



E-NEWSLETTER

LETTER OF NON-INDEBTEDNESS IS NO GUARANTEE FOR LOANS



Have you been denied a loan even with your letter of non-indebtedness recently? It is traditional for lenders to issue this letter to customers who have fully repaid their loans, but only few are aware that it does not certify an individual to be creditworthy during loan application review.

Advancement in Information Technology has taken care of many limitations in how we do things and getting credit is one of them. For example, a letter of non-indebtedness is both unique and local to a lender hence does not tell if a borrower has loans with other creditors or is already over-indebted and cannot afford repayments for more credit. In addition, the letter does not say how long it takes a customer to repay nor indicate if the repayments are made as at when due.



Essentially, a letter of non-indebtedness does not serve as a risk assessment tool for the credit risk officer. The letter does not give him any historical indicator for measuring his risk of extending credit to you nor help to quantify how much cost to

be attached. Rather, what you have is a piece that is not sufficient for a third party to base any measurable and objective decision.

Financial infrastructure, such as credit bureaus with sophisticated IT setups, are facilitating high rate of information sharing among various institutions. As a result, it is no more best practice to make credit decisions with tools like letter of non-indebtedness that lack the "global" perspective. All your credit-related data are consolidated into one document called Credit Report, which takes care of any information asymmetry that exists between lenders and borrowers.



Should your credit report state that you are still owing a particular lender even if your letter of non-indebtedness obviously tells otherwise, creditors would abide by the former and reject your loan applications. You are constrained to either repay such abandoned debts or resolve the dispute, thereby wasting time and resources.

When next you want to apply for a loan, be on the proactive side of things by getting your credit report first. You can also do a self-check today at <http://www.crccreditbureau.com/product/self-enquiry/>