Consumption and credit among the poor: assessing "parallel" market features and behavior towards cash-consumer credit in low income households in Uruguay[1]

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Abstract

This paper analyzes the non-banking consumer credit market in Uruguay and the way low income and poor households are accessing and using it.

The non-banking consumer credit market has been growing in most Latin American countries, enabling low income and poor households the possibility to access credit. New type of institutions, such as cooperatives, credit unions and other non-banking credit-providing businesses have risen. Although this implies important advances in terms of financial inclusion, this market has distinctive aspects that expose low-income families to certain risks.

In light of exploring this ambivalence (the benefits of accessing credit and the potential dangers of this), this paper assess the main features of the non-banking consumer credit market in the country, as well as the relationship these households have with the NBFI credit market, and their attitudes and behaviors towards consumer credit. The analysis is based on a mixed methods approach within the limits of a case study. The empirical strategy uses both secondary and primary information, the latter obtained from 'mystery clients' filling requirements to credit firms and in-depth interviews to poor uruguayan households.

The paper makes a contribution to an informed discussion on the increase of non-banking consumer credit Latin American as well as its significance for the study of borrowing behavior and strategies for managing indebtedness among the poor.

Keywords: non-banking consumer credit, low income families, borrowing behavior

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1. Introduction

Consumer credit has been growing in most of Latin American households for the last two decades (Colburn, 2002; Broda & Weinstein, 2006; Guedes & Olveira, 2006). While in 1996 consumer credit represented 3.4% as a percentage from GDP, in 2007 this number had doubled until 6.5%[3] (World Bank, 2011). Also, personal consumer credit went from representing 11% or all private credit in 1996 up to 21% in 2009 (World Bank, 2011).

Part of this process relates to the expansion of the banking system and credit card, which derived in the financial inclusion of a growing middle class. Indeed, the region's banking system has experienced a significant development, including a growth in the consumer - oriented credit (World Bank, 2011). This process is reflected in the progressive increase of the financially included portion of the population.

But the growth in consumer credit is also explained by the opportunity for accessing these type of credit that non-banking financial institutions (including cooperatives, retail stores, cash credit institutions) started providing for lower income and poor families (World Bank, 2011). This 'alternative' consumer credit market is providing access to consumer credit to predominantly financially excluded people, enabling them to by-pass the obstacles imposed by the banking system and operate in the credit market, therefore challenging the dividing lines between being financially included or excluded (Langley, 2008).

Despite the importance of these trends, very little is known about the characteristics of this market and how the poor relate with it. In fact, while there is a great amount of research interested in access to productive-purposes micro credit in poor communities (e.g. micro enterprise credit), consumer credit for low income and poor population hasn't received much attention, nor have the processes and dynamics of how the financially excluded relate with money through this market been studied. An extensive literature shows the effects of the development of the banking sector (including credit expansion) on economic growth at the macro level, both in more and less developed countries[4] and recent studies indicate that financial development contributes to income inequality reduction (Clarke, Xu, & Zhou, 2006) and poverty reduction (Beck, Demirgüç-Kunt, & Levine, 2007). However, the story of the impacts of financial development at the micro and individual is quite different than the one the literature tells on the macrolevel. Evidence on this relationship is not only less robust (Morduch, 1998) but in general refers only to the expansion of formal banking financial services, excluding non-banking financial institutions that are key among poor population. Also, when identifying micro credit impacts it usually considers only productive micro credit and their effects on, for example, borrowers that own small businesses (Crépon, Devoto, Duflo, & Parienté,2011; Banerjee, Duflo, Glennerster, & Kinnan, 2013). Consumer credit, on the contrary, is absent.

This paper seeks to make a contribution in filling this gap by analyzing the non-banking consumer credit market Uruguay and the micro dynamics around access to consumer credit among low income families. In order to do this, it focuses more on the possible implications than on the causes of the growth of consumer credit and its direct consequences.

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[3] Average for 7 countries: Argentina, Brazil, Chile, Colombia, Mexico, Peru and Uruguay

[4] See, for example, King & Levine (1993); Levine (1998); Levine & Zervos (1998); Levine, Beck, & Loayza, (1999); Beck, Demirguc-Kunt, & Martinez Peria (2007); Beck, Demirgüc-Kunt, & Levine (2007); Levine, (2005); Pasali (2013); Hassan, Sanchez, & Yu (2011);Greenwood, Sanchez, & Wang (2013); Beck, Degryse, & Kneer, (2014)

The uruguayan case is an especially interesting one for analyzing the Latin American portrait, because low income households' access to the non-banking market is, although growing, still incipient. This means there is still margin to introduce regulations and prevent abusive practices. The paper makes an opportune contribution to an unexplored but relevant issue for the sustainable reduction of inequality in the country and the Latin American region.

