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The Technology of Lending

Informal Credit Contracts

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ABSTRACT

Despite focused financial inclusion policy initiatives and practice in India—at great cost, subsidy, and effort— high levels of informal borrowing persist, and informal lenders co-exist comfortably alongside the formal sector. This primary investigation examines the reasons for this resilience through a set of twenty informal credit products, currently used in rural and urban Tamil Nadu. I use qualitative and quantitative methods to classify diverse product technologies (such as loan screening, collateral, interest rates, and collection methods) into comparative contract structures. Results reveal that the informal lenders have adapted to changes in the formal market with a number of surprising contract innovations, while the formal lenders themselves might not be aware of these emerging contract gaps.

However, alongside contract innovations, this research also highlights a variety of tools that allow informal lenders to use borrowers' reputation and social status in loan recovery, while similar practices in the formal sector are yet nascent. Qualitative interviews reveal that borrowers find these practices highly undesirable and have strong expectations of dignity and privacy in banking.

For practitioners looking for innovation insights, these product profiles suggest highly bankable segments, examples of tested products, and insights into customer preferences. For policymakers, this research underscores the need for strong regulation to preserve the expectations of fairness, dignity and privacy that borrowers associate with the formal sector. The product profiles also hint at inefficiencies and arbitrages in policy rules that can be re-examined, allowing contract gaps to close.

1. BACKGROUND

Given the strong correlation between financial sector development and economic growth, and the role of finance in improving access to income generating opportunities and productivity, policy in developing countries has often targeted broadening access to credit for household and small enterprises. However, the pace of financial inclusion in India has not keep pace with either its financial sector deepening or economic growth, raising concerns that the gains from India's post-liberalization economic success have been unevenly distributed. This has led to some policymakers and regulators to call for more active measures to ensure financial inclusion (Mohan 2006). Most troublingly to many development planners has been the increase in rural informal borrowing since 1991. The increase in rural informal debt has occurred despite decades of sustained intervention to support institutional credit access (Pradhan 2013).

1.1 THE CASE FOR FORMAL CREDIT

Social and ethical concerns about "exploitative" interest rates, and the surrender of small-holder land to moneylenders, have been developed in a formal economic model. Bhadurai (1977) demonstrated how loan size, collateral, interest rates, and debt may produce exploitation and rural poverty traps. In this model, often referred to as the "default hypothesis," the agricultural moneylender as a monopoly supplier of credit has incentive to undervalue loan collateral relative to loan size, and sets interest rates at a "usurious" level to encourage default and seize collateral (whether it be future labor, standing crops, or land). As small landowners gradually lose their land to moneylenders and become bonded labor—and rural land consolidates with owners who are not farmers— agricultural production and efficiency may also decline, rendering rural areas permanently "backward" (see also Wolcott 2009). Although later research challenged this model on theoretical and empirical grounds, [1] the basic rationale underlying this model--and its implications--have had a strong influence on public support for policies which restrict formal interest rates and make it difficult for creditors to seize land and other productive assets.

In an economic environment marked with capital market imperfections—due to information asymmetry, inability to enforce contracts, or other broad market imperfections—capital will not be allocated to its highest use. Additionally, formal institutions attempting to contract with low-income or asset-poor borrowers with little credit history are left to rely on interest rates as a screening device,

[1] See critiques in Bell (1990) and Basu (1984).

which squeezes demand for all but the safest investments. . Unable to access appropriately priced credit, individuals may be unable to seize high-productivity opportunities. In the long-run, the inefficient use of capital constrains productivity at a national-level, and can result in a significant drop from the country's long-term growth path.

Is there any evidence to suggest credit market failures, or to suggest high-productivity opportunities? A common indicator of credit market imperfections is the finding that the returns to capital are considerably higher than the prevailing interest rate (see Banerjee 2003 for a review in India, Banerjee and Duflo (2008) and de Mel et.al 2012 for empirical evidence). Additionally, India's informal credit markets have interest rates which are remarkably higher than formal sector borrowing rates (Das Gupta et al (1989), Banerjee 2003), with repayment rates also higher than formal sector rates. Taken in combination, this evidence indicates potentially high welfare gains to interventions which can expand access to credit and reduce the equilibrium interest rate.

1.2 EXPANDING FORMAL CREDIT ACCESS IN NATIONAL DEVELOPMENT POLICY

India has a long history of policies to limit or control informal borrowing—and to encourage the use of institutional lending—under a variety of institutional forms. Following a series of agricultural riots in the late 19th century, colonial restrictions on land forfeiture due to debt were passed to protect farmers from foreclosure from moneylenders (Chaudhary &Swamy 2014). Complementary legislation encouraging the development of agricultural credit cooperatives was passed as a way to bring competition to rural informal moneylenders (Conning &Udry 2005: 71). In post-Colonial India, the focus of banking regulation has continued to "throw up breaks between the formal and informal (Wolcott 2009:35)" Access to formal banking and the use of institutional credit improved following a series of rural banking initiatives such as bank branch expansions and direct lending, yet scholars find mixed evidence of its success. In examining the policy of bank branch expansion, Burgess and Pande (2005) found that rural banking had clear poverty alleviation impact through access to credit, whereas Kochar (2011) attributed the positive impact to loan waivers.

Starting in 2005,[2] Indian financial policy has allowed more experimentation with institutions, contracts, and product design, and shifted focus from an exclusive focus on credit to encourage low-cost savings

[2] See RBI Annual Policy Statement (2005-6); RBI 2005 Khan Committee Report, IMG Report (2010) on Delivering Banking Services through Mobiles.

accounts, remittances, and investment products.[3] Regulators have also supported steps to support the fundamental enabling infrastructure to formal credit markets, such as universal personal identification (to facilitate credit scoring)[4], legal reform and land titling (Sinha 2008),[5] and internet connectivity.[6]

Despite the large scale economic growth starting in 1991, and a decade of even more sustained initiatives since 2005 to encourage the use of formal credit, the share of informal rural credit in India remains at its highest level in 40 years (Table 1 below)

Table 1: Break-up of Institutional and Non-Institutional Rural Credit
(Per cent)

	1951	1961	1971	1981	1991	2002	2013
Institutional (Formal) Agencies *Government, Co-op, Commercial bank, Insurance/provident fund, other*	**7.2**	**14.8**	**29.2**	**61.2**	**64.0**	**57.1**	**56**
Non-Institutional (Informal) Agencies *Landlord, moneylenders, traders/commission agents, relatives/friends, others*	**92.8**	**85.2**	**70.8**	**38.8**	**36.0**	**42.9**	**44**
Total	***100***	***100***	***100***	***100***	***100***	***100***	***100***

Note: share of different credit agencies to the outstanding cash dues of households as on 30th June. ***Source***: AIRCS (1954); AIDIS NSSO, Various Issues.

1.3 THE FORTUNE AT THE BOTTOM OF THE PYRAMID: RISE OF COMMERCIAL LENDERS

The success of the microfinance and its group lending model, which "borrowed liberally" from existing informal practices, changed the definition of a "bankable" customer (Rhyne 2009:13). Since then, there has been increasing interest from the financial services industry on product design, and interest in exploring channels, products, and practices in the informal market to learn about bankable customers and potential practices to mimic.[7] For example, a financial institution in Orissa launched a short-term,

[3] See: Committee on Financial Inclusion (2008); 2009 Committee on Financial Sector Reforms (Hundred Small Steps); Expert Committee on Harnessing the India Post Network for Financial Inclusion (2010)
[4] Planning Commission (2007) Working Group on Smartcards.
[5] For link between legal reform, land titling, and credit market improvements, see La Porta et al (1998) and De Soto (2003). Critiques of the collateral framework include Besley, Burchardi, and Ghatak (2012) and using recent data on legal reform in India, Von Lilienfeld-Toal, Mookerjee, Visaria (2012).
[6] Press Release: For critiques, see National Optical Fibre Network for Broadband Connectivity to Panchayats. December 2, 2011.
[7] "In Ghana, Barclays Bank has even created a linkage with the indigenous *susu* system. Traditional *susu* collectors act as barefoot tellers. They roam the marketplace collecting deposits from clients and depositing them in the bank at the end of each day (Rhyne 2009:30)."

flexible credit product designed to "replicate the convenience offered by existing informal sources of emergency finance (Tantia and Comings 2015: 4)."

"I think the biggest challenge for providers seeking to enter this market will be developing products and services that meet the needs of the underbanked while being more competitive than the informal financial services currently available. Gaining knowledge of what underbanked consumers want and what they value is only half the work. Operationalizing it is more difficult… I think the best way to approach the underbanked market is for providers to forget what they currently know and seek to imitate the informal financial services currently on offer to the underbanked."[8]

Others have suggested that interdisciplinary research and insights from economic anthropology can be helpful to "deepening understanding of financial service demand by learning from informal finance (Guerin et al. 2009-7: 4)." Indeed, the origins of the success of M-Pesa, for example, begin with academic research into mobile phone practices in Africa in the early 2000s. The "spontaneous use of airtime as a currency, with no outside or external or civil society influence, suggested …a huge pent-up demand for financial services, particularly the transfer of money with in the country (Batchelor, 2012)." Current advocates of digital finance propose further integration and learning from the informal, suggesting that "financial inclusion should not imply a rejection of informal financial practices but a synthesis of the informal and the digital (Mas 2014: 50)."

1.4 WHAT CAN THE FORMAL SECTOR LEARN FROM THE INFORMAL SECTOR?

Despite much excellent work on product experimentation in the formal financial sector, what is missing in the majority of new literature is an examination of the rapid innovations taking place within the informal lending space. I argue that there is much that formal players can learn not just about who is bankable and what traditional practices to mimic and adopt, but also learn from the rapid innovations in the informal sector. These innovations speak to trends in market demand, and to emerging contract gaps. In this paper I show that contemporary informal credit contracts are rapidly innovating to incorporate customer demand as well as account for changes in their formal sector counterparts.

[8] --Sean Harrison, Retail Banking Analyst [Data Monitor 2015].

2. ANALYTICAL FRAMEWORK

The analytic framework builds on three key pillars. First, there is a continuum of informal credit products and practices, and segmentation along that continuum. Second, the existence of non-trivial non-economic costs substantially affects the perceived value of a loan to a borrower. Third, attempts to compare informal credit products and practices on an efficiency basis should make use of a modified contract framework. The literature on these key points is summarized below.

2.1 A CONTINUUM OF THE INFORMAL WITHIN A FINANCIAL LANDSCAPE

Traditional models of developing country credit markets typically assume a 2-sector model with institutional (formal, regulated) and non-institutional (informal, unregulated) lenders. This stylized view of the formal sector, which contains players as diverse as regulated pawnbrokers to universal banks, ignores the diversity of informal players, which range from friends and family, to large organizations with intermediated funds. Many scholars have argued it is more appropriate to dispatch with the dualism model; Bouman (1994:6) for example, proposes a "financial landscapes" approach which seeks to account for the diversity and interconnectedness of different practices, "catering to every taste, purse, and preference." Ghate (1992) also notes the heterogeneity of informal lenders and advocates for a "technologies of the informal." Using the holistic definitions of "technology as practice",[9] and as "the systematic application of scientific or other organized knowledge to practical tasks,"[10] thinking of financial services as a series of "technologies" is a useful framing to the examination of the range of informal credit practices.

The financial landscapes approach also speaks to the evidence that suggests that credit markets are segmented, rather than rationed (as was predicted by Stiglitz and Weiss, 1981). "Instead of constituting two discrete financial enclaves, the two sectors or rather submarkets within each, form a continuum in degree of formality. At one end of informal, submarkets and lenders are highly personalized….face to face, flexible in all terms…" at the other end is the formal sector which the scale of operations of lender is much large, transactions are usually arm's length, and loan terms are more standardized (Ghate 1992: 860-861). Market segmentation, especially in informal credit, implies that lending is possible because of close personal ties, lender specialization, or other linkages that reduce risk and lower transaction costs and that overall, terms tended to be varied and negotiable.

[9] Franklin(1990)
[10] JK Galbraith, cited in Kaplan(2004)

2.2 FORMAL VS. INFORMAL: SUBSTITUTES, COMPLEMENTS, AND OTHER RELATIONSHIPS?

There is considerable debate over whether the formal and informal credit markets are substitutes (that is, one grows at the expense of the other) or complements. To the extent they operate in broad areas of expertise and comparative advantage, serving different groups and purposes, in a broad sense they are complimentary. In the continuum of financial submarkets, in the middle, whether neither sector has a clear comparative advantage, they compete, but sometimes, complement. Substitution or competition occurs if they meet the same purpose (such as for a crop loan), whereas complementing occurs when loans meet credit needs for complementary purposes. (Ghate 1999: 126). As the supply of formal credit increases for one purpose, such as fixed investment, the demand for informal credit increases for the complementary purpose, working capital (Ghate 1992: 862)."

As in the case of South Korea in the 1960s (Cole and Park 1983), recent evidence from China is that informal finance granted along with formal funding (co-funding) is beneficial for the growth of small firms (Ayyagari et al 2007; Degryse et al 2013).[11] Outside of the competition and completion dynamic, borrowers may also use their formal financial access to gain better terms in the informal market: formal finance thus has an indirect *leverage* effect that improves and increases informal access. According to Guerin et al (2009-7), clients in South India do not think in terms of "substitution," but rather of multiplication of finance sources: before they had 2-3, now they have 5-6 (p.25)." In some cases, the status of SHG members is used to convince private lenders of creditworthiness, and provide a collateral substitute (Guerin et al (2009-7).

