



**15TH NATIONAL
CONVENTION
ON STATISTICS**

03-05 OCTOBER 2022



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Characterization of Household Borrowers from Informal Entities

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Characterization of Household Borrowers from Informal Entities



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Loan

A loan is receiving money from an individual, institution or other entities with the expectation for the principal (and interest) to be paid back in the future

Formal Loan

Loans obtained from government-registered institutions (e.g., banks, government institutions, financing companies, cooperatives, etc.)

Informal Loan

Loans obtained from unregistered entities (e.g., individual money lenders, family, friends, neighbors)




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5 Cs of Credit: What Lenders are Looking for When Extending a Loan



Character
Are you a responsible borrower?



Capacity
Can you reasonably take on more debt?



Capital
Are you making a down payment?



Collateral
Do you have any assets to put up against a loan?



Conditions
How's the economy?

Source of images: <https://www.firstcitizens.com>



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Informal Loans

Availment of informal credit is more prominent in developing countries compared to developed countries (Agenor and Montiel, 1999)

Advantages

- None to minimal interest rate for loans obtained from family/friends/neighbors
- Quick Process - Less paperworks and no legal documentation required
- Most does not require a collateral

Disadvantages

- High interest rates for loans sourced from individual money lenders
- Hard to complain for illegal practices as informal lenders are not registered to begin with
- May lead to a debt trap as there are no regulations on the terms and assessment of the borrower



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Research Objectives



Characterize household borrowers who avail of loans from informal entities



Determine the factors that affect the household's probability of availing of a loan from an informal entity



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Data and Methodology

❖ Data: 2018 Consumer Finance Survey

- ☐ Coverage: nationwide, except ARMM
- ☐ Sampling design: sample households were obtained from the 2013 Master Sample for Household-Based Surveys of the Philippine Statistics Authority
- ☐ Total no. of observations: 14,860 respondent households
- ☐ Reference period: date of interview — for data on assets, liabilities and demographics;
full year of 2017—for data on income, expenditure and employment

❖ Statistical Method:

- ☐ Logistic model: to examine the factors that affect the household's probability of availing of a loan from an informal entity



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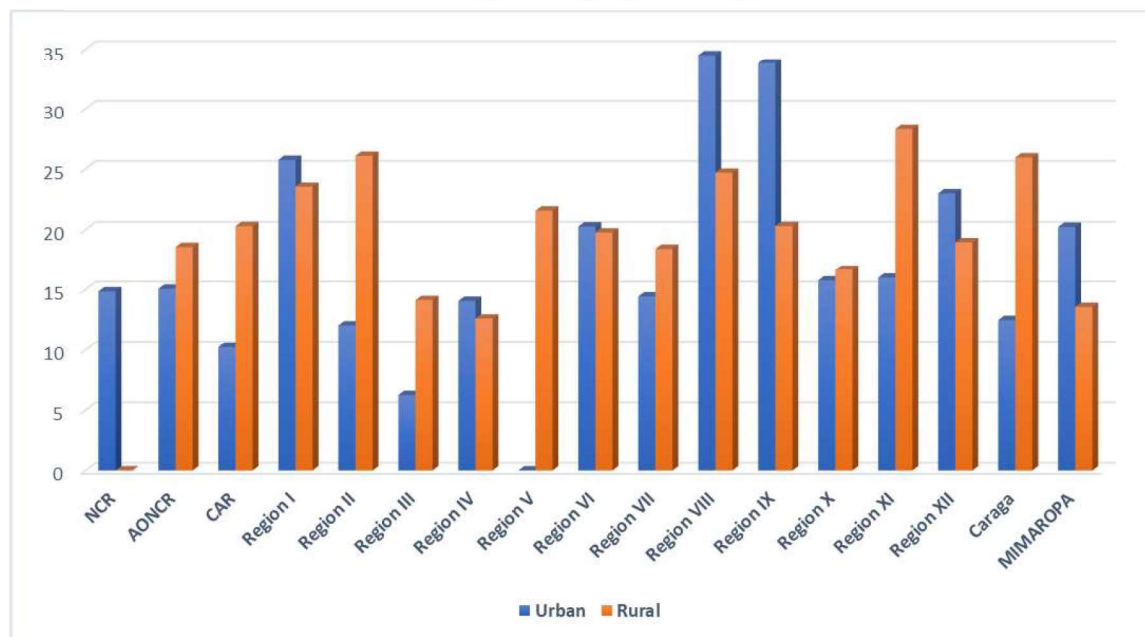


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Findings from the 2018 Consumer Finance Survey

- ❖ The percentage of households with informal loans is higher in AONCR than in NCR
- ❖ In AONCR, households with informal loans are more common in rural areas than in urban areas

Distribution of Households with Loans Obtained from Informal Entities
by Area (in percent)