The paper presents evidence that challenges the traditional idea that credit access among the poor is always a good thing, mainly by focusing on the characteristics of the non-banking consumer credit market and its practices. It also analyzes how low income families respond to those practices and the extent to which they understand the risks they are taking.

Two questions are under discussion in this paper: (i) what are the main features of the non-banking consumer credit market in Uruguay? and (ii) how do low income households relate to this market?

Regarding the first question, the study describes the main features of the non-banking consumer credit market, providing relevant information about the growth of this market and the institutional characteristics of the agencies that are lending money to low income families. The study builds a basic diagnostic on the main characteristics of the cash consumer credit market lending money to low income population, including interest rates, requirements for accessing credits, and marketing practices.

The other question leads to a micro sociological assessment of the relationship that low income families have with consumer credit. The attention is put on the significance of consumption and access to consumer credit among low income families, as well as on how families make decisions about taking a credit. The goal is to describe the type of consumption (what kind of goods/services) are associated to credit taking, identify the obstacles experienced for accessing credit and the options households consider for reaching consumption. It also analyzes the information households have on requirements and commitments associated to credits, as well as their strategies to manage for paying, trying to detect the assets households count on to pay for the credits (including social capital, within and outside the family).

The paper is organized as follows. First, it discusses how consumer credit has became an available option for low income households and the main characteristics the literature points out regarding the institutions within that non-banking market (section 2). The theoretical frameworks also discusses the literature on how the poor relate to the non-banking consumer credit market (section 3). After presenting the main methodological aspects of the study, the following section (5) synthesizes the evidence regarding the main features and practices of the uruguayan non-banking credit market, using information both from secondary sources and from the 'mystery clients' strategy. Section 6 presents the most salient aspects of the relationship of low income households with the non-banking credit system by analyzing the credit options available for this population, the they give to the loans they take, their perception of risks and advantages and the strategies they develop for dealing with indebtedness and over indebtedness. The paper concludes with final remarks and policy implications.

2. Consumer credit among low income and poor households: credit options for the financially 'excluded'

Low income and poor households have been historically excluded from wage-earning market opportunities and the formal financial system (Caskey, 1997; Demirgüc-Kunt & Klapper, 2012)[5]. This exclusion seems to be the result of a combination of both supply and demand issues. Regarding the supply side, conventional financial institutions seem to prefer to offer credit to non-poor clients because they are a better fit for the loan structure. Also, banks are usually underrepresented in minorities or low income communities (Beck, Demirgüc-Kunt, & Honohan, 2009) and tend to impose specific requirements -such as a minimum income level or a good credit record- which avoid low income people and individuals away from asking these institutions for credits (Birkenmaier & Watson Tyuse, 2005). Regarding the demand side, evidence suggests that poor population face barriers to access and use banking services (Beck, Demirgüc-Kunt, & Martinez Peria, 2006; World Bank, 2010). Even when supply is guaranteed, there are several obstacles inhibiting low income sectors to access credit, such as not having enough available money for opening and using an account, lacking personal documentation required to open it, or distrust towards banks (Demirgüc-Kunt & Klapper, 2012).

But this landscape where the poor had very limited or no access at all to credit is changing fast, while everyday borrowing has become part of the regular behavior of a greater number of households (Burton, 1994; Besley, 1995; Langley, 2010). Indeed, low income sectors also consume and their access to consumer credit is growing (Rutherford, 2001; Prahalad & Hammond, 2002; Prahalad, 2004; Kuriyan, Nafus, & Mainwaring, 2012).

The characteristics and practices of this market are, however, very different from the banking consumer credit one. An extensive bulk of research has described this alternative consumer credit market (Leyshon, Burton, Knights, Alferodd, & Signoretta, 2004; Ossandón, 2012; Potin, 2012), also named under *Non-banking financial institutions* (NBFIs), *Sub-prime banking* (Langley, 2008) of *Fringe banking* (Caskey, 1994). Although the definition of NBFIs is not free of debate, the literature referring to a wide set of countries tends include within this category the following institutions (Carr, Schuetz, & Kolluri, 2001; Birkenmaier & Watson Tyuse, 2005; Langley, 2008):

(i) Micro Finance Institutions (MFIs), especially targeted towards these sectors and the process of evaluation of qualification for credit is much more flexible compared to those of banks. They usually offer both productive and consumer credit.
(ii) Check-cashing outlets (CCOs) and Check-cashing services (CCSs): unbanked population uses them in order to cash their checks, transfer funds and other services. Unlike banks, all transactions can be solved by visiting the service provider once.
(iii) Small loan companies and cash loan services (including payday loan providers)
(iv) Pawnshops and pawnbrokers
(v) Retail stores, rent-to-own companies and other organizations that link the loan to a specific good or service