2.3 NON-ECONOMIC COMPONENT OF BORROWING AND LENDING

Standard transaction cost models of credit examine the economic incentives of the transaction for both borrower and lender, yet insights from field research suggest that there is more than interest rates that determines borrowing choices. Insights from economic anthropology suggest that the non-economic component plays a significant role in how borrowers perceive the relative value of loans, of lenders, and the consequences of default.

In villages with long-standing social ties, debt relationships may contain significant non-economic components, where debt contains social obligations, often linked with caste and kin networks. An early

[11] Jain(1999), in the context of India, finds that banks "co-finance" projects to draw on informal sector's informational edge in screening out bad loans: "the informal sector provides a screening function, since it has better information about borrowers. This information can be extracted by forcing the informal sector to risk enough of its own capital to deter it from financing bank projects (p.432).

government of India survey on rural debt provided details of how caste networks supported credit structures: "the social compunction (to repay moneylenders) is connected with considerations such as loss of face or local prestige, caste disapproval, pressure through the caste panchayat and a variety of other social sanctions which, because they happen to intangible, are not on that account any less powerful" (India Reserve Bank, Vol. 2, p.171, in Wolcott 2009:29)." Other researchers describe a similar mechanism: "In most villages, village elders will assist recovery by moneylenders by mediating between borrowers and lenders in public meetings…the threat to ask for such a meeting is definitely used to speed up recovery (Binswanger et al 1985: 35)." Even with professional lenders where ties with borrower are weak, close screening and re-contacts during the loan process are often used as a form of "socializing" the borrower, and provides information levers which the lender can use to extract high repayment through relatively low-cost efforts—a method which has also been documented in lending practices in the West (Rock 1973, Adler &Wozniak 1980, Sutton 1991). Indeed, some have stated that "arguably, the issue of enforcing loan repayments constitutes the central difference between rural credit markets in developing countries and credit markets elsewhere (Besley 1994: 32-33)."

The often high prices people will pay to be free of the social pressures linked to debt reveals an important tension. Guerin (2014) argues that among Dalit women in particular, microfinance is valued because it allows them borrow free from the most socially degrading forms of village debt. Ruthven, similarly, highlights how moneylenders may be preferred because the debts incur no wider social obligations on the part of the borrower…which "makes them attractive to those who require discretion, who don't wish to strain social relation or financial concerns, or have no relations to lean on (Ruthven 2001:19)."

"When I go to the moneylender, it's between him and me. I give my relative no reason to talk." (quoted in Ruthven 2001: 19)

2.4 INFORMAL CREDIT CONTRACTS IN INCOMPLETE MARKETS: EVALUATING EFFICIENCY

A wide literature has examined contracting models in low income environments to explain the persistence of a large variety of seemingly inefficient, or second-best contracts (Stiglitz 1998, Banerjee 2003)Stiglitz's (1974) paper on "Incentives and Risk Sharing in Sharecropping," which showed how seemingly inefficient sharecropping contracts could dominate apparently superior fixed-rate tenancy contracts, has shaped a great deal of the literature on how moral hazard shapes the structure of labor, credit, and insurance contracts.

More recently the group lending joint-liability model has been examined for the way it in which evolved from traditional lending associations, and how it utilizes the institutional and socio-cultural features of rural villages[12] to provide credit efficiently. In a group lending model, assortative matching (where good types match with good, and bad types with bad) is used to mitigate the problems of adverse selection and moral hazard, making it possible for the bank to charge differential effective interest rates[13] even though the bank offers exactly the same contract to all borrowers (Armendariz &Morduch 2005). Research into the contract design of modern informal credit products can similarly reveal insights into mechanisms which make contracts self-enforcing, and expose challenges and opportunities for commercial lenders seeking to expand lending to previously underserved customers.

2.5 USING CONTRACTS TO EXAMINE INFORMAL CREDIT PRODUCTS

A common challenge in empirically examining informal finance has been the diversity of products and lenders: the lack of consistency among terms and prices makes it difficult to compare the relative efficiency or value of different financial contracts.[14] A flexible, standardized contract framework is one way to identify the constraints and innovations in the standard model. It also allows one to compare and frame contracts in a continuum on the landscape, to identify where they might compete or substitute over their formal sector counterparts, and to identify which features are economic and non-economic (or where there is no clear trade-off). Adams (1994) suggests using a financial contract approach to examine informal finance, based on the key stipulations of financial contracts: "the amount of loan, the term of the loan, how and when the loan is to be repaid, the interest payment involved, loan guarantees or collateral requirements, how loan transaction costs are shared, other explicit linked arrangements, and additional implied arrangements that are linked to the loan (Adams 1994: 2)." Because the majority of informal loans are not recorded in writing, collecting data on this framework requires special methods to uncover the true nature of the lending contract, but holds the promise of potential insights on the economic and non-economic trade-offs and the relationships between informal products and their formal counterparts.

[12] Rural villages tend to be small and the poor relatively immobile (meaning communities have a great deal of information about their members); kin-based communities are able to impose social sanctions; all borrowers are required to be jointly liable for each other's borrowing; there is intensive monitoring and regular meetings; combined with the promise of repeated loans for responsible borrowers (as a group).

[13] This occurs because "risky" borrowers repay for their defaulting peers more often than their safe peers, otherwise they will be denied future access to credit; therefore, "safe" types pay lower effective interest rates than risky types.

[14] Colloquially known as the "apples vs. oranges" problem.

3. METHODS & ANALYSIS

I utilize a contract framework and mixed-methods design to conduct comparative analysis of a range of informal credit products offered by diverse lenders in rural and urban settings. The individual credit contract served as the unit of analysis. The core survey instrument is a structured template which collates qualitative descriptions and quantitative detail from key informants (both lenders and borrowers). The core instrument is structured around the key stipulations in financial contracts (Adams 1994).

The depth of the survey required a narrow geographical focus. Tamil Nadu was purposively selected[15] as an information-rich site.[16] The rich literature on informal credit practices in Tamil Nadu was a helpful guide to some of the traditional practices. The sub-regions of Chennai and two sample villages were selected due to my familiarity with the local socioeconomic context and access to respondents, due to previous field experience in the areas conducting quantitative and qualitative work on access to finance.

Data collection followed an iterative process, starting with standard thandal loans in centrally located markets. To identify new products, I probed the limits of the existing informal credit contracts with respondents, which typically led to identification of product alternatives.[17] Additionally, in Chennai, since many of the informal credit products are publicly advertised[18] in Tamil-language newspapers, an experienced investigator (posing as a potential borrower) collected many of the preliminary contract details via phone and in-person conversations with the lenders. Sources of information on the loan contracts included individual borrowers, lenders, and other knowledgeable informants. In identifying contracts or products, my qualitative research design incorporated an ongoing sample selection process, sometimes referred to as theoretical sampling, in which “the analyst jointly collects, codes, and analyzes his data and decides what data to collect next, and where to find them in order to develop a working theory as it emerges (Glaser Strauss, 1967: 45).” Sampling for individual products was determined to be

[15] Patton (2002) argues that the “logic and power of purposeful sampling lies in selecting information rich cases for study in depth. Information rich are those from which one can learn a great deal about issues of central importance to the purpose of the inquiry (p.230).”

[16] Tamil Nadu is a South Indian state with a very high level of per capita income, and also one of the highest levels of household debt; it has very high levels of financial intermediation and a diversity of semi-formal providers (pawnbrokers, MFIs, chit funds); it has a high degree of rural-urban migration (daily, weekly, and seasonal).

[17] For example, once the maximum loan size for a 10-week loan was identified, I would prompt for where a person could go, or do, if she needed to borrower a much larger amount, or for a much longer period.

[18] The phenomena of urban newspaper advertisements by private, unregulated moneylenders in India has been discussed by many researchers, most notably in Das Gupta et al (1989).

complete when the redundancy criteria[19] was reached: that is, there was little variation among new products 'discovered,' or products were so rare or specialized that verifying details would have required taking an individual loan from a moneylender.

After constructing the data into a contract framework of approximately 20 unique informal credit products, preliminary analysis of the constructed dataset, revealed unexpected contract features, themes and trends which necessitated additional data collection and analysis to complete the contract framework. I conducted five focus group discussions with borrowers in the original rural and urban product sites to collect information on the choices, circumstances, decision-making, and sanctions and enforcement surrounding the portfolio of informal credit products. These focus groups confirmed and corrected data, helped to merge products, and helped to more clearly focus attention on the relative trade-offs involved in various loan features. The group discussions were invaluable in understanding the comparison to formal finance alternatives, and the perspective of borrower's on the relative advantages and disadvantages of informal credit and its features relative to its formal sector counterparts. Group discussions were structured; the moderator prompted for the specific products collected in 2013, asked for comparative analysis. Focus group discussions were fully transcribed and translated; a list of basic group characteristics is provided in the paper Appendix.

[19] In purposive sampling, "the size of sample is determined by informational considerations. Is the purpose is to maximize information, the sampling is terminated when no new information is forthcoming from the sampled units; thus *redundancy* is the primary criterion (Lincoln & Guba 1985:292)."

4. RESULTS

The set of twenty distinct loan contracts, four broad classifications emerged. The "Traditional" category of products display features most common to those in highly segmented informal markets, in which loans are characterized by pre-existing relationships between borrowers and lenders, and loan sizes as well as interest rate are determined by the borrower's asset position and repayment history. In the "High Collateral" category, these loans are differentiated by the way they use assets and social networks—in what may be in excess of the loan value—to enable loan contracting. "Enterprise Loans" are characterized by lender specialization in particular market areas, or in particular asset classes, and the "Liquidity Generating" loans are extremely short-term, high-interest loans which provide cash on demand.

4.1 TRADITIONAL PRODUCTS

1. 10-week rural (thandal)
2. 40-week rural (thandal)
3. 100-day rural (thandal)
4. Daily interest- daily vatti or (kanthu vatti)-urban
5. Monthly interest-urban
6. Workplace loans-urban

The first category of contracts, which display the most traditional contract features, nevertheless reveal the wide range of possibilities in informal loan contracting. For example, some lenders mitigate risk by requiring loan guarantors, others perform appraisal borrower repayment capacity before offering a loan. Individuals may borrow for as little as 24 hours [See loan 4 in the appendix], or as long as one year [5], funds are collected on a daily, weekly, or monthly basis. Some loans deduct the full value of interest in advance, while others allow for repayment of interest over time. Most of the loans in this category require equal monthly installments [1-3, 6], but some allow for periodic interest payments, followed by a lump sum prepayment of principal [4, 5]. They are offered in rural settings, urban markets, or to salaried professionals in offices.

Despite the extraordinary range of variety within the contract specifications, these traditional contracts share the common features highlighted by Binswanger (1985) in segmented markets, where the loans are essentially distinguished by the nature of the lender's relationship to the borrower, his asset position and repayment history (which determine the interest rate) and the loan use (which determines the terms of the loan). Most contracts of this type rely heavily on pre-existing lender relationships and informal network connections, which provide an informational advantage to the lender. Some lenders only take borrowers who have been recommended by an existing customer, and first-time borrowers often require a third-party guarantor. Lenders may require quasi-legal documentation such as promissory notes or land title, but the value of such documents appears to serve only to strengthen repayment incentives, not as a rate of return substitute.[20] In all cases, the repayment frequency of the loan is tailored to the specific cash flows of the borrower. Salaried employees in urban areas with monthly cash flows receive loans [5, 6] with monthly payment schedules, so that repayment aligns itself with the payday of those employees. Small scale vendors or daily wage earners tend to repay loans weekly [1, 2], while businesses repay interest daily [3] and principal whenever they choose. [21] In a focus group conducted among lower group borrowers in Chennai, one respondent discusses a high-interest, daily loan as follows:

> *Respondent 1 "And another loan is there called day vatti. For 1000, Rs.30 per day…it is given to known people with a tenure of one week, ten days. Even we can fix it as one month tenure."*
> *Moderator: What is the purpose of the loan?*
> *Respondent 1: "Suppose if we want to redeem the jewels to attend a function we may avail this loan and redeem the jewelry and within a week we may again re-pledge it."*

As it is expensive to undo poor underwriting decisions, and coercion can be costly, it may appear that moneylenders perform extensive appraisal to screen out bad lending risks. This would follow the traditional model which includes high costs of enforcement, such as going through the hassle of seizing land property. Lenders engage in some accommodative repayment practices, such as a short relaxation period where the fee for a late payment is minimal. If borrowers are unable to repay their obligations for temporary difficulty, lenders often encourage them to roll over their loans, and the outstanding balance from the previous loan is simply deducted from the new principal given to the borrower. Yet in these products, the entire loan socialization process gives the lender more levers and ability to coerce repayment with little direct cost. More levers implies more opacity and more power to the lender. Focus group discussants referred to "mental torture," techniques of which were sometimes culturally specific

[20] Substitute photocopy of land patta or title proves permanent ties to the village, and accordingly, ability to collect on family members after migration.

[21] As Guerin et al (2009-7) note, when lenders demand only regular interest payments but retain rights over the principal, the term "rent" is more fitting than interest in this kind of financial relationship…what matters is that the balance is periodically paid off (p.19)."

involving stigma and shame, but other times were comparable to fairly recent collection practices in Europe and the US (Rock 1973, Adler&Wozniak 1980, Sutton 1991).

A sample of comments from focus groups includes:

[Rural focus group of middle income borrowers]

Respondent 3: If a person is a defaulter, the lender will go to their neighbor, friend, or relative and complain about that. The borrower may try to avoid further insulting and make the payment.

Respondent 4: "Because they were born and brought up in the same village. They are known to each other and their behavior. So, they wouldn't be willing to take risk.

[Urban focus group of middle income borrowers]

Respondent 3: "he may fear that his reputation and goodwill gets spoiled among his relatives and friends."

