rent payments, remittances, wire transfers, data not otherwise regularly included in consumer reports issued by consumer reporting agencies described under section 603(p), and such other items as the Bureau of Consumer Financial Protection deems appropriate.

(d) “*Traditional Modeling Techniques*” shall refer to statistical and mathematical techniques (including models, algorithms, linear and logistic regression methods, and their outputs) that are traditionally used in automated underwriting processes.

SEC. 3. *Credit Inclusiveness Study.* – The Credit Information Corporation (CIC), in collaboration with the Philippine Institute for Development Studies (PIDS) and the Bangko Sentral ng Pilipinas (BSP) shall carry out a study to assess the impact (including the availability and affordability of credit and other noncredit decisions, the potential positive and negative impacts on consumer credit scores, and any unintended consequences) of using traditional modeling techniques or alternative modeling techniques to analyze non-traditional data from a consumer report and of including non-traditional data on consumer reports on the following:

- (a) Consumers with no or minimal traditional credit history;
- (b) Traditionally underserved communities and populations, such as members of indigenous communities;
- (c) Consumers residing in rural areas;
- (d) Consumers residing in urban areas;
- (e) Religious and ethnic minorities;
- (f) Consumers across various income strata, particularly consumers earning less than less than the annual median income as determined by the Philippine Statistics Authority (PSA)
- (g) Refugees and non-permanent residents;
- (h) Self-employed and small and medium enterprises; and
- (i) Consumers residing in informal housing and or state-funded housing projects for low-income families.

SEC. 4. *Additional considerations in the credit inclusiveness study.* – In assessing impacts under Section 1 of this Act, the CIC, PIDS, and BSP shall also consider impacts on –

- (a) the privacy, security, and confidentiality of the financial, medical, and personally identifiable information of consumers;
- (b) the control of consumers over how such information may or will be used or considered;
- (c) the understanding of consumers of how such information may be used or considered and the ease with which a consumer may decide to restrict or prohibit such use or consideration of such information;
- (d) potential discriminatory effects; and
- (e) disparate outcomes the use or consideration of such information may cause.

SEC. 5. *Consideration of other state studies.* – In assessing impacts under Section 1 of this Act, the CIC shall also consider recent Government studies on alternative data, including the body of research on financial inclusion which may be available from the BSP.

SEC. 6. *Annual report to Congress.* – Not later than one (1) year after the date of the enactment of this Act, the CIC shall issue a report to the Committee on Banks and Financial Intermediaries of the House of Representatives and the Committee on Banks, Financial Institutions and Currencies of the Senate containing all findings and determinations, including any recommendations for any legislative or regulatory changes, made in carrying out the study required under Section 3 of this Act.

SEC. 7. *Oversight of credit scoring models.* – Not later than 1 year after the date of the enactment of this Act, the Monetary Board shall (in consultation with the Philippine Deposit Insurance Corporation, the Securities and Exchange Commission, and the CIC) issue final regulations applicable to any person that creates, maintains, utilizes, or purchases credit scoring models used in making credit decisions to establish standards for validating the accuracy and predictive value of all such credit scoring models, both before release for initial use and at regular intervals thereafter, for as long as such credit scoring models are made available for purchase or use by such person.

SEC. 8. *Inclusivity and fairness in credit scoring models.* – At least once every two (2) years, the BSP and CIC shall conduct a review of credit scoring models to determine whether the use of any particular factors, or the weight or consideration given to certain factors by credit scoring models, is inappropriate, including if such factors do not enhance or contribute to the accuracy and predictive value of the models. Upon the conclusion of its review, the BSP may prohibit any of its supervised financial institutions from weighing, considering, or including certain factors in, or making available for purchase or use, certain credit scoring models or versions, as the BSP determines appropriate.

SEC. 9. *Review of changes to credit scoring models.* – With respect to a person that creates credit scoring models used in making credit decisions, if such person creates a new credit scoring model (including a revision to an existing scoring model) that would, when compared to previous credit scoring models created by such person, lower the credit scores of a class of consumers, the BSP may review such new credit scoring model and, if the BSP determines that such new credit scoring model is inappropriate (including, with respect to a revision to an existing scoring model, if such revision does not enhance or contribute to the accuracy and predictive value of the existing scoring model), the BSP may prohibit such new credit scoring model.

SEC. 10. *Implementing Rules and Regulations.* – Unless otherwise stated, the BSP and the CIC shall jointly issue the rules and regulations necessary for the implementation of this Act, within ninety (90) days upon its effectivity.

SEC. 11. *Oversight Committee.* – The Committee on Banks and Financial Intermediaries of the House of Representatives and the Committee on Banks, Financial Institutions and Currencies of the Senate shall select, from each committee, a delegation of five (5) members, with at least one (1) member representing the legislative body's minority coalition, to constitute the Congressional Oversight Committee on Fair Credit Reporting, which shall be co-chaired by the Chairs of both Committees.

The Oversight Committee shall convene within one hundred and twenty (120) days after the date of effectivity of this Act to determine whether:

(a) The BSP and the CIC have issued the Rules and Regulations necessary for the implementation of this Act;

(b) The study mandated under this Act has been initiated; and

(c) Other mandates under this Act have been initiated or fully complied with.

SEC. 12. *Separability Clause.* – If any part or provision of this Act is held invalid or unconstitutional, the remaining parts or provisions not affected shall remain in full force and effect.

SEC. 13. *Repealing Clause.* – All laws, decrees, orders, rules and regulations inconsistent with the provisions of this Decree are hereby repealed or modified accordingly.

SEC. 14. *Effectivity.* – This Act shall take effect fifteen (15) days after its publication in the Official Gazette or in any newspaper of general circulation.

Approved,