[5] Today, approximately 50% of the adults around the world don't have an account in the formal financial sector, which is usually considered the "entry point" to financial inclusion in this market, but this percentage rises up to 77% among population in the lowest income quintile (Demirgüc-Kunt & Klapper, 2012)

(vi) Credit unions
(vii) Door step and home credit lenders

Despite the fact that, in general, the non-banking consumer credit market[6] is the only option low income sectors have to access credit, it has features that are usually especially appreciated by these households. One of the is the promptness with which loans are obtained, since they NBFIs do not usually require much documentation or procedures. Asking for a credit is ''one of the main social 'tests' through which we need to go in order to become consumers, a kind of economic 'passport' (Ossandón, 2012: 11). Though the non-banking consumer credit market, the poor can 'cross class boundaries and assume identities not linked to their traditional class status. By using the service, they associated, imitated, and aspired to middle-class figures of consumers' (Kuriyan et al., 2012: 8). The other is the possibility of obtaining it the very same moment they ask for it (Ossandón, 2012).

Although these institutions provide low income and poor households with the opportunity to obtain a credit that they would otherwise never get through the banking system, , it also has features that expose them to potential new risks. For instance, this market tends to have greater interest rates and it usually provides no incentives for saving or investing (Langley, 2008).

The justification of the higher interest rates rests on the idea that 'risky borrowers' with low income and a complex credit history should necessarily pay more for the specialized services that incur in high risks (basically possible default) by lending to them (Munro, Ford, Leishman, & Karley, 2005; Banerjee & Duflo, 2007). Also, the rates are justified on the grounds of intensive follow-up and resources destined to debt-collecting (Banerjee & Duflo, 2007). The high interest rates in the non-banking consumer credit sector have been addressed as a policy problem both in developed countries (Collard & Kempson, 2005) and in less developed regions (Banerjee & Duflo, 2007). The frequency, extensions and forbearance of credits result in huge financing costs and a trap that, as will be analyzed in following sections, could lead to the circle of debt and a bigger vulnerability for low income families (Birkenmaier & Watson Tyuse, 2005). Despite these risks, the advances in controlling and regulating this feature are still very weak (Langley, 2008).

Also, the non-banking consumer credit market tends to have abusive practices, in a contexts of less government controls and less informed/capable clients. Indeed, sometimes microlenders try to reach poor customers with no access to formal financial services by offering new financial products and further credits to their clients, despite their financial situation (Schicks, 2010; Schicks & Rosenberg, 2011) [7].

[6] The demarcation between formal and informal market 'gives the impression that this is some kind of local economic backwater that, so to speak, stands at the margins and caters for the marginalized' (Langley, 2008). However, this sector is far from being a small unprofitable market (Caskey 1994; Carr, Schuetz, & Kolluri, 2001; Palmer & Conaty, 2002). This is especially true in developing countries, where it covers a great proportion of the population. Also, several studies have shown that these informal institutions are not only closely connected to the formal banking system (Langley, 2008) but, in some cases, they are also part of big banking holding and operate as alternative branches 'specialized' in lending to low income and poor population (Aitken, 2006).

[7] Recent studies on the problem of over- indebtedness are revealing interesting trends. A study carried out in Bolivia, for example, found that 85% of people were over-indebted, although it couldn't find a correlation between multiple borrowing and over-indebtedness, nor between use of a credit bureau and lower loan

3. The poor and their relationship with the non-banking consumer credit market

The stylized features the non-banking credit market presented before are only half of the story of the risks this new scenario poses. The other are the meanings that consumer credit acquires among the poor, through two key issues: (i) the way they make decisions for taking credit (the conditions under which they access credit) and (ii) the way they manage indebtedness (the conditions under which they go though the credit experience).

Borrowing decisions

Money and finance embed social relationships (Keister 2002), trampling on existing ones, and creating new forms of social interaction (Maurer, 2006). Consumer credit is part of these new forms of interaction, not only because it enables consumption and spread credit money relations but also because it is a financial product itself, sold by lenders and bought by borrowers.

The purchase of a consumer credit –as with any other financial product- implies that borrowers become financial subjects, who evaluate options, make decisions and understand obligations (Marron, 2014). Access to consumer credit means, therefore, the incorporation of a 'particular economic logic' through learning of new tools and a know-how. This know-how has two components: (i) the possibility to make the best out of the loan and (ii) the capacity to avoid, as much as possible, the financial stress that comes along with payment of installments, indebtedness, and others (Barros, 2012a).