Respondent 2-They will take away the durables from their house.

Respondent 3-Even they will snatch our ATM cards too. Otherwise they will say that 'give me the card, let me draw the money and give you the balance.

4.2 HIGH COLLATERAL PRODUCTS

7. Gold loan, private-rural
8. 2-wheeler loan –urban
9. Mortgage land-building-urban
10. Mortgage shares/bonds-urban
11. Pension loan – urban
12. Railway porter – urban

The second group of contracts are characterized by both high collateral and range of collateral accepted. Many of the most prominent models in the literature on credit contracting in low-income environments assume that the borrower's liability is limited to the value of collateral, and moreover, the collateral pledged is less the amount necessary to fully secure the loan (Stiglitz &Weiss 1981). Yet there is a wide range of contemporary informal contracts in this grouping where I argue that the total cost of default, defined by the value of collateral and other repayment incentives, is set more than enough to induce repayment. Where theory would also predicts that lack of risk and full collateralization would be compensated by reduced interest rates, we often see persistence of very high interest rates in these set of contracts. Some of these loans are publicly advertised; asset value determines the value of the loan more than lender assessment of repayment capacity. The majority require appropriable collateral in excess of the loan value; one relies on social collateral/occupational networks.

In villages where formal banking options are limited, wealthy households often accept jewels as collateral for private jewel loans [7]. In 2015, formal banks capped loan principal at 60% Loan-to-Value (LTV), but these informal loans are offered at up to 80% LTV. The use of collateral is ideal for occasional lenders who, unlike professional moneylenders, cannot invest the time to screen or monitor borrowers. These loans are also well suited for impoverished households who do not own property and, therefore, cannot use land documents as collateral or collateral substitutes.

Focus group comments, from an urban group of low-income borrowers, on the benefits of informal pawn brokers in Chennai:

> *Respondent 2-"We mainly pledge to Saits (marwadis) only.*
>
> *Respondent- 1. They are helping us for emergency needs.*
>
> *Respondent-2. Bank people have the fixed rates per gram. Whereas, if we ask the Sait for something more, i.e., if we ask for 5000 extra, he may oblige to give."*

In urban areas, persons may take out loans on motorcycles [8]—essentially, a pawn or pledge. As in rural with gold, the value of the asset determines the loan size, and appraisal focuses on ownership of item and value of item.[22]. Borrowers pledge their motorcycles for a cash loan worth 1/3 of the resale value of the vehicle. Lenders charge interest of around 10% per month, with the first payment deducted from the principal. Repayment of interest is flexible: borrowers are not charged late fees for missed payments. Instead, the bike simply sold if the borrower does not pay for four months. Details provided in focus groups note that these contracts are also available for cars:

> *Respondent 1- We can also pledge our cars and get the loan. Lenders are giving loans against vehicles in our ____area. Not title pledging. You pledge the vehicle itself to them…you have to leave the car with them. If you urgently require money you leave the care with them. If the car is worth 10 lakhs worth of value they will give 3 lakhs by cash. They charge very high interest for that.*
>
> *Respondent 2-"just like "speed vatti" (10percent per month).*

[22] Borrowers must present basic documentation such as a ration card, a gas bill and passport sized photos.

Respondent.1-They have separate warehouse in ________ exclusively for this. The dump the cars in that warehouse.

Respondent 3-it's in my area too. It's there in all areas.

Smart loans for Smart Phones?

Respondent 4-They (informal pawn brokers) are giving loans for mobile phones also madam

Respondent 1-You remove your sim card and give the phone to them. They will give 50% of the value of the mobile phone. If it was to the worth of 10,000, and if you ask for 5000, they will give.

Moderator: how much interest do they charge for that?

Respondent 1- 2.5% to 3% per month.

Some potential borrowers in urban areas may not be able to pledge their assets. As a result, a variety of creative collateral options has arisen. Like the bike loan [8] above, many of these products are publically advertised in newspapers. Three collateralized loans are discussed below to illustrate the range of available financial products. First, some lenders in Chennai offer "mortgage" loans [9] on homes or land. According to respondents, while both formal and informal lenders require primary documents such as a land patta, sale deed, and encumbrance certificate[23], formal lenders require additional documentation such as land *chittas* and "no objection" certificates. Given the friction of obtaining such documents, informal finance presents an attractive alternative. Moreover, formal financing operations will only grant loans on developed properties. Informal lenders, who are more confident in their knowledge of the land and ability to value it, are willing to provide loans on vacant lots. This provides a meaningful source of alternative finance for persons seeking longer-term loans in higher amounts. A puzzle is the high LTV ratio of the collateral, combined with rather high levels of quasi-formal documentation and other repayment incentives. The transaction costs to lenders appear to be very low in terms of collection, with use of post-dated cheques for monthly payment. These appear to be borrowers with clear property rights, land title, and formal financial access. According to respondents in one urban focus group, the major advantage of informal is the simplified paperwork required by informal lenders as compared to banks:

Respondent 1-"In some of those banks bank officers were not up to date. Even they may not know up to that level what we know about the (land titling) system. ..If we are going to take a loan against some property normally we carry the sale deed document along with the parent

[23] This documents both the sale history of the property and any litigation regarding the property.

> *documents. But they may push us to run across to the Tahsildar office, VAO office and we may have to wait there, spending a lot of time.*
>
> *Respondent 2- If the parent document is more than 20 years old they may ask for pasali (chitta adangal). That document will show the land processing status year by year. However if we go to the VAO office they may push to the Tashildar office. If we go there it wouldn't be compiled and may not be traceable. They may have dumped all those documents in a corner like a garbage heap.*
>
> *Respondent 3-Actually, in 1986 they changed the system of revenue record systems and computerization again they conducted a survey….everything got changed.*
>
> *Respondent 2-These kind of legal opinions are familiar to the old experienced people only.*

Rural borrowers echo these sentiments:

> *We can also buy (land loan) from individual persons also (instead of the bank)…We have to write a promissory note agreement to that person….if it was a big amount, we have to give the collateral of assets. If we are trying to get the loan from the bank, they may ask for so many documents, need to visit the bank so many times, and it will take much time. So it will be better to buy the loan from the village itself, even though the rate of interest is higher."*

While gold, motorcycles, and land are tangible forms of collateral, lenders also offer loans "on" semi-liquid financial assets such as stocks, bonds, or insurance policies [10]. As is the case with the above loans [7, 8, 9], the providers of these loans require proof of ownership and identification[24] and post-dated cheques for repayment. With an LTV of 70%, deposit of original shares with lender, use of PDCs, and proof of residence with lender, these loans appear to be highly secure. An open question is to whether the process of keeping and surrendering the original stock papers is, like some of the other assets, simply to strengthen repayment incentives, given the hassle and time cost involved in share transfer in case of loan default.

Also advertised are "loans on pensions" [11] available to retired persons receiving government pensions. These loans can be taken with a principal as high as ten months stream of pension payments. Lenders confirm the borrower's residence, identity and income. The loan charges approximately 2.5% interest stated per month, with the full interest calculated across the term of the loan and deducted from the principal in advance. Repayment of the loan is done in equal monthly installments, in the form of post-

[24] This includes a copy of a voter ID and a copy of the borrowers ration card.

dated cheques, during which the lender retains control over the borrower's bank account into which the pension is deposited. A puzzle is why borrowers who have clear access to good terms of finance and a predictable income stream are unable to access liquidity from a formal market at more affordable rates.

Loans [8,9,10,11] above has much in common with their formal sector counter parts than with traditional loans, in that they are characterized by arms-length transaction. In the absence of a credit score, collateral requirements in formal financing require borrowers to bear a greater burden of their investment, and the collateral requirements on these informal loans mimics this approach. It appears that the informal market has served to fill a void in lending that has been created by high transaction costs and documentation requirements, slow processing times, unclear paperwork, and lack of a credit history.

Social collateral can also be a strong substitute for financial or physical collateral, and be a powerful way to access low cost finance for networked groups. In rural India, this is extensively studied in the context of SHG/JLG with women, and in urban areas, with chit funds. One contract illustrates how social collateral or social capital among poor, urban, sometimes migrant men bridges the gap [12]. This contract, used by members of an n occupational organization, an association of luggage porters, combine features of group finance and borrowing from caste and kin networks. Typical loans are 10,000 rupees but those who demonstrate a consistent capacity to repay their obligations may receive as many as 50,000 rupees. 5% is deducted up front and payments of both principal and interest must be made in equal daily installments. The social collateral amongst members of the association leads to higher levels of trust and, consequently, lower interest rates without substantial collateral requirements.

4.3 ENTERPRISE LENDING

13. 100-day business loan - urban (Thandal Bazaar)
14. 100-day business loan - urban (Thandal Metro Bazaar)
15. 10-week Business loan (SME) –urban
16. Autorickshaw loan-urban

The observed pattern of multiple lenders offering similar products in rural areas, appears in the markets and shopping malls of urban Chennai [13, 14]. These loans are eligible to vendors who have permanent shops or stands. This has multiple appraisal advantages for the lender. The lender knows the borrower is permanently attached to the location, the lender is familiar the borrower's volume/turn-over and business practices, and is able to gain reputational information. Most borrowers have long-standing relationships with their lenders and so no guarantor or documentation is needed[25]. These loans are advantageous because they require very little transaction costs investment on the part of the lender or borrowers. Borrowers have been pre-screened by lenders, and so money can be accessed within one business day, as lenders visit daily for payment and collection.[26]. Borrowers pay 10% and 20% interest[27] on a 100-day loan. Cash flow is the largest determinant of loan size, and coercion is highly tailored.

Discussants in an urban focus group of low-income borrowers discuss the operations of these loans:

> *Respondent 1-They prefer only shopkeepers.*
>
> *Respondents 2.3.4-Lenders are coming to the shopkeepers with loan offers.*
>
> *Respondent 5-See, I am running a service center. Thandal persons are coming to my shop in person and asking if I have a requirement of loans.*
>
> *Moderator: So nothing required but a referral?*
>
> *Respondent 1-Because (lenders) have a hold, you know. The person can't run away from that place, vacating his shop.*

Lenders may also move upmarket to more diverse businesses which are not co-located, which requires stronger appraisal of business collateral [15]. These loans, publicly advertised in Tamil language newspapers, may be as small as 2 lakh and as large as 25 lakh. The loans have a maturity of 100 days and interest rates on par with the smaller loans given in shopping malls [13, 14]. The relatively large size of these loans and the lack of an established relationship between the borrower and lender may explain the more substantial documentation and collateral observed than for loans [13, 14]. Borrowers must provide proof of address, documentation of business earnings and income, and property documents. Collateral—land or property title-- worth 3 times the value of the loan must be provided. The immediate advantage for borrowers over formal credit is not obvious. High interest rates would seem to indicate that the lender is assuming great risk, and yet, the borrowers appear to be successful businesspeople with substantial collateral. It is possible weak or non-existent credit history or lack of formal documentation may have kept these particular business borrowers out of the formal credit market, but more research is needed to understand why some borrowers in the business community relies on this

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[25] By contrast, first time borrowers may be required to sign a promissory note and designate a guarantor.

[26] In the shopping complexes of Chennai loans are between 10,000 and 50,000 rupees and in street level retail shops they are as large as 500,000 rupees.

[27] Interest on these loans is pre-deducted.

type of informal loan. The puzzle is that both size of loan and value of collateral would be predicted to be negatively correlated to the interest rate.

Focus on customized service and improved market knowledge has helped informal lenders expand the scope of their business lending into product lending [16]: just as formal bankers develop expertise in product markets such as housing, so too may informal lenders specialize in particular products. Many specialize in financing the purchase of auto rickshaws (16), providing same day loans. These loans are particularly helpful for those who wish to purchase used autos. In such cases, formal lending may be difficult to secure, whereas informal lenders are confident in the repayment capacity of their borrowers and in the resale value of purchased vehicles. For auto purchases, lenders collect background information on the borrower and confirm that they have been a resident of Chennai for at least 3 years. Lenders calculate the expected revenue streams of rickshaw drivers and then offer a loan between 50,000 and 150,000 rupees[28]. Lenders keep vehicle document papers such as insurance documents and road permits until the loan is fully repaid.

4.4 LIQUIDITY GENERATING PRODUCTS

17. Half-day loan–urban (Meter vatti)
18. 7-10 day loan -urban (Speed vatti)
19. Jewel refinance loan
20. Credit Card Loan

The final group of contracts highlighted in this paper is those used to provide credit in times of immediate need. These loans capitalize on the efficiency of informal finance to provide quick cash. The annualized interest rates on these loans is extremely high, but interest rates is one of the least interesting features. Borrowers are paying a one-time fee for a quick injection of capital. Contract approach useful across all loans; can compare all terms and features. Most difficult, always, is interest rate, especially on very short term loans. Use of qualitative data to see what loans are for (high MPC), and whether it's fee or rate. At extreme, quite simple a payment fee—where cost represents the marginal cost of cash. This section will highlight four short-term contracts.