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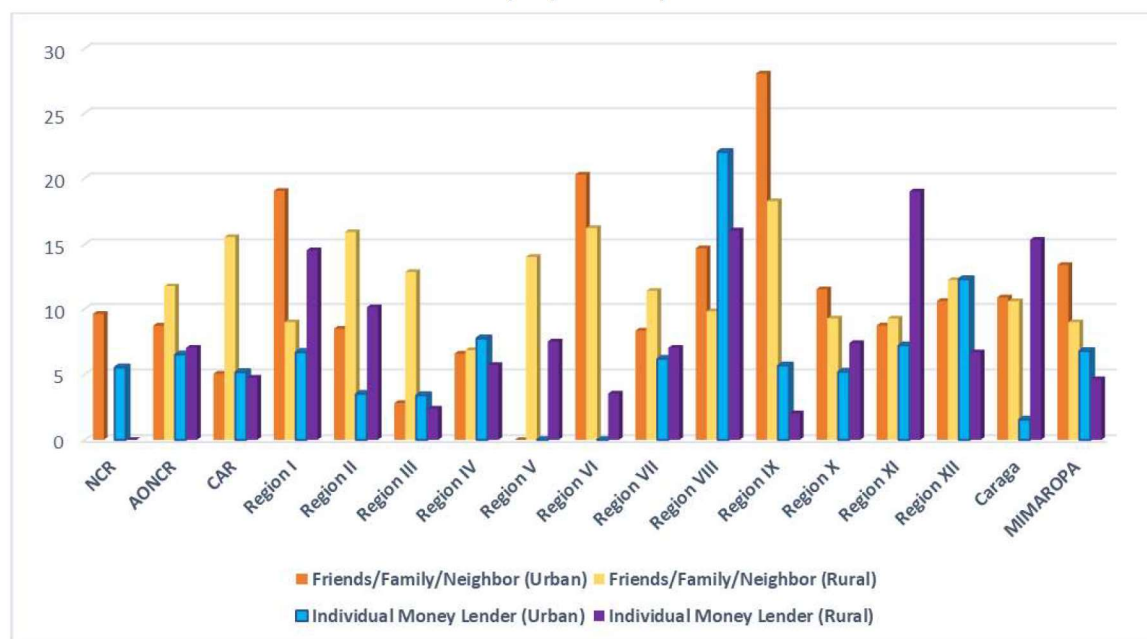


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Findings from the 2018 Consumer Finance Survey

- ❖ Likewise, the percentage of households with loans obtained either from individual money lenders or from family/friends/neighbors is higher in AONCR than in NCR.
- ❖ Family/friends/neighbors are the top providers of informal loans of household borrowers in AONCR, particularly in Regions VI, IX, X and MIMAROPA, as well as in rural areas of CAR, Regions III and V and urban areas of Regions I, VI and IX.
- ❖ In Regions I, II, V, VIII, X, XI and Caraga, households with loans from individual money lenders are more common in the rural areas than in their urban areas.

Distribution of Households with Loans by Informal Source and by Area
(in percent)





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Findings from the 2018 Consumer Finance Survey

Top Reasons for Choosing the Informal Loan Provider

Individual Money Lender

- ❖ Collateral is not required
- ❖ Only provider that approved loan application

Family/Friends/Neighbor

- ❖ Trusted
- ❖ Only provider that approved loan application



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Findings from the 2018 Consumer Finance Survey

Top Type of Loans Where Informal Loans Are Used

Individual Money Lender

- ❖ **Business Loans**
- ❖ **Appliance, Equipment, Furniture
Electronics and Gadgets**

Family/Friends/Neighbor

- ❖ **Housing Loans**
- ❖ **Appliance, Equipment, Furniture
Electronics and Gadgets**



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Logistic Regression

- Dependent variable
 - With Informal Loan
 - 1, if the household has an outstanding loan from an informal entity
 - 0, otherwise
- Independent variables
 - With Deposit Account
 - Income
 - Number of Banks
 - Rural
 - Male Head
 - Educational Attainment



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Logistic Regression

Variable	Coefficient	Standard Error	P value
With Deposit Account	-1.360961	0.277	0.000
Income	4.81E-07	0.000	0.012
Number of Banks	0.0007581	0.001	0.299
Rural	0.3105893	0.153	0.043
Male Head	-0.2857769	0.164	0.081
Educational Attainment	-0.1800932	0.071	0.011

significant at 1% level

significant at 5% level

significant at 10% level



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Odds Ratio

Variable	Odds Ratio	Standard Error	P value
With Deposit Account	0.2564	0.071	0.000
Income	1.0000	0.000	0.012
Number of Banks	1.0008	0.001	0.299
Rural	1.3642	0.209	0.043
Male Head	0.7514	0.123	0.081
Educational Attainment	0.8352	0.059	0.011

significant at 1% level

significant at 5% level

significant at 10% level



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Key Insights

- Importance of financial inclusion and education
- Development of a well-tailored microfinance scheme that reaches the entire population, particularly in the rural areas
- Stricter enforcement of laws against individual money lenders or possible ways of regulating their activities



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Thank you!



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