As financial products become more and more accessible to the wide population, a growing debate arises around the extent to which individuals act rationally towards consumer credit or, on the contrary, make more irrational decisions than expected by the economic theory.

There is a growing amount of literature focusing on how individuals make financial and consumer credit choices and this has become of special concern regarding low income and poor population, basically because their lower educational level makes them more vulnerable. Borrowing decisions, even in the small amounts of money involved in consumer credit to low income households, imply choosing between different products, planning ahead, and understanding and keeping track of their own financial situation (Marron, 2014). It also implies embracing risk and managing it (Langley, 2008; (Marron, 2009).

From a rational perspective, a financially capable borrower is able to decide and choose between different credits based on his financial needs and capability to avoid risks, including over-indebtedness (Marron, 2014). This image is based on the idea of a self-interested consumer, who is able to rationally consider the future consequences of his

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delinquency(González, 2008). Other study in Ghana found that the level of over- indebtedness was around 12% and 16%, but it referred exclusively to monetary financial institutions (Grammling, 2009). Also, Guérin, Roesch, Subramanian, & Kumar (2011) in their research project in poor rural South India found that the average household in some villages had about a year´s household income outstanding in debt and made monthly repayments that amount to half their income. They distinguish 3 levels of over-indebtedness: transitional (19% of the most indebted 20% of households), pauperization (38% of the most indebted 20% of households) and extreme dependence (43% of the most indebted 20% of households)(Guérin et al., 2011) present choice on credit or, in other words, is able to do intertemporal evaluations. He is, finally, financially prudent (Marron, 2014).

This image, of course, is more an ideal type than a picture the reflects the real behavior of most of consumers (Langley, 2008). A body of literature has shown that borrowers are more irrational and financially non-capable consumers than rational and informed individuals who fully understand the conditions of the credit they are purchasing (Langley, 2008). From this perspective, individuals may not necessarily maximize their interest while choosing between different loans and don't have the capacity to evaluate their financial control from a intertemporal perspective. The risks of irrational decisions are directly related to the emergence of new vulnerabilities related to access to consumer credit and, particularly, over-indebtedness.

Indeed, people don't always do what is actually best for them when borrowing money. Sometimes borrowing decisions are not related to a financial rational evaluation and present gratification tends to be more important that the evaluation of future events and the possibility to repay in time and to handle several debts. They might also have over-optimistic expectations for the future, without giving any though to possible unforeseen circumstances. In sum, it can be hard for these households to resist the temptation of over-borrowing, sometimes in order to keep up with the consumption levels of others (Schicks & Rosenberg, 2011).

Managing indebtedness and over-indebtedness

Lessons learned from the individual and others' experiences lead to different types of practices when dealing with credits and indebtedness and over-indebtedness, the latter defined as a chronic and involuntary inability or difficulty to repay the debts (Kappel, Krauss, & Lontzek, 2010), forcing the household to develop different strategies to cope with it[8]. From the perspective adopted in this paper, people are over-indebted when they struggle to repay a debt and to do so they cut off on other basic expenses they or they are left with no margin to face frequent risks involving financial costs, such as illness or a household member's death (Barros, 2012a). Therefore, borrowers could still be over-indebted even when they are repaying their loans.

There are different strategies to deal with indebtedness and over indebtedness. Some studies identify the use of revolving credit facilities as a particular strategy, where borrowers decide not to meet their total outstanding obligations each month and extend their borrowing time horizon (Ritzer, 1995; Langley, 2008). Also, Barros (2012a), for example, identifies different strategies among retail consumer credit takers in Chile: the first one is related to pausing the payment of installments in order to redirect that money towards more urgent needs, such as health or education. There are also situations in which payment

[8] There are, however, other approaches for measuring over-indebtedness. First, there is the 'negative impact' approach, which implies measuring if the loan is making the borrower better off or worse off than he would have been if he hadn't taken it. Second, there is the 'default and arrears', which includes public humiliation, asset seizures, loss of creditworthiness and erosion of social networks. The third approach refers to 'debt ratios', which defines over-indebtedness as borrowing over certain limit and is based on the take-home pay (what's left after minimum consumption expense is deducted). The fourth approach is the 'multiple borrowing', which measures if borrowers take loans from multiple lenders simultaneously. Finally, there is the approach centered on 'borrower's struggles and sacrifices', which captures the struggles borrowers face to repay, even when they are able to do so on time. This implies measuring to how extent actions anticipated by the borrowers become more costly when trying to repay and capturing when borrowers have to make extreme sacrifices in order to pay off the debt (Schicks & Rosenberg, 2011).

is alternated between different institutions, letting some time pass in order to accumulate money. Behind these two strategies is the idea that 'retail stores can wait', because there isn't a strong moral commitment to them, and there other expenses which are imperative and taken into account for the calculability of payment decisions. Moreover, the author finds that when families have a loan from a bank as well as a credit card or a NBFI, payment to the bank is prioritized since they are more strict regarding compliance, and they also have more serious sanctions (Barros, 2012a).