The "meter vatti" [17] is a half-day loan; for late payments, these loans charge interest on an hourly basis, much like a fast-moving meter. Most individuals using these loans borrow money for a maximum of 12 hours, at an interest rate of up to 10 percent of principal. That interest rate may seem too high for

[28] Moneylenders prefer to give finance to existing rickshaw owners and repeat customers. For example, new borrowers cannot receive more than 130,000 rupees.

any return on capital. But there are a number of scenarios in which meter loans have proven quite popular. For example, short-term financing is crucial for merchants making spot payments on large shipments. In many cases, merchants will purchase goods early in the morning and finish their sales by noon. If they are short on cash, they are willing to pay the large interest rates to secure their daily profit. These types of loans are also common amongst wholesalers who have purchased goods and need to pay duties on their incoming shipments. Lenders are willing to offer loans equal to 50% of the value of the shipments to be cleared through customs. One urban borrower commented on the income generating potential of these loans: *"Loan instantly available to earn money."*

For retailer businessmen or wholesale traders, the inconsistency of daily cash flows may hinder the success of a business. If demand for a good has spiked, individuals may look to expand their inventories quickly, but may lack the resources to do so. The same thandal lenders who will provide 100-day loans are willing to provide "speed" loans [18] with 7-10 day maturities. The screening process follows the same pattern as other thandal loans. Smaller loans require stamp paper or a promissory note, while larger loans require some collateral such as the title to land, property, or vehicles. Lenders charge 10% of the principal as interest, pre-deducted. Principal is repaid at the end of the loan term in 7 or 10 days.

Urban focus group of middle-income borrowers note the advantages of high-cost contracts:

> *Respondent 1-We get the money on time for our requirements.*
>
> *Respondent 2-Even if you ask for money during the night, at 12 o'clock, they will give it.*
>
> *Respondent 3-Easy documentation, they take signature on the promissory note and release the loan.*

Short-term finance can also be arranged "around" an existing financial product—informal or informal. One contract is a derivative of the most traditional informal credit product, the jewel pawn. A "jewel redemption loan" [19] can be provided for individuals who have pawned their valuables and failed to make regular payments. This short-term contract allows borrowers to ideally reclaim some of the value of their gold. This contract is possible because bank lenders are only permitted (at the time of data collection) to give 60% of the total value of gold as the principal amount on a gold-collateralized loan. This means that the value of the gold may still be greater than the size of the outstanding loan, even after the borrower has accumulated a substantial amount of unpaid interest on the gold loan. Combined with rising gold prices and the sentimental nature of much gold that is pledged, this product is popular.

If a pawnbroker is about to sell a piece of jewelry where the value of that jewelry exceeds the size of the outstanding debt, another lender may step in to provide a jewel redemption loan. Once the second contract with a lender is taken up, the lender pays off the borrower's debt to the pawnbroker and reclaims the jewels. Once the new moneylender has paid off the pawnbroker and purchased the jewels, there are two possible scenarios: In most cases, the moneylender will sell the jewels immediately.

Our second informal loan of this type, the "credit card loan," [20] takes advantage of the world's most modern consumer credit innovation: the personal credit card. It's worth briefly reviewing how traditional credit cards operate. The basic business of any credit card company centers on the provision of short-term credit to individuals pre-approved for borrowing. Ideally, credit card companies make an assessment about the creditworthiness of their customers and are rarely if at all, consumed with goods purchased by consumers. In practice, however, most goods in India cannot be purchased directly with credit cards. Some card companies let customers use their cards to withdraw cash against their pre-approved borrowing limit, but (1) cash withdrawal limits are a fraction of the total spending limits on a credit line, and (2) unlike goods purchased on a credit cards, which do not attract interest until after their billing cycle is complete, credit cards charging interest from the date of the cash withdrawal. These inconsistencies between an open line of credit, need for cash to make day-to-day purchases, an unutilized line of credit, and the inability to use that line of credit to make needed purchases, has created an opportunity for arbitrage.

Lenders have started to provide cash "loans" to persons with credit cards. For a 2-5% up-front commission of the amount withdrawn, shopkeepers will charge a "purchase" on a borrower's credit card, and pay the borrower directly in cash. This practice makes it possible for customers to access, in cash, the full line of credit, for up to 30 days at a rate as low as 2%.[29]. Shopkeepers or other merchants with access to a credit card terminal receive the fee from the "borrower" and are reimbursed quickly by the credit card company. At that point, the credit card company once again occupies the role of the lender and bears the credit risk.

A discussion in an urban focus group among middle income borrowers:

> *Respondent 2- [Credit card advance] used to be unofficial*
>
> *Respondent 3-Now-a-days it has become official.*
>
> *Respondent 2-Supposed if I was not using my purchase credit limit…I am going to tell [an air-conditioner dealer] that I need some cash. That A/C cost might be Rs.25, 000. I want to swipe my*

[29] After the 30 days, customers pay traditional interests on their credit cards.

credit card. If I swipe my credit card the AC cost will be charged to my credit limit. He will take the 2% commission and give me the balance amount by cash. My card will show that I have purchased an AC. And I can enjoy 45 days credit.

Respondent 3-"There are some shops in Chennai I know. Even if it's a fancy story which has a credit card machine, I can go there and if I need 20,000 rupees, I give my ID proof and swipe my credit card for that purchase value. They will take the 3% commission and give me the balance amount in cash right away. These are the "cash points" in Chennai." (FGD2, p.25)

Respondent 4-Basically it is unofficial. But people are doing. [….]

Respondent 2-I know a person. He is acting as a mobile cash point. He carries a card processing machine (POS) with him. He regularly carry cash as well as the machine. And people used to know him. Say I give my card, and he will swipe it and give me the cash. However he charges 3% as his commission for the "mobile" servicing.

The use of credit card financing to provide cash loans is just one of the ways that the infrastructure of formal finance may provide support for informal loans. These types of loans signal that the formal market has failed to meet the liquidity needs of its customers through its current product offerings. In this case, the credit card companies lose out on a potential 2-5% commission, yet are still left to collect payments from their customers. With some added flexibility by credit card companies, these types of short-term financing could potentially be incorporated into existing product lines of retail banks.

5. IMPLICATIONS

5.1 FORMAL AND INFORMAL LINKAGES

The informal and formal markets appear closely linked, and cross-over features of formal finance are appearing in even the most traditional informal products. Post-dated cheques are no longer simply to threaten legal action in case of default, but to reduce transaction costs of collections. Customers with access to formal payments products thus are able to access informal products on better terms—it's possible that this trend would accelerate with mobile and online payments. In the case of the informal rural gold loan, if a borrower wants a loan greater than a certain size, he or she must wait until the following day—to give the lender time to visit the nearest ATM and withdraw cash. Interestingly, as much of the collateral offered is typically used to strengthen repayment incentives, it is questionable whether or not the formalization of titles itself will increase effective access. For example, digitization of land title, intended as a tool for inclusion and to increase formal access and transparency, has created returns on information for informal providers. Many of these borrowers could have been profitably served by banks, but informal lenders have learned to tailor their products and capture this market more quickly.

5.2 TECHNOLOGY OF LENDING, OR TECHNOLOGY OF SHAMING?

Discussions with borrowers reveal widespread use of small acts of coercion to "strengthen" repayment. Lenders appear to collect a great degree of information on borrower through a form of "collateral diversification," which gives them tremendous power and leverage in exacting punishment and coercion at relatively small costs at early signs of delinquency. Moreover, the knowledge that the lender has the ability to inflict these punishments is itself enough of a repayment incentive in many cases. These acts of "pure punishment" by lenders—i.e., those in which the lender gains nothing, and are designed simply to punish the borrower and induce a change in behavior---are both the most effective and the *least* respected feature of informal finance, according to detailed discussions with borrowers. Any formal lender should tread with caution and carefully examine the specific mechanisms by which both high interest rates and low levels of default are consistently maintained if attempting to mimic existing informal products. One of the consistently valued features of any financial provider—formal or *informal*—is the ability for a borrower to conduct financial services with more dignity and privacy that the next best alternative.

5.3 COST OF CREDIT, COST OF CAPITAL, OR COST OF CURRENCY?

The standard models of credit assume that the price of credit represents the cost of investment, or alternatively, the cost of funds to the lender. Yet many of the very short-term, high-cost loans question at least one of those assumptions. At the extreme, the credit card "loan" examined in this study, in which a merchant charges a fee of 3-5% for "cashing out" an unused credit card balance, suggests that the price of credit is actually the cost of holding paper currency. If so, this suggests that rapid policy initiatives to push digital payments, which dis-incentivize the use of cash and restrict cash availability, will only drive up the price for the lowest-income users (who depend most on cash for small business transactions. [30] Bankers working in Kenya, which has a high level of mobile money penetration, may have reached this conclusion. As one financial services expert recently noted about the innovation challenge in Kenya: *"Our competition is not other banks. Our competition is informal, in cash ... we have to look at the way people handle cash, move it around. Seventy percent of the money in a Kenyan village moves within a kilometer ... you can't move that on mobile money."* [31]

[30] Sarang, 2014.
[31] Mastercard Symposium, Stephen Peachey of the World Savings and Retail Banking Institute (WSBI) (p.5)

6. CONCLUDING REMARKS

Informal credit and moneylending products have rarely been examined by the retail banking sector as they are closely tied with misperceptions of underdevelopment. Yet, informal credit contracts adapt, mimic, and "shadow" innovations in the formal credit market by closely watching formal products—in fact, finding unexpected and creative ways to "re-appropriate" retail and consumer credit products, profiting from arbitrage opportunities which could easily be captured by the retail banks. As such, informal practices are worth examining as low-cost product innovations with valuable insights into design. In addition, the findings in this study clearly show that informal finance is not limited to those who lack access to formal credit; many formal credit products, as they are currently offered, may not be the preferred option for many borrowers. Moreover, by complementing formal credit and relaxing credit constraints, informal finance may be supplying just-in-time liquidity for productive investment and supplementing working capital for otherwise formally financed enterprises.

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APPENDIX A: TEMPLATE FOR DATA COLLECTION

THEMES AND KEY COMPONENTS	NOTES
Data collection Location, respondents, dates, how contacted	
Clients How does the lender decide whether or not to give the loan (does he only gives to people known to him?) On a referral basis? Consider: • assets, • Occupation, • repayment capacity/earnings Who typically takes this loan (occupation, age, gender) - What makes a good client for lender? Typical reasons for borrowing (get information from borrowers, also okay from lenders) Advantages over formal finance alternatives—why don't they get the money from banks?	Borrower profile: • Who typically takes the loan (occupation, gender): What's a "good client" for lender? Reasons for borrowing: • Households: • Business owners:
Loan size Max loan size Min. loan size Typical loan size	
Term of loan • Is contract close-ended (fixed term?) • Typical loan duration (days). • State grace period, if any.	
Loan type and mode of repayment Specifications about what form and when loan payments are to be made (ex: cash/cheque/in-kind, daily or weekly,etc) Repaid in cash, product, and service/labor? Is loan linked to sale or purchase of inputs, products, consumption goods: (For example, if this was a loan given by local seed supplier to allow farmer to buy seeds, then the loan was linked to the sale of particular product. Moneylender is also his seed supplier).	Form of payment: Frequency of payment: Location of payment: Documentation of repayment: (does the lender keep a receipt, or does the borrower keep a record of the loan repayment too)?
Interest rates (probe) Simple or compound interest? Interest payments discounted in advance? (Note: either one or all interest payments may be deducted in advance). Add-on interest? Equal payments pegged to initial loan value (specify total loan, payment, and tenure) Any other charges/fees/payment? (include documentation fees, photocopy fees)	Note: simple cash flow on standard loan is helpful here: How much does borrower get in hand when taking loan, how much does he/she pay each time as repayment until the loan is closed.
Collateral • Guarantee (3rd party) requirements?	Note: lender may require some, none,

• Collateral requirements (ex: documents like promissory notes, gold, other assets, down payment, etc.)	or all of these.
Enforcement /sanctions *(mention triggers for different sanctions)* • Adjust contract stipulations to offset cost (i.e., increased interest rate) • Seize assets/collateral (physical force to access collateral) • Pay fine/fee • Other methods Probe for the different ways lenders get borrowers to repay/ enforcement mechanisms: • "relaxation periods"/ "grace periods", • small punitive fees for late payments, • offering new loans, and • ways lender works with delinquent borrowers before moving on to more harsh sanctions, such as visiting borrower's home to force repayment, asking the guarantor to make repayment, or seizing household assets.	

APPENDIX B: LOAN PRODUCTS AND FEATURES

#1. Thandal,10-Week (Rural)

	Contract features	Details
1	Location and specialization	Rural. Offered by at least six lenders in the same village, offering 10-week, 40-week, 100 day personal & business loans.
2	Lender screening and Typical borrower profile	For new borrowers: • Assets/residence: Lenders prefer persons with home and land. New borrowers without title require guarantee from existing borrower. • Income source: Regular wage employment or own-business owner. • Repayment capacity: lenders ask details of income and earnings for other family members, and existing loan commitments. Typical borrower profile: • Skilled labourers (masons, brick layers, painters, welders on regular wages); or self-employed (petty shop). • Household loan use: temporary unemployment, hospitalization, personal difficulties • Business loan use: running capital, purchase of goods, manage temporary loss • Stated advantages: same-day availability; no documentation; little to no collateral
3	Loan size	Typical: 10,000 [Min: 2,000 Max: 1,00,000] Individual loan max is 10,000. For business loans, max is 1, 00,000.
4	Term	10 weeks. Fixed-term.
5	Repayment	Cash. Weekly repayment, in-person at borrower's home or business. Lenders enter cash receipt in small booklet.
6	Interest and other fees	Typical: 25% of principal. Amortized. Repaid in equal instalments of principal and interest. Other fees: 3-5% "processing fee" deducted from principal.
	Example	Borrow principal of Rs.10, 000. Pay Rs.500 processing fee. Repay Rs.1250 weekly for 10 weeks. [Total payout=12,500 on cash-in-hand of 9,500.]
7	Collateral	Guarantor: Required for persons without house or title, and new borrowers. Collateral: None required. Lenders may photocopy land title as proof of residence.
8	Enforcement Grace period Warning Rollover/new credit Fines Denial of credit Asset seizure Guarantor Other	Grace period: 2 weeks "relaxation" period given for delinquency after 10 week fixed term. Warnings: If delay, lender visits borrower's home/business for warning/reminder. Roll-over/new-credit: lenders who want to avoid default for borrower distress can extend a fresh loan; missed payments and fees are deducted from new loan. Fines: 1000 Rs. for each week after two-week relaxation period. For example, the 10th-week's repayment, delayed until the 14th week, would be 1450. Denial of credit: Denial of credit to delinquent or defaulting borrowers. Asset seizure: After 2 visits (warning), may seize movable household or business assets. Guarantee: After two warnings, may demand repayment from guarantor.
9	Notes	• Respondents: borrowers and lenders • Lenders prefer to give loan to woman in household even if loan for family or business expense. • Default/harsh enforcement cited as rare because of extensive use of loan rollover/extension of new credit.

#2. Thandal, 40 week, Rural

	Contract features	Details
1	Location and specialization	Rural. Offered by at least six lenders in the same village, offering 10-week, 40-week, 100 day personal & business loans.
2	Lender screening and Typical borrower profile	New borrowers: • Assets/residence: Own house and land with title. • Income: Own enterprise, petty enterprise with collateral, or regular wage earner with personal guarantor Typical borrowers: • Small enterprises (provision stores, dairy farms, power loom weavers); petty enterprises (poultry farmers) Reasons: working capital, purchase of inputs, handling temporary loss of business Advantages: easy documentation; available within 48 hours
3	Loan size	Typical: 10,000 [Min: 10,000 Max: 40,000]
4	Term	40 weeks. Fixed term.
5	Repayment	Cash. Weekly (on Sunday), in-person collection from borrower residence.
6	Interest and other fees	20% of principal, pre-deducted. Amortized. Principal repaid in equal instalments across loan tenure. Other fees: 3-5% “processing fee,” pre-deducted.
	Example	Borrow principal of Rs.10, 000. Receive 7,500 in-hand, after deducting 2,000 (20%) interest and 500 (5%) processing fee. Repay Rs 250 weekly for 40 weeks. Total payout=10,000 on cash-in-hand of 7500.
7	Collateral	Guarantor: Required for new customers or those without own house/land. Collateral: Promissory note with signature on revenue stamp with one witness. This note states the borrower’s commitment to repay the principal on or before the agreed date.
8	Enforcement	Grace period: 2 weeks Warning: Roll-over/new credit: Borrower may request/lender may offer new loan to avoid full default. Fines and balance are adjusted from new loan. Fines: If not repaid within 42 weeks, additional interest of 5% per week levied on remaining principal until closure of the loan. Denial of credit: Asset seizure: if not repaid within 50 weeks, lender may seize assets such as vehicles, property. Guarantor: Other:
9	Notes	

#3. Thandal,100 day, Rural

	Contract features	Details
1	Location and specialization	Rural. Offered by lenders in village who also offer shorter term weekly loans and daily loans.
2	Lender screening and Typical borrower profile	New borrowers: • Assets/residence: Persons living in the villages • Income: Regular income from enterprise or skilled wage labour • Repayment assessment: Lender prefer borrowers who have seizeable/movable assets Typical borrowers • Petty shops, provision stores, dairy farms, van-lorry drivers, fabrication workers, masons, welders • Reasons: running capital, purchase of inputs, manage temporary loss; personal emergencies like hospitalization in family • Stated advantages: available in 48 hours; easy documentation
3	Loan size	Typical: 20,000 [Min: 10,000 Max: 50,000]
4	Term	100 days, fixed term.
5	Repayment	Cash. Daily, in-person at borrowers home or business.
6	Interest and other fees	10% on principal, pre-deducted. Amortized. Principal repaid in equal instalments across loan tenure. Other fees: 3-4% “documentation”
	Example	Loan principal of 20,000 – 2,000 interest -600 documentation= 17,400 “in hand.” Principal repaid in equal instalments of Rs.200 for 100 days. Total pay-out of Rs.20, 000 on cash-in-hand of Rs.17, 400.
7	Collateral	Guarantor: “Introducer” required for new borrower. Collateral: Promissory note with signature on revenue stamp stating total principal and due date.
8	Enforcement	Grace: Up to 10 days “relaxation period” at end of loan/100 day fixed term; no charges for few missed payments. Warning: If delay beyond 10 days, lender will warn of denial of future credit. Rollover/new credit: Lender may extend new loan to prevent default; outstanding balance of previous loan deducted from new loan. Fines: If not repaid within 10 days of 100 day fixed period, 10% charged on outstanding balance. ; Denial of credit: Will not extend credit to default borrowers. Asset seizure: If delay beyond grace period, lender may seize assets; including shop possessions and consumer durables. Guarantee: Lender may contact guarantor for repayment.
9	Notes	

#4. Daily Vatti Urban

	Contract features	**Details**
1	Location and specialization	Urban, markets of Chennai where vendors have daily cash businesses.
2	Lender screening and Typical borrower profile	New borrowers: • Assets: Lenders prefer borrowers who have some visible assets—vehicles, jewellery, a permanent shop—which can be seized in case of delinquency or default. Lenders specialize in areas and typically familiar with borrower from market. • Income: Based on experience with similar borrowers, lender approximates daily revenue and profit. Example given by lender: if lender knows that shop does Rs.2, 000 per day of business, with a profit margin of 20% (Rs.400), lender estimates that borrower can afford a daily repayment of Rs.100 • Repayment: Evaluates reputation from other vendors. Typical borrower: • Male, fish vendors, vegetable shops, and petty shops. • Reasons for borrowing: Urgent business needs; occasionally personal emergency. • Stated advantages: Quickly available, ability to repay principal quickly (not fixed term). Borrowers feel they can turn around principal quickly and settle the loan, and managing small payments of interest is convenient.
3	Loan size	Typical: 2,000 [Min: 1,000 Max: 10,000]
4	Term	Typical: 15 days [Min 1 day; Max 30 days].
5	Repayment	Cash. Daily repayment of interest, in-person collection at borrower's business by lender or agent. Documentation: lender writes cash entry in small book
6	Interest and other fees	3% of principal, per day. Non-amortized. Principal repaid to close the loan.
	Example	Principal of Rs.2, 000 taken on day 1. Borrower pays Rs.60 (3%) on day 2, Rs.60 on day 3, and Rs.2, 060 on day 4 to close the loan.
7	Collateral	Guarantor: Required for new borrowers. Collateral: For new borrowers, a promissory note with signature on revenue stamp is required. For regular clients where the loan amount i< Rs.2, 000, no collateral required.
8	Enforcement	Grace: On weekly/monthly holidays when shop closed, lender collects the following day, for up to 3-4 days. Lender may extend a grace period of 3 days based on "mutual understanding" or agreement. Warning: If loan is not repaid within grace period of within the extended time granted, it will be considered as default. Rollover/new credit: not mentioned. Denial of credit: If in default, the lender will give no further loans to the client. Asset seizure: Lender will seize assets (motorcycle, small business assets) and threaten resale; if repayment not made, will sell assets. Lender may disrupt/disturb the borrower's place of business. Lender and agents will visit the borrower's sales counter or shop and use "harsh language," "creating a scene." Public embarrassment and stigma among peers and customers "spoils the good will" of the borrower, creating business risk; the borrower typically settles the loan quickly (whether by sale of assets, or borrowing from another source) quickly. Other: If lender believes the borrower is engaging in strategic default, may use physical force and violence, including abduction to bring the borrower to the lender's office.
9	Notes	Canvassed in 3 markets of Chennai; interviewed borrowers and lenders.

#5. Monthly Interest, Urban

	Contract features	Details
1	Location and specialization	Urban. Lenders typically give loans to people in their neighborhood and surrounding areas where they have political connections, relatives, and friends.
2	Lender screening and Typical borrower profile	New borrowers: • Assets/residence: First time borrower typically approaches lender through a friend, relative, or mediator; lender typically knows borrower residence • Income and repayment. For wage earners, lenders request payslips or income proof from household members; for business owners, lenders will visit the enterprise and residence to assess the type of business, no. of employees, customers, and earnings. Typical borrower: • Landlords, taxi-owners, building contractors, persons on monthly salary, other urban business persons. • Reasons for borrowing: Repair of buildings and vehicles, purchase of goods and materials; occasionally emergency needs. • Stated advantages:
3	Loan size	Typical: 50,000 [Min: 50,000 Max: 3,00,000]
4	Term	Typical: 6 months [Min: 1 month, Max: 12 months] Flexible, but tenure agreed in advance.
5	Repayment	Cash, personal cheque, or post-dated cheque. Monthly.
6	Interest and other fees	5% on principal, paid monthly [Range: 5-10%]. Non-amortized. Principal paid as lump-sum to close the loan. Other: 3% processing fee on principal, paid in advance.
	Example	Principal loan amount of Rs.50, 000 – Rs.1, 500 processing fee. Borrower repays Rs.2, 500 (5% of principal) per month as interest, and settles the loan with a final payment of Rs.52, 500 in month 6.
7	Collateral	Guarantor: Required for new borrowers or persons lacking appropriable/movable assets (cars, consumer durables). Collateral: Up to 50,000, borrower has to sign blank stamp paper and place thumb print, or sign a promissory note which indicates principal amount owned. For loans > Rs.50, 000, borrower also has to provide house or property title.
8	Enforcement	Grace: 1-2 days grace period/delay allowed on monthly payments. A grace period of up to 10 days may be given on repayment of principal if agreed. Warning: Given if grace period of 1-2 days missed. Roll-over/new credit: Partial payments of initial loan amount not accepted; if borrower wants to settle 50% of the loan amount; lender may issue him another loan. Fines: Unpaid interest is compounded into the next month. Lenders strongly discourage late payments, despite additional fees. Denial of credit: Not mentioned. Asset seizure: Liquid assets and consumer durables will be seized if monthly repayment is delayed beyond 10 days. If principal repayment is delayed beyond agreed date, the lender may visit the borrower's home and demand repayment, and seize additional properties, up to and including eviction of residents. Guarantee:
9	Notes	Canvassed in two neighbourhoods of Chennai with borrowers; discussed in FGD. Note: borrowers and lenders commented that there is a perception that if a person has paid more in interest than the total principal amount, "people believe they don't have to make payments anymore." Lenders note that they try to close loans quickly to avoid loss of principal/prevent escalating collection practices.

#6. Hand Loan, Urban

	Contract features	Details
1	Location and specialization	Urban. Widely available. Typically given by senior colleagues in an office/workplace with salaried or regular wage workers. There is “usually one guy who specializes in this.”
2	Lender screening and Typical borrower profile	New borrowers: • Assets/ • Income source: monthly earnings. • Repayment: monthly earnings. Typical borrowers: • Salaried workers; mentioned as often government employees with monthly income. • Reasons: Personal emergencies. • Stated advantage: “Government employees and regular salaried people regularly take such (costly) loans for urgent needs because of the time-saving factor.” (FGD)
3	Loan size	Typical: 10,000
4	Term	Average: 5 months [1-10 months]. Fixed tenure.
5	Repayment	Cash Monthly, when salary received, at workplace.
6	Interest and other fees	Typical: 20% of principal amount, pre-deducted. Amortized. Principal repaid in equal instalments over loan tenure. Other fees: 0.
	Example	Borrower takes a loan of 10,000; receives 8,000 “in-hand” (after 20% interest deducted). Repays 2,000 per month for 5 months.
7	Collateral	Guarantor: Collateral: Heavy social networks and workplace reputation as collateral substitutes.
8	Enforcement	Grace: None mentioned. Warning: If late payment, lender will threaten to insult borrower in front of colleagues (FGD). Rollover/new credit: None mentioned. Fines: None mentioned. Denial of credit: in case of default, borrower would not be extended credit in case of any emergency in the future. Asset seizure Guarantor: Other: Workplace harassment/shaming/reputational risk (FGD)
9	Notes	One respondent commented that these loans are taken to conceal financial difficulties from family (Stigma of workplace borrowing is less than stigma of family awareness of temporary financial difficulty).

#7. Private Gold Loan, Rural

	Contract features	Details
1	Location and specialization	Rural. In villages where pawnbrokers are not readily accessible. Lenders are wealthy/prominent households; not professional lenders.
2	Lender screening and Typical borrower profile	New borrowers: • Assets: Lender will assess/confirm that jewellery is owned by the household and not “borrowed” from another household • Income: only value of jewellery assessed. Typical borrower: • Female. • Reasons: Hospital expenses, school fees, festivals, other emergencies, occasional seasonal agricultural needs like agricultural inputs and livestock. • Advantage over formal alternatives: 1. No documentation 2. Quickly dispersed: If below 10,000, immediate dispersal. If greater than 10,000, dispersed next-day (lender visits ATM to withdraw funds from bank).
3	Loan size	Typical: 6,000 [Min: 2,000 Max:30,000]
4	Term	Typical: 12 months [1-12 months]. Flexible, decided in advance. Loan re-negotiated if extended beyond 12 months.
5	Repayment	Cash. Monthly repayment of interest; paid on a pre-negotiated date.
6	Interest and other fees	Typical: 3% on principal, per month. Loans <5,000, 6% p.m. | Loans >5,000, 3% p.m. One month interest pre-deducted from principal. Non-amortized... Principal repaid at end of tenure. Other fees: none.
	Example	Borrower takes loan of Rs.6, 000 on January 1, provides Rs.10, 000 gold jewellery as collateral (lender provides at 60% loan-to-value). Borrower receives 5700 (deduction of 5% interest for one month interest) in-hand. Borrower and lender agree to a 12-month loan tenure. Borrower repays Rs.300 per month in interest on the first of each month. On Dec. 31, borrower repays the 6,000 principal. Gold is returned to borrower, loan is closed.
7	Collateral	Guarantor: None Collateral: Gold jewellery is pledged by the borrower, for a loan-to-value of typically 50%-80% of the value of the gold.
8	Enforcement	Grace: Late payments are generally accepted. Warning: If the borrower has not settled the loan amount within the agreed tenure (maximum one year), or if interest and principal are close to exceeding the total value of the gold, the lender will warn the borrower that the lender will sell the gold. After sale of gold, lender returns balance (price of gold sold- balance of loan outstanding interest) to borrower. Roll over/new credit: None mentioned. Fines: Not mentioned. Denial of credit: None mentioned. Asset seizure: N/A. Guarantor: N/A Other:
9	Notes	Interviewed borrowers and informal pawnbrokers. In rare cases, farmers may give crops on harvest as one interest payment; dairy farmers may give milk as occasional interest payments.