Another type of strategy consists of asking for cash advances (take new loans) in order to pay off a worrisome debt. Even though the individual is acquiring a new debt with the person or institutions that provided them with the money, they also feel relief. Sometimes big advances are asked, so that all the debt that a person has can be paid off and all the new debt is concentrated in one institution. When this happens, individuals no longer feel the responsibility of paying attention to the payment of many different debts, which is time and energy consuming. The result of these actions is a 'debt chain': when a debt is paid off, a new one immediately arises (Barros, 2012a).

Finally, a reciprocity relationship is built when credit cards are lent or when cash credits are acquired for other people, basically when a person already has debts or has a lousy credit score and is not able to take a new credit. In these cases, the act of lending is usually rewarded with some sort of favor, which in the long run creates a chain of favors. These type of behavior is based on emotional factors, where trust is the necessary element that determines the occurrence of the exchange (Ossandón, 2012; Barros, 2012a).

4. Methods and data

The analysis is based on a mixed methods approach. It uses the following secondary sources (financial system information, press reports, household surveys[9], credit market data produced by the Central Bank within its supervisory activities, as well as from local consultancy firms, National legislation and regulations of the credit market). Also, the paper bases on primary information obtained from 'mystery clients' filling requirements to credit firms and in-depth interviews to poor households[10].

The 'mystery client' strategy provided information about the two main questions this paper addresses: (i) ¿what does the non-banking consumer credit market like and how does it work? and (ii) ¿how is the relationship of low income households with that market?. A sample of 10 branches (see section C in appendix) was randomly selected from a total of 88 branches of the 16 non-banking institutions offering consumer credit as their main activity (in Uruguay, labeled as 'Credit administration institutions').

[9] Financial Inclusion Module of the regular household survey conducted by the National Statistics Institute in 2012. Uruguay's national statistics office (Instituto Nacional de Estadística - INE) carries out continuous household surveys that cover several topics. In the last trimester of 2012 it included a special module about financial practices and characteristics of the family. Using this database, this study explores the relationship that households have with the financial system, particularly with the credit market. Since this module applied to households and not to individuals, it is worth noting that the data shown according to different characteristics refer to the characteristics of the head of the household. This analysis allows the identification and characterization of the target population of this study more precisely.
[10] The project also included a round of interviews with experts in the field of financial development and the consumer credit market in the country (the Chief of the department of *Superintendencia de Servicios Financieros* (Central Bank) and a financial system advisor for the Banking employees' Union).

The selected institutions were located in Montevideo (although some also offer their services in the rest of the country) and were the larger ones in the market[11]. Institutions only offering productive credits or loans for small enterprises or for starting a business were excluded. Cooperatives and unions selected (in addition to the criteria just mentioned) were only the ones that are open access to any individual (many unions, instead, are tied to specific professions or trades). The sample's territorial distribution reflects a high presence in low and middle income zones (see figure 11 in the appendix).

Every branch was visited by a member of the research team that simulated to be interested in requesting a loan[12]. The main issues covered by the 'mystery client' strategy were: (i) What information do institutions provide to people trying to find out about cash consumer credits? (types, costs, payments, options), (ii) how institutions provide that information?, (iii) what documentation ('social tests') do institutions require from potential clients? (id, warranty, others) (see 'mystery client' guide in the appendix). Complementing this information, the websites of the major credit institutions were explored. This exploration searched for the basic information 'mystery clients' were required to ask.

Also, 20 In-depth interviews were carried out to low income and poor families. For households to be selected, the breadwinner or spouse had to have taken a cash consumer credit (excluding credit cards) in the last two years. They also had to belong to the lowest socio-economic quintile (according to a combination of income, educational level and the breadwinner's employment situation. The sampling method used was respondent-driven snowballing and the interviews (face-to-face) were developed base on a questionnaire/guide (see appendix). For the purpose of the analysis, the names of the interviewed were changed.

The analysis is guided by a descriptive approach that searches for information that is both theoretically representative and relevant to the analysis of the case. Also, although exploring some components of possible casual mechanisms, the paper is not seeking to make inferences on the main causal chain underlying the paper -this is, the extent to which the entrance of the poor into consumer credit through the non-banking market exposes them to risks and leads them to a higher vulnerability-, a goal that would require more sophisticated design. This explains the option of considering only families who have taken a loan and leaving out of the scope of the paper the counterfactual for this case (households who have not taken one).