#8. 2-Wheeler Loan, Urban

	Contract features	Details
1	Location and specialization	Urban, may be taken by rural and semi-urban borrowers. Advertised in local-language newspapers, offering loans for motorcycles, including those currently under finance.
2	Lender screening and Typical borrower profile	Borrower screening: • Asset: Lender confirms in-person that motorcycle is popular brand(resale value); new model (not older than 5 years); verifies that borrower is owner of the bike by confirming vehicle ownership ID with borrower address proof and driver license. • Income: No assessment of income or ability to repay. Typical borrowers: • Male. • Reasons: emergency needs. • Advantages: loan immediately available. Borrower doesn't need to prove income, employment, ability to repay.
3	Loan size	Typical: 15,000 [Min:10,000 Max 30,000] Loan size set at 1/3 of market value of the vehicle.
4	Term	Typical: 1 month [up to 6 months]. Open-ended.
5	Repayment	Cash. Monthly, In-person collected from the borrower or repaid at lender's office.
6	Interest and other fees	Typical: 10% of principal, per month. First interest payment deducted in advance. Non-amortized; principal repaid in 1 instalment. Other: NOC document: up to Rs.500/- (document allowing lender to sell vehicle)
	Example	Borrower takes loan of Rs.15,000. Rs.1,500 first month interest deducted in advance, along with Rs.500 mortgage fee, for a total cash-in-hand of Rs.13,000. He pledges motorcycle with value of Rs.45,000.Borrower pays Rs.1500 interest monthly until redeeming the vehicle by repaying the full principal amount of Rs.15,000.
7	Collateral	Guarantor Collateral: • Documents: RC book and insurance of the vehicle. If already in finance, requires a photocopy of borrowers' driver's license, ration card, two blank cheques, and two photos. • Physical collateral: Whether or not the bike is already under finance, the lender takes the motorcycle as collateral and places in warehouse. Customer is asked to note the km closing reading for verification upon redeeming vehicle.
8	Enforcement	Grace: Warning: Rollover/new credit: None. Fines: No penalties for late payments. If interest not paid for 3 months, borrower notified that vehicle placed on open auction; to recover vehicle, must pay additional 2500 for penalty and recovery charges as well as all past due interest Denial of credit: Asset seizure/sale. Once vehicle sold, value not returned to borrower.
9	Notes	Details collected via borrowers and lenders. Additionally, investigator responded to print ad offering loans for motorcycles already 'under finance." Lender agreed to meet in public place and offer cash on the spot if investigator presented motorcycle as offer. Investigator met lender (along with motorcycle) and collected data. Borrowers report that default and open auction of vehicles is common for this loan product.

#9. "Mortgage" Land/Building, Rural/Urban

	Contract features	Details
1	Location and specialization	Loans advertised in newspapers, offering loans on building and land. (Note: real estate brokers also act as mediators/provide referrals for these loans). Lenders typically have experience in real estate business.
2	Lender screening and Typical borrower profile Mediator stated this was because lenders are more confident in their ability (relative to banks) to value undeveloped property.	Screening: • Assets: Approved/land with patta, or any constructed house on land with patta. • Income/repayment capacity: Lender may ask for proof of earnings. Typical borrowers: • Male; with regular Income from salary, rental, and business. • Reasons: Needing lump-sum cash to start a business, to go abroad, to buy another property for investment, for wedding, or for college admissions. • Advantages: 1. Banks require more detailed land history for loans using land/property as collateral; informal lenders tend to ask only for primary documents such as sale deed and EC. 2. Banks tend to give loans for developed land, not for loans on empty land/vacant plots.
3	Loan size	Typical: 2, 00,000 [Min: 1, 00,000 Max: 5, 00,000]. Fixed term.
4	Term	Typical: 24 months [Min: 1 year Max: 5 years]
5	Repayment	Post-dated cheque. Monthly, cashed before 3rd of each month.
6	Interest and other fees	1.5% per month [range1.5-5%] on principal, calculated across the loan tenure. Amortized. Principal and interest repaid in equal instalments. Other: legal opinion Rs.5,000
	Example	Principal of Rs.2 00,000 for tenure of 24 months, at interest of 1.5% per month. Interest for 24 months at 1.5% (2,00,000*1.5%*24=72,000) is added to the principal for total loan value of 2,72,000. This is equated into 24 monthly instalments of Rs.11,333.
7	Collateral Note: Land value typically much higher than loan value; unlike gold; land seizure costs high.	Guarantor: None. Collateral: Original land documents (patta, sale deed, and EC). Promissory note on stamp paper indicating principal loan amount. Witness required. In rural areas, document giving power of attorney or NOC for the property. Lender takes PDC for all loan payments.
8	Enforcement *"Along with the NOC, may obtain hypothecation certificate, barring anyone from lender from selling property. With NOC, hypothecation, and mortgage deed agreement, lender transfers property to name and sells property."*	Grace: Warning: Regular phone calls and harassment ("mental torture") for delayed payments. If continued delinquency, will visit borrowers home and shout in front of the home, harassing the family members. Lenders may also use police and local officials to coerce repayment. After 3 months, begin sending legal notices. If borrower fails to repay loan by end of agreed tenure, lender sends legal notice of intent to seize and sell the property. Rollover/new credit: If borrower needs additional funds, he can take a 'top up' loan, and a fresh agreement will be made. Dues pending will be deducted from the new loan. Fines: 2% interest charged on late payments. Asset seizure: If total default, lender will evict borrower from property, and place property for auction. Any proceeds from sale, after deducting loan balance and outstanding interest, will be returned to borrower.
9	Notes	Information provided by borrowers, lenders, and intermediaries. Lenders contacted through newspaper ads refused to provide information over the phone, required in-person visits, along with all property documents, before providing details. Investigator visited lender without property documents, but provided detailed description of property, location, and probed for product details and flexibility in terms.

#10. Mortgage Shares/Bonds, Urban

	Contract features	Details
1	Location and specialization	Urban. Lender advertises in daily local language newspaper, and maintains 5 offices in Chennai.
2	Lender screening and Typical borrower profile	Borrower screening: • Assets: Must possess valid documents showing ownership of shares or bonds. • Income: borrower must demonstrate regular source of income to meet repayments. Typical borrower: • Male • Reasons • Stated advantages: less documentation/hassle than formal loans, more flexibility in delayed repayment.
3	Loan size	Typical: 1,00,000 [Min: 50,000 Max: 5,00,000] Loan size at 70% of the share or bond value
4	Term	Typical: 10 months. [10-15 months] Fixed term.
5	Repayment	Cash OR PDC. Monthly (before the 5th of each month] If cash, withdrawn from the borrower's bank account by the lender.
6	Interest and other fees	Typical: 3% on principal p.m. [Regular borrowers: 2-2.5%]. Calculated on fixed term. Amortized. Repaid in equal instalments of principal and interest. Other: 1% of principal deducted as processing fee in advance.
	Example	Principal of Rs.100, 000 at 3% p.m. for a loan tenure of 10 months. Borrower receives 99,000 (deducting 1% for processing charge). The monthly loan payment is Rs.13, 000 (3,000 interest + 10,000 principal) for 10 months.
7	Collateral	Collateral: • Two blank papers with signature • Original share or bond certificates • If post-dated cheque as repayment: takes all PDC for instalments • If cash as repayment: Lender keeps the borrower's bank account passbook (where salary is credited), ATM/Debit card, and cheque book. *When asked "what if borrowers want to withdraw monthly during bank account during the loan tenure?" were told that lender withdraws money from borrower's bank account and deposits money into second account of the borrower.*
8	Enforcement	Grace: With prior permission, borrower permitted one late payment. Warning: If delinquency in repayment, or if final payment not cleared within tenure, lender gives phone warning. If no repayment, lender may send agents to meet the borrower in person to collect payments. Rollover/new credit: Fines: After grace period, interest accrues at 2% p.m. Denial of credit: Asset seizure: If borrower does not respond to in-person visits, lender sends one "legal" notice, then sells assets to recover loan amount.
9	Notes	Borrowers, lenders familiar with the product, and 1 lender offering the product. Investigator responded to advertisement and visited lender office, providing details of ________________. Uncle invested in X worth 5 lakh, uncle wanted to get a loan using shares as collateral, to use money for construction of new home. Agent provided details and asked investigator to return with documentation of asset.

#11. Pension Loan, Urban/peri-Urban

	Contract features	Details
1	Location and specialization	Urban. Advertised as "loans for pensioners" in local-language newspapers.
2	Lender screening and Typical borrower profile	Screening: • Asset/residence: Chennai and peri-urban Chennai; lender personally visits borrower's home to confirm address. • Income: Eligible to pensioners who are former government employees. Documents showing the amount of pension received each month. • Repayment: Lender checks borrower's physical health to ensure not physically ill, but physical fitness certificate not required. Before health and residence check, borrower provides residence, identity, income documents (pension book, bank passbook, address proof, and driver license/pan/Ration card). Typical borrower: • Male, retired. • Reasons for borrowing: Medical/health costs; family commitments (large ceremonies) • Advantage: Speed: If residence, health, cash flow, and documentation conditions are met, the lender will provide loan within 24 hours.
3	Loan size	Typical: 50,000 [Min: Max:] Loan size set at the value of 10 months pension payment.
4	Term	Typical: 10 months. [10-12 months]. Fixed term.
5	Repayment	Post-dated cheque. Monthly, cashed by 5th of each month. Mode: At time of receiving the loan, borrower provides lender with 10-12 PDC. Each month, lender cashes cheque at borrower's bank.
6	Interest and other fees	Typical: 2.5% p.m. on principal. Calculated across fixed term. Interest pre-deducted. Principal is repaid in equal instalments. Other: 2% "service charge" on principal amount, deducted in advance.
	Example	Principal loan amount of 1, 00,000, with an interest rate of 2.5% p.m., and a tenure of 10 months. The borrower receives 73,000 cash (after deducting 10 months interest of 25,000 + 2000 service charge). The borrower repays 10,000 each month for 10 months.
7	Collateral	Collateral: Lender takes 10 post-dated cheques at start of loan, and until loan repaid, lender keeps borrower's pension book, bank passbook, and debit/ATM cards.
8	Enforcement	Note: Issues of late payments and default mentioned as rare—product is fully collateralized and lender retains control of income from the pension [Before lending, the lender checks the pensioner's bank account, takes post-dated cheques for the full loan tenure, and takes the borrower's pension book and bank passbook, leaning untouched the amount credited to the pensioner's account. The borrower has no access to his account until the loan is closed.]
9	Notes	Spoke to borrowers familiar with product and 1 lender. For in-person visit, investigator responded to newspaper ad, posing as person seeking information on behalf of his brother, a retired pensioner seeking a loan. Lender asked investigator the health and age of brother, purpose of loan, then provided loan details.

#12. Railway "Porter" Loan, Urban

	Contract features	Details
1	Location and specialization	Urban and suburban railway stations. "Lenders" are the team leaders or supervisors in the porter association; 1 team leader manages 15 porters. The lenders are not professional moneylenders and have limited funds.
2	Lender screening and Typical borrower profile	Screening: • Assets/Income/ Repayment: Only licensed porters who are members of the porter association. Typical borrower: • Reasons: consumer durables, gold, school fees, festivals and functions. • Advantage: Cost. Next-best source of finance for borrowers is 100-day loan at 15-20% interest. This product significantly less costly.
3	Loan size	Typical: 10,000 [Min: 10,000 Max: not given]
4	Term	Typical: 100 days. Fixed term.
5	Repayment	Cash. Daily, in-person collection from borrowers at worksite; starting at 4pm each day. Documentation of repayment: lenders write repayment in small receipt book.
6	Interest and other fees	Typical: 5% on principal loan amount, pre-deducted. Amortized. Principal repaid in equal instalments across 100 days. Other fees: none
	Example	10,000 principal amount. Borrower receives 9500 (5% interest is deducted from principal). Repays Rs.100 each day for 100 days.
7	Collateral	Guarantor: If borrower is a new porter, or new borrower, and has no appropriable/movable assets, lender may require a guarantee from an existing porter. Collateral: For loans above Rs. 20,000, promissory note or original title for vehicles or other assets.
8	Enforcement	Grace: 10 days grace period given beyond 100-day tenure. Warning: Lender may visit the borrower's residence in case of delinquency to provide in-person reminder and warning. Rollover/new credit: if borrower unable to settle debt, he requests new loan and adjusts debt against new loan principal. Fines: Interest on delays beyond 10 days is rare. See rollover/new credit (above). Denial of credit: yes Asset seizure: In case of default beyond 3 months, the lender will attempt to seize any of the borrower's assets (consumer durables, vehicle) to force repayment. Guarantee: In case of severe delinquency and default, lender will request guarantor to make payment on the loan.
9	Notes	Interviewed borrowers (railway porters) and one lender ('team leader') of railway porters.