5. Consumer credit market for low income households in Uruguay

In comparative terms, the Uruguayan consumer credit-to-GDP ratio is not outstanding. Within the region, Uruguay's figure could be considered average: Brazil holds the largest ratio (in 2011, a little over 10%, and rising), followed by Colombia and Chile (approximately 9%). On the other end, Mexico is among the countries with the lowest proportion (4,3%). Compared to the United States, the region is still far behind (see figure 1 in the appendix).

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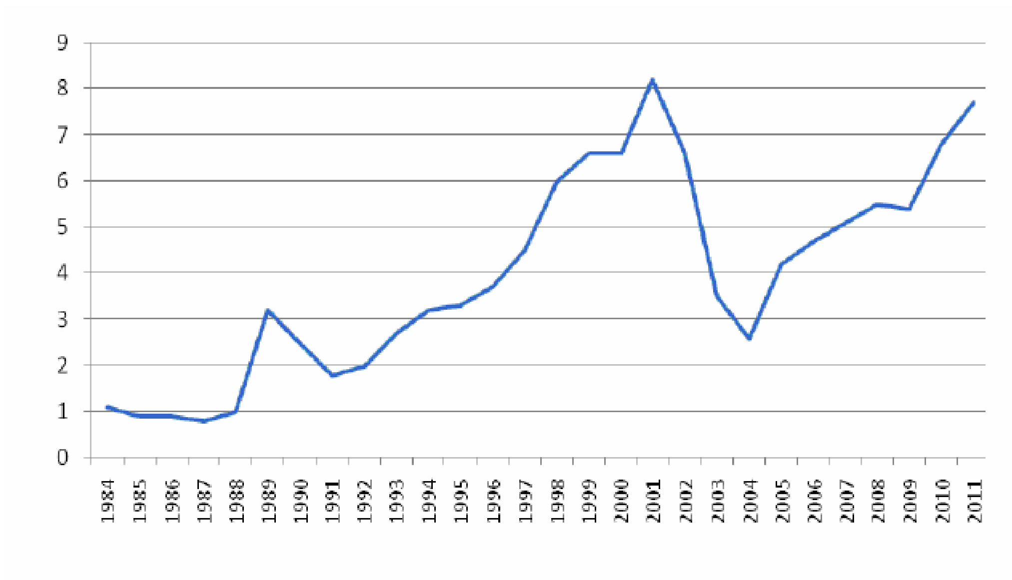
[11] The majority of these institutions are the ones that are supervised by the Central Bank. The Central Bank supervises those which have more than (approximately) US$3 million in assets. The institutions under that threshold were excluded.

[12] Complementing this, websites from the sampled institutions were explored searching for the basic information 'mystery clients' were required to ask

According to data from the 2012 Financial Module in the National Household Survey, 36% of the Uruguayan households hold some type of credit or loan from either banks, NBFIs or friends and family. This proportion is equal to approximately 408,000 households which are in some way indebted (see figure 5 in appendix).

Also, this number seems to be growing fast. As most Latin American countries, Uruguay has experienced a significant increase of consumer credit in the last decades. While in 1984 consumer credit represented around 1% of GDP, ten years later, in 1994, it was already 3% and by 2001, before the deep economic crisis the country suffered at the beginning of 2000s, it had grown to 8%. During the crisis, the level of consumer credit decreased drastically, but in the following years the level was recovered, reaching in 2011 the level of 7.7%, almost its historical maximum since the return to democracy (see figure 1).

Figure 1. Uruguay: Evolution of consumer credit as a percentage of GDP (1984-2011).
(in %)



Source: MMCC Pronto! July 2012.

In sum, disregarding the second phase of the 80s, following the financial crisis of 1982, the evolution of the consumer credit market in relation to the national economy appears to have at least three points in time that clearly stand out. The first and most significant occurs in the 90s, the second significant moment (a decrease in consumption credit) occurs after the financial crisis of 2002 and, finally, the trend begins to increase again from 2005 on. This reveals the pro-cyclical pattern of the consumer credit market and, at least in the macro level, an association between the rise of the economy and the rise of consumer credit.

The Uruguayan financial system is quite different from the ones in other Latin American countries. The public sector has the most relevant weight and leadership: the state bank (BROU- Banco de la República Oriental del Uruguay) holds responsibility for approximately 53,5% of total credit market[13]. The private banking system represents a 23,6% and other non-banking financial institutions account for approximately 22,9% of the credits awarded. According to data from 2014, household consumer credit (excluding

[13]See El Observador ("El crédito al consumo creció a su mayor tasa en más de un año"), based on data from the Uruguayan Central Bank (BCU).

credit for housing or vehicles) has experienced a 9,1% of annual growth. Within this figure, the proportion of credit awarded by the private banking system decreased by a rate of 1,9%, while consumer credit from Non-banking financial institutions grew up to 16,3% annually.