#13. Thandal Bazaar, Urban

	Contract features	Details
1	Location and specialization	Urban. Large shopping complexes. Lenders visit site each day for collection and specialize in particular areas/market sites; other lenders are merchants in the same area.
2	Lender screening and Typical borrower profile	Borrower screening: • Assets: borrower should have own or shared permanent shop in market or shopping complex. "Platform" vendors not eligible as they shift locations regularly. • Income: Engaged in regular cash business, open daily, with borrower or employee available at counter daily for collection. • Repayment capacity: lenders assess stock of store, customer traffic, turnover, daily sales. Borrowers should be in business for at least six months. Typical borrower • Reasons for borrowing: Working capital. Infrequently for personal reasons. • Advantages: Easily accessible. Available on-demand, same day of request, as lenders have cash-in-hand from daily collections. In-person lending and collection.
3	Loan size	Typical: 20,000 [Min: 10,000 Max 50,000] Increases for repeat borrowers.
4	Term	100 days. Fixed term.
5	Repayment	Cash. Daily. In-person, at borrower's business. Documentation: Lenders record repayments in small book.
6	Interest and other fees	Typical: [12-15%] Previously 10%] of principal, pre-deducted. Amortized. Principal repaid in equal instalments across loan tenure. Other fees: varies. 30-50 as processing/documentation fees.
	Example	Borrower 20,000 principal. Receive Rs.17,600 cash (after 12% interest of Rs.2400 deducted). Borrower repays Rs.200 daily, for 100 days.
7	Collateral	Guarantor: First time borrower referred by other customers. Collateral: Loans above Rs.30, 000, a post-dated cheques and/or promissory loans on stamp paper may be required, or borrower signature on blank paper. For larger loans, lender may take original title papers to land or building assets.
8	Enforcement	Grace: No penalty for 2-3 days delay. Possible extension of 5-10 days beyond 100 days. Warning: Threatening legal action, visit borrower's home and shout in front of the home ("mental torture to the household members"). Rollover/new credit: Borrower finding it difficult to repay the last few payments will take another loan from the same lender; This practice cited as common. Fines: For payments delayed 2-3 days, borrower give small gifts in lieu of fines. Denial of credit: Will not be considered for another loan. Asset seizure: If borrower cannot be located for a week, or has missed payment for 2 weeks, lender will seize personal assets from home such as television, grinders. Guarantor: Other: Lender may hire persons to collect the loan. Persons will visit the borrower's work and disrupt business, threaten the borrower with physical harm, threaten kidnapping. Shouting and insulting in front of workplace/shop. Borrowers will be stigmatized in front of other vendors and neighbours. In severe cases, will remove borrower from workplace and assault.
9	Notes	Data collected among borrowers as well as lender collecting daily loan repayments.

#14. Thandal Metro Bazaar, Urban

	Contract features	Details
1	Location and specialization	Urban. Prevalent in business and market areas.
2	Lender screening and Typical borrower profile	Screening: • Assets: Borrowers must own/operate a permanent shop from a mall/market complex, where daily payments can be collected. Consider value of personal assets (vehicles). • Income: Lenders estimate daily cash earnings based on knowledge of enterprise and estimated counter sales. • Repayment capacity: New borrowers much be referred by current borrowers of the lender. Lenders assess reputation for delayed/non-payment to other lenders, irregular shop timings, reputation among other shop owners. In business for at least 6 months. Typical borrower: • Reasons for borrowing: Primarily for working capital. • Advantages over formal finance alternatives: Easily accessible, visit borrower for lending and collection. Little to no documentation; little to no collateral required. Loan funds available within a day.
3	Loan size	Typical: 1,00,000 [Min: 50,000 Max 5,00,000:]
4	Term	100 days. Fixed term
5	Repayment	Cash. Daily. In-person at worksite.
6	Interest and other fees	Typical: 15% of principal, pre-deducted. Amortized. Principal repaid in equal instalments.
	Example	Principal loan amount of 1,00,000. Borrower receives Rs.85,000 (lender deducts 15,000 towards 15% interest). Borrower repays Rs.1000 daily for 100 days.
7	Collateral	Guarantor: Required for new borrowers. Collateral: Not required for borrowers with good reputation with other merchants and in the market. Lenders confident of ability to make daily repayment because shop owners have high—volume sales and cash business operating on a daily basis. If not confident, may require promissory/demand note and a post-dated cheque, or borrower's original title to vehicle or business.
8	Enforcement Grace Warning Roll over/new credit Fines Denial of credit Asset seizure Guarantee Other	Grace: Grace period of up to 5 days may be allowed with prior authorization; beyond 5 days, 10% interest charged on the remaining amount. Warning: Threatening legal action, shouting and insulting in front of customers/other shops. If missing for a week, will manhandle the person and threaten to seize their assets. Rollover/new credit: For borrowers with temporary difficulty and risk default, lenders may offer new loan and deduct outstanding balance from the principal loan amount. Fines: Late fees rarely applied; due to daily collections and regular cash earnings, most borrowers meet daily collection schedule. Denial of credit: Yes. Past repayment a factor in screening. Asset seizure: After one week missed payments, or if borrower cannot be contacted for a week, lender will begin to seize assets. Other: in case of sustained delinquency, lenders employ agents to use verbal and physical abuse to collect overdue payments. Lenders retain collection agents on contract to deal with late and default payments.
9	Notes	Product verified in 2 urban areas, one wholesale and retail area, lenders and borrowers.

#15. Business Loan (SME)-Urban

	Contract features	Details
1	Location and specialization	Urban. Advertise in newspaper.
2	Lender screening and Typical borrower profile	Screening: • Assets/residence: lender sends staff to verify address and business quote in loan request given over phone. • Income/repayment: requests bank statements pertaining to business account, IT returns, and other proof of repayment capacity/business income. Typical borrower: • Male, Business owners. • Reasons for borrowing: Unknown. • Advantages: Private lenders easily accessible. Compared to banks, less documentation/fewer formalities. Processing done quickly (within 48 hours), funds released within 5 days maximum.
3	Loan size	Typical: 5,00,000 [Min: 1,00,000 Max:25,00,000]
4	Term	Typical: 10 Weeks. Fixed term.
5	Repayment	Cash. Weekly. Lender sends collection executive to meet client in person.
6	Interest and other fees	Typical: 15% on principal, pre-deducted. Amortized. Principal repaid in equal monthly instalments. Other: • .5% processing charge on principal, paid in advance. • 10,000 security attachment charge for loans greater than 1, 00,000.
	Example	Rs.5,00,000 principal – 75,000 interest (15%) -2500 (.5%) processing fee-10,000 security charge= Cash in hand of Rs. 4,12,500, Repay 50,000 weekly for 10 weeks.
7	Collateral	Guarantor: None. Collateral: Property documents worth 3 times the principal loan amount (value of the collateral security should be 3 times the principal loan amount).Borrower also provides address proof, ration card, voter ID, or diver license. Original lease agreement if business premises rented.
8	Enforcement	Grace: None. Warning: Rollover/new credit: Fines: Rs.500/ for delay in weekly payment. Denial of credit: Asset seizure: Other: If default continuously for 2 payments, the “lender will take action.” (Specific action not discussed).
9	Notes	Interviewed knowledgeable borrowers and 1 lender. Investigator called advertisement, was screened for loan and given product information.

#16. Auto rickshaw loan (Urban)

	Contract features	Details
1	Location and specialization	Urban. Available in areas where autos are sold and repaired. Lender often has a relationship with the auto dealer.
2	Lender screening and Typical borrower profile	Screening: • Assets/residence: Lender will request introduction/referral to confirm information and identification of new borrower. Lender confirms that borrower is resident of Chennai for at least 3-years with in-person visit; inquires about borrower's reputation and behaviour • Income: Borrower should have license and minimum one year experience as driver. • Repayment: Lenders report preference for borrowers who are owners *and* drivers of the vehicles, claim greater ability to repay without default. Lenders avoid lending to persons who purchase autos to rent out (on a daily-hire basis). Typical borrower: • Male, 25-60. • Reasons: Existing auto driver who want to purchase own auto, or driver who wants to buy new vehicle, or buy second vehicles and rent for income. Persons (landlords, shop owners) who want to purchase and rent autos for income. • Stated advantages: Informal lenders provide loans for used autos, do not require government employee as guarantor, are easily accessible, require less documentation, and release the loan in max 5 days. Informal lenders often provide assistance with the auto permit, road tax and insurance.
3	Loan size	Typical: 1,00,000 [Min: 50,000 Max 120,000] For new autos, finance 75% of value. For used, 50% of value. [2010-12 model= 1,00,000]
4	Term	Typical: 20 months. [Range: 12-36 months]. Fixed term.
5	Repayment	Cash. Monthly, before the 3rd of each month. Documentation: cash payment entered into lenders' book.
6	Interest and other fees	Typical: 1.5% p.m., calculated on principal. Amortized. Principal and interest repaid in equal monthly instalments. Other: Rs.500.- Mortgage deed.
	Example	Principal of Rs.1,00,000, at an interest rate of 1.5.% per month for a tenure of 20 months, the monthly payment equals Rs. 6500 interest [(Rs.1500 interest+5,000 principal (1,00,000 principal equalized for 20 months)].
7	Collateral	Guarantor: Required. Neighbours or friend of borrower with salaried employment. Collateral: Lender keeps vehicle documentation (RC book, insurance documents, road permit) until loan repaid.
8	Enforcement	Grace/Warning: Rollover/new credit: None discussed. Fines: Payments made after the 3rd of month received 3% additional interest charge. If vehicle seized due to default, redemption charge is 1500. Denial of credit: None discussed. Asset seizure: If payment missed for 2 months, lender/team repossesses the auto. To reclaim vehicle, borrower must pay fee. If borrower does not reclaim auto within 1 month, lender cancels loan contract and sells the auto. Guarantor:
9	Notes	Loan details collected in 2 neighborhoods where auto dealers, repair shops, and lenders are clustered. Interviewed lenders and auto drivers (borrowers).

#17. Meter Vatti, Urban

	Contract features	**Details**
1	Location and specialization	Urban. Available in trade areas, merchant sites. Also available near courthouse.
2	Lender screening and Typical borrower profile	Screening: • For merchants: lender is familiar with sales turnover and value of goods to be purchased (used as collateral). Both determine loan size. • For traders to clear shipments: Lenders assess duty charged to be paid and type of goods in consignment to estimate the value of product/goods (used as collateral). If value difficult to assess, may decide loan amount based on alternative collateral (gold, land/property ownership papers). Typical borrower: • Persons in market or trade which has high cash turnover, such as shop owners in produce (fruit, vegetable, and fish) or commission agents. • Reasons: Urgent need of money to meet business commitment, and can repay within hours. Example: Need to pay duty charges to clear shipments; if unable to raise funds, would be forced to sell shipment. At courthouse, may be taken by those who need to make court payments for bail. • Advantages: Useful for shops and businesses who are unable to raise lump sums for momentary urgent needs through other sources.
3	Loan size	Typical: 10,000 [Min: 10,000 Max:2,00,000] No lender will give loan with value exceeding 50% of the value of the goods to be purchased/shipments to be cleared, or exceeding 50% of the value of the collateral.
4	Term	Typical: 12 hours. Fixed. (Money for court fines/bail are given shorter tenure)
5	Repayment	Cash. In –person, one-period/12 hours.
6	Interest and other fees	Typical: 10% on principal [Range: 10- 15%]. Pre-deducted. Principal repaid at end of loan period. (Note: Similar product structures payment as interest and principal at end of period. For example, lender may provide 1, 00,000 and collect 1,10,000 in evening)
	Example	Borrow 10,000 principal at 6am. Receive 9,000 (10% interest deducted). Repay 10,000 at 6pm.
7	Collateral	Collateral varies based on borrower characteristics /use of loan: • In case of traders, lenders take promissory note pledging properties or business. • In case of travelers from abroad, lenders will take passport, and part of luggage. • In case of bail, lender may take jewelry and vehicle as collateral.
8	Enforcement	Note: In practice, lenders usually “hang around” the borrowers until repaid. If payment not made on time, it is considered to be delinquent. Tactics depend on borrower. For traders and business persons, lender/agents disrupt the business and prevent business from happening, interfering with customers, (language, shouting, shaming, and insulting the owner). If delay continues for more than several days, lender will seize the borrower’s property such as jewels, vehicle, and any immovable properties. May force borrower to sell assets to repay the loan.
9	Notes	Data collected in three field sites, spoke to lenders, agents, mediators, and borrowers. Since interest compounds, like a taxi driver’s fare, it is known as a meter loan “vatti=interest rate”.

#18. Speed Vatti (Urban)

	Contract features	Details
1	Location and specialization	Urban. Since the loan lasts 7-10 days instead of 100 days, this product is called a "Speed" vatti.
2	Lender screening and Typical borrower profile	Screening: • Assets/income/repayment assessment: persons running market business, engaged in whole sale trade with daily cash turnover. Since lender specialize in location, they know borrower's reputation. Typical borrower: • Shop owners, commission agents in vegetable, fruit, fish markets. • Reasons: To make spot payment on purchased good (Ex. when farmers/agents bring items to the wholesale market for resale, retailers/commission agents may not have enough cash to make purchase. Since commodities are resold over 7-10 day period, dealers prefer short-term to 100 day or 10 week loans). To make advances to supplier and order goods and advance, when borrowers expect high demand: for example, retail shop owners may need cash to purchase high-demand items like DVDs of new movies or electronic goods arriving in the market.
3	Loan size	Typical: 10,000 [Min: 10,000 Max 2,00,000:]
4	Term	Typical: 10 days. Fixed term. [Range: 7-10 days]
5	Repayment	Cash. 1-period. Agent collects from borrower on due date or borrower repays at lender's office.
6	Interest and other fees	Typical: 10% on principal. [Can rise to 15% during peak demand (festivals)]. Pre-deducted. Principal repaid at end of term. Other: 100 fee.
	Example	Borrow 10,000 on Jan 1. Receive 9000-100 (processing fee). Repay Rs.10, 000 on Jan 11.
7	Collateral	Guarantor: Required for new clients; typically resident of same location. New clients may be referred by middlemen/mediators who recommend clients based on information about nature of business and volume of sales. Borrower pays 5% for referral to middleman. Collateral: • For loans less than 50,000: borrower provides (1) signed agreement on stamp paper for loan amount, (2) signed blank paper. • For loans greater than 50,000: lender requires original documents/title for residential property, vehicles, or land (such as RC, patta, sale deeds).
8	Enforcement	Grace/Warning: If the borrower's repayment is due on a Wednesday, the collection agent will visit borrower 1 day *in advance* to remind borrower of repayment, and lender will call borrower to remind of payment due. Lender will warn borrower of consequences of continued non-payment, and give borrower short deadline to settle the loan. Fines: 10% interest per day on late payments. Asset seizure/Other: If borrower does not repay before the agreed deadline to settle the loan, the lender will prevent borrower from operating this business; may send his agents/recovery team to the business to verbally harass/abuse/intimidate the borrower. If delay continues, lender will seize borrower assets such as motorcycle, cars, gold.
9	Notes	Lenders rarely interact with borrowers directly, operating through recovery agents and middlemen.

#19. Credit card loan (Urban)

	Contract features	Details
1	Location and specialization	Urban. Advertised in local language newspapers, also available as "cash points" in malls, also mobile vendors. Not technically a loan: Customer requests cash from the lender or agent. Lender bills the credit card company for sale of goods, gives the billed amount to the borrower in cash, minus a commission fee. Now available from agents with mobile POS devices.
2	Lender screening and Typical borrower profile	Screening: • Assets/Income/Repayment capacity: None; borrower will show ID. Typical borrower: • Reasons: During the first week of the month/part of billing cycle to meet monthly expenses. • Advantage: More privacy than gold loans.
3	Loan size	Typical: 20,000 [Min: 10,000 Max 2,00,000] Max determined by card limits.
4	Term	Typical: 45 days Note: Once lender/agent has given cash to borrower, minus the 5% fee/interest, the contract or product is complete. Debt is now held by the credit card company; amount settled as per terms of credit card agreement. Credit cards have a one-month billing cycle, customers have 20 days to pay the bill.
5	Repayment	N/A. As per credit card agreement.
6	Interest and other fees	Typical: 5% interest (or fee) on principal [as low as 2-3% reported], deducted in advance.
	Example	Merchant swipes card for Rs.20, 000, bills sale of goods to credit card company. Returns Rs.19, 000 cash to customer [20,000-1,000 (5% fee)] In 45 days, the customer has a 20,000 bill due with the credit card company that she can pay in full, or pay interest as per terms of credit card contract.
7	Collateral	
8	Enforcement	Any penalties/enforcement carried out by credit card company.
9	Notes	

#20. Jewel Redemption Loan (Rural/Urban)

	Contract features	Details
1	Location and specialization	Urban and peri-urban.
2	Lender screening and Typical borrower profile	Borrower eligibility: • Any person who has an outstanding loan with a pawn broker. • The loan amount, inclusive interest due, cannot exceed current market value of gold. • Gold, platinum, and diamond jewelry are eligible for this loan. Documentation: • At the time of taking and settling the loan, the borrower signs loan documents with the pawn broker/banker. Typical reasons for borrowing • To settle delinquent loans with pawnbrokers and prevent jewels from being auctioned. • If interest is 12 months overdue, or the loan has not been settled within 12 months, pawn brokers/bankers send a legal notice to the borrowers, notifying the borrower that the jewels will be sold at auction. • Since jewel loans are typically given at 60% of the market value of the pawned jewels, the borrowers try to avoid the sale of the jewels.
3	Loan size	Typical: 50,000 [Min: 50,000 Max: 5,00,000]
4	Term	Transaction typically completed within a half-day.
5	Repayment	
6	Interest and other fees	Minimum of rs.1000/= or 2% of the amount paid to redeem the jewels, whichever is higher.
	Example	Example: The original contract with the pawn broker • On July 1, 2014, a borrower takes a loan of Rs.100,000 from a pawn broker by pledging 10 grams of gold. The interest rate is 5% (Rs.5,000) per month. • Until June 1, 2015, the borrower has not paid the monthly interest to the pawn broker. On June 1st the overdue interest is Rs.55,000. • In the second week of June, the pawn broker will contact the borrower by phone and warn the borrower that the loans may soon be sold. • In the 3rd week of June, if the borrower has not settled loan, pawn broker sends notice to the borrower announcing that jewels will be auctioned on July 1, 2015. The contract for the jewel redemption loan. • The lender will collect details of the pawned jewel, and estimate their market value. The lender estimates the market value of the jewelry at Rs.175,000. • The borrower will be eligible because the estimated value of the jewelry (Rs.175, 000) exceeds value of original loan (Rs.100, 000) + interest (Rs.55, 000). • The lenders announces that his fee will be Rs.3500 (2% of Rs.155,000). • The lender pays the pawn broker Rs.155, 000 and collects the jewelry. • After the lender reclaims the jewels, the borrower has two options to repay the lender Rs.158,500 (Rs.155,000 + Rs.3500 as fees) o With lender, the borrower can sell jewels in the market for Rs.175,000. o Re-pledge the jewels (but if he's only getting 60% LTV, his loan amount will be Rs.100,000 but he owes Rs.158,350 to the lender), typically to same lender who redeemed the gold, adjusting fees from loan principal
7	Collateral	
8	Enforcement	
9	Notes	Investigator posed as a potential borrower. The investigator said that he had taken a loan of Rs.40,000 from a pawn broker. (Note: the loan amount is typically a maximum of 60% of the current market value of the gold (or 60% loan to value, LTV)). The investigator told the lender that he had not made interest payments to the pawn broker for 12 months, and the pawn broker has notified the investigator that the gold will be sold in one week, unless the investigator makes his overdue payments and settles the loan.

APPENDIX C: PROFILE OF RESPONDENTS IN INDIVIDUAL FOCUS GROUPS

FGD 1. Urban. Middle income group. Chennai.

Male. 39 years.
Middle income group.
Manager in marketing company.
Family: Son, 6 years. Wife unemployed. Residing with his parents.
Total household size: 5

Male. 46 years.
Middle income group.
Running own plastic products manufacturing company.
Family –Son 18 years studying for diploma degree. Wife -home maker.
Total household size: 3.

Male: 45 years.
Middle income group.
Running fruits exporting business.
Family –Daughter, 21 years, engineering degree, employed in software company. Daughter, 16 years, studying. Wife –home maker.
Total household size: 4

Male. 39 years.
Middle income group.
Working as administrative officer in large international industrial conglomerate.
Family – Daughter, 13 years, studying. Wife –home maker. His mother resides with family.
Total household size: 4.

Male. 45 years.
Middle income group.
Regional manager in a private company.
Family –Son, 20 years, studying for bachelor's in engineering. Son, 12 years old, studying. Wife –home maker.
Total household size: 4

Male. 38 years.
Middle income group.
Employed in networking company.
Family –Daughter, 6 years, studying. Wife –home maker. Resides with his parents.
Total household size: 5

FGD -2. Urban. Middle income group. Chennai.

Male. 45 years.
Middle income group.
Running own ship repair company.
Family –Son, 6 years. Wife –home maker.
Total household size: 3

Male. 44 years.
Middle income group.
Running own clearing and forwarding company.
Family –Daughter, 18 years old, B.Sc. Computer Science. Wife –home maker.
Total household size: 3

Male. 42 years.
Middle income group.
Own business, cashew nut trading.
Family –Son, 14 years. Wife employed in pharmaceutical company. Mother resides with them.
Total household size: 4

Male. 47 years.
Middle income group.
Employed in eye hospital.

Family –Daughter, 18 years, studying for B.Sc. Son 17 years, studying. Wife –home maker.
Total household size: 4

Male. Age NR.
Middle income group.
Own real estate business.
Family –Daughter, 20 years, in college. Son, studying mechanical engineering. Wife –home maker.
Total household size: 4.

Male. 41 years.
Middle income group.
Work for company that manufactures batteries/UPS.
Family – Two daughters, 16 and 9 years, studying. Wife works as artist.
Total household size: 4.

Male. 42 years.
Middle income group.
Doing real estate business.
Family –Two sons, 12 and 14 years, studying. Wife –home maker.
Total household size: 4.

Male. 36 years.
Middle income group.
HR officer in large cement company.
Family –Son, 1 year. Wife –home maker.
Total household size: 3.

FGD -3. Urban. Lower middle income group. Chennai

Male. 42 years.
Lower middle income group.
Running his own shoe mart at local market.
Family –Two daughters, 12 and 9 years, studying. Wife –home maker.
Total household size: 4.

Male. 35 years.
Lower middle income group.
Self-employed as motorcycle mechanic.
Family –Two sons, 12 and 9 years, studying. Wife –home maker. Parents reside in household.
Total household size: 6.

Male. 38 year.
Lower middle income group.
Running his own mobile phone recharge shop.
Family –Son, 6 years, studying. Wife –home maker. Parents also living with them.
Total household size: 5.

Male. 38 years.
Lower middle income group.
Running his own tailoring shop.
Family –Twins, age 5, one boy, one girl. Wife –home maker. Parents also living with them.
Total household size: 6.

Male. 48 years.
Lower middle income group.
Running a petty shop in central city market.
Family –Two daughters, married and living apart. Wife –home maker.
Total household size: 2

Male. 38 years.
Lower middle income group.
Running his own mobile repair shop.

Family –Daughter, 10 years. Son, 3 years. Wife –home maker. Parents reside with family.
Total household size: 6.

Male. 42 years.
Lower middle income group.
Running a tiffin shop in Chennai.
Family – Son, 10 years. Wife –working in family tiffin shop.
Total household size: 3.

Male. 40 years.
Lower middle income group.
Self-employed as a fruit vendor at central fruit vendor market.
Family –Son, 3 years. Wife -home maker.
Total household size: 3.

FGD -4. Rural. Middle income group.

Male. 50 years.
Middle income group.
Self-employed as two wheeler mechanic.
Family –Daughter, 22 years, completed B.E. degree; Son, 19 years doing B.E. degree. Wife –home maker.
Total household size: 4

Male. 45 years.
Lower-middle income group.
Self-employed as a painter.
Family –Two sons, 11 and 14 years old, both studying. Wife running night tiffin stalls along with husband.
Total household members 4.

Male. 50 years.
Middle income group.
Running automobile workshop.
Family –Two daughters married, living separately. Son, B.E. graduate, working in SEZ. Wife –home maker.
Total household size: 3.

Male. 46 years.
Middle income group.
Running a fabrication welding workshop.
Family –Son, 19 years, studying for B.E. . Daughter, 15 years, studying. Wife –home maker.
Total household size: 4.

Male. 44 years.
Middle income group.
Running a fabrication welding workshop.
Family –Two sons, 13 and 6 years. Daughter, 5 years. All studying. Wife-home maker.
Total household size: 5.

Male. 54 years.
Middle income group.
Running a coffee shop.
Family: Daughter, married and living separately. Son, 25 years, working in a sugar mill. Wife –home maker.
Total household size: 3.

Male. 38 years.
Middle income group.
Working as electrician in SEZ.
Family –Two sons, 8 and 10 years; daughter, 5 years. All studying. Wife –home maker.
Total household size: 5.

Male. 50 years.
Middle income group.

Running a tailor shop.
Family –Two sons aged 25 and 23 years; one daughter aged 21 years. All working in private companies. Wife –home maker.
Total household size: 5.

FGD -5. Village (near town). Lower middle income group.

Male. 45 years.
Lower middle income group.
Working as an electrician.
Family – Son, 18, and daughter, 13, both studying. Son, 29, going for migrant work. Wife farm labourer; occasional migrant work.
Total household size: 5.

Male. 28 years.
Lower middle income group.
Working in housekeeping department of engineering college.
Family –Son, 8 years, daughter, 6 years, both studying. Wife –employed in same engineering college.
Total household size: 4.

Male. 35 years.
Lower middle income group.
Working as a mason in construction site.
Family –Son aged 15; two daughters aged 10 and 8 years. Wife working as a daily wage labour.
Total household size: 5.

Male. 32 years.
Lower middle income group.
Working as a supplier in a hotel.
Family –Son aged 5 years and daughter 3 years. Wife employed as a teacher.
Total household members 4.

Male. 28 years.
Lower middle income group.
Running a tea shop and soda bottling unit.
Family –son aged 3 years, and daughter aged 1 year. Mother and wife working in tea shop.
Total household size: 4.

Male. 30 years.
Lower middle income group.
Working as a machine operator at industrial estate.
Family –son aged 9 years. Wife self-employed as a tailor at home.
Total household size: 3.

Female. 27 years.
Lower middle income group.
Working as a wage labour in house construction sites.
Family –Two sons, 5 and 7 years, both studying. Spouse employed in hospital near Chennai.
Total household size: 4

Female. 28 years.
Lower middle income group.
Working as a wage labour in house construction sites.
Family –Spouse employed a mason in house construction sites. Lives with her mother and brother.
Total household size: 4.