The non-banking consumer credit market is in fact growing. As seen in the following figure, from 2006 to 2014, the amount of money lent (gross consumer credit) went from approximately 200 million (USD) to approximately 1 billion[14]. Information from households surveys confirm the growth of the non-banking sector. 36% of the uruguayan population has loans only from banking institutions, followed closely by loans only from non-banking financial institutions, which is the case for 30% of the families. The third most common situation is for families to have both loans from banks and from non-banking financial institutions (15%). The rest of the possible combinations represent smaller proportions.

Non-banking financial and credit institutions prove to be a profitable business since the loans are usually given out through more flexible procedures, and higher interest rates are usually applied. The Central Bank's regulation, on the other hand, applies with relatively less rigor to these institutions.

The development of NBFI and the private banking sector must be analyzed carefully, given that several private banks now own certain NBFIs. This strategy was developed in order to broaden the target population of banks (which is mostly middle and upper class); while NBFIs appeal to a new type of consumer, mostly belonging to the lower-middle class and lower class. Indeed, the target population for these institutions encompasses mainly middle income and low income families, which means that their clientele is much larger than that of formal banks.

Based on estimations about the distribution of the uruguayan population in these segments (in the year 2009), NBFI's potential clientele represents about 75% of the population that takes loans (Da Silveira, 2009). Households from the lowest socio-economic level (segments 'C2' through 'E') represent 94% of the population that holds credits outside of the formal banking system and 82% of this population currently holds a loan, credit card or purchase order. When considering only loans and purchase orders (excluding credit cards), this percentage is still high, whereas 69% of the people who form part of the NBFI credit market currently holds one of those financial services (Pronto, 2014) (see figures 3 and 4 in the appendix).

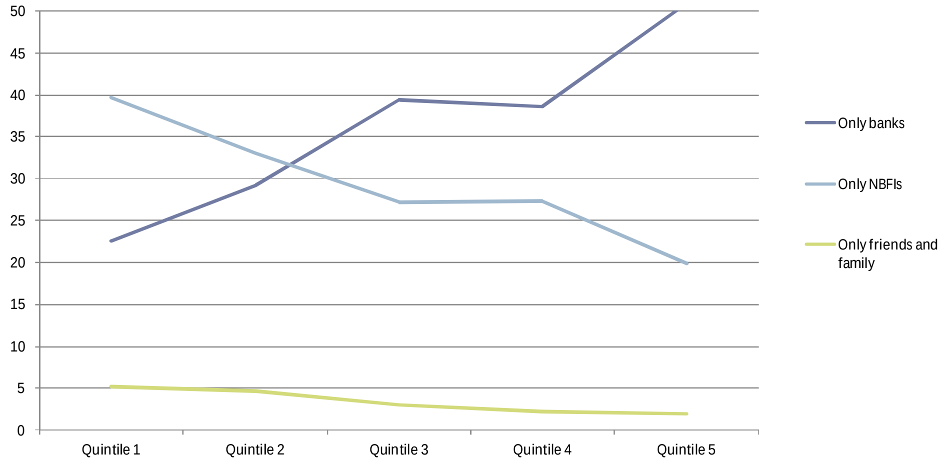
When analyzing this typology by income quintiles, further evidence arises on the differences of access to credit providers. Firstly, the proportion of families that holds credits only from banks rises from 23% in Quintile 1 to 51% in Quintile 5. With respect to non-banking financial institutions, once again an inverse relation: 40% of those in the lowest quintile have loans emitted only from non-banking financial institutions, while this figure descends to 20% among those households with highest incomes. There is a clear, inverse relationship between the level of income and the type of institutions these go to obtain loans. This is reasonable to expect, given that formal banking institutions tend to

[14] The sudden increase from September 2012 to march 2013 regards the change in the format in which the largest NBFIs had to report their data to the Central Bank. See details on the inconsistencies in the data in the methodological section of the appendix.

have more rigid and formal requirements that people with lower incomes cannot comply with, thereby recurring to non-banking financial institutions (figure 2).

Figure 2. Percentage of households holding consumer credits by institution type and per-capita income quintiles.

(In %)

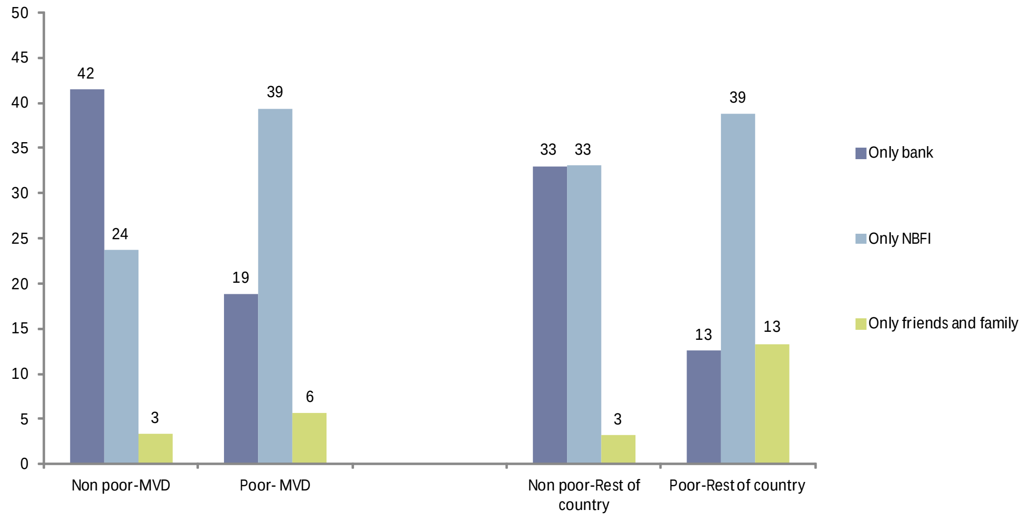


SOURCE: Author's elaboration with Financial Inclusion Module in National Household Survey

The next figure builds on these findings, since a similar trend is observed when comparing the source of credit between poor and non-poor households. Households below the poverty line obtain their loans mainly in non-banking financial institutions; this holds true for both regions of the country. On the other hand, non-poor households of Montevideo prefer banks, although these households in the rest of the country appear to access credits from banks and non-banking financial institutions in the same proportion (figure 3).

Figure 3. Percentage of households holding consumer credits by institution type, region and poverty.

(In %)

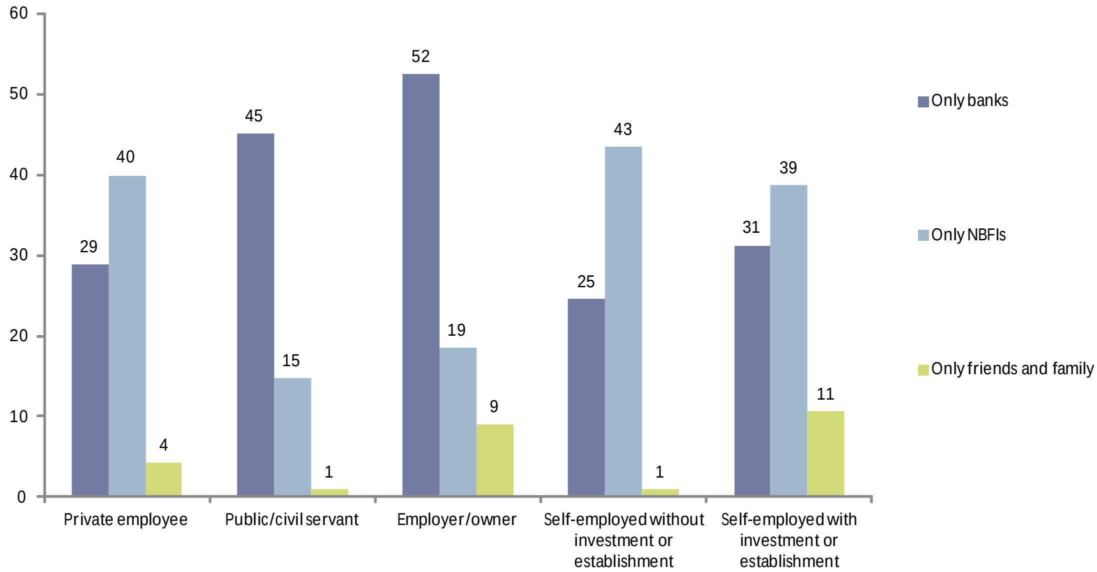


SOURCE: Authors' elaboration with Financial Inclusion Module in National Household Survey

Workers of the private industry and independent contractors/self-employed workers (especially those without an investment or an establishment) took loans primarily from non-banking financial institutions. In contrast, almost half of civil servants who obtained a loan did so from a formal banking institution (45%) [15]. In another sense, 50% of non-formal workers recur to non-banking financial institutions to obtain a loan (workers in informal conditions make up 25% of the total workforce) (figure 4).

Figure 4. Percentage of households holding consumer credits by institution type and head of the household's main occupation

(In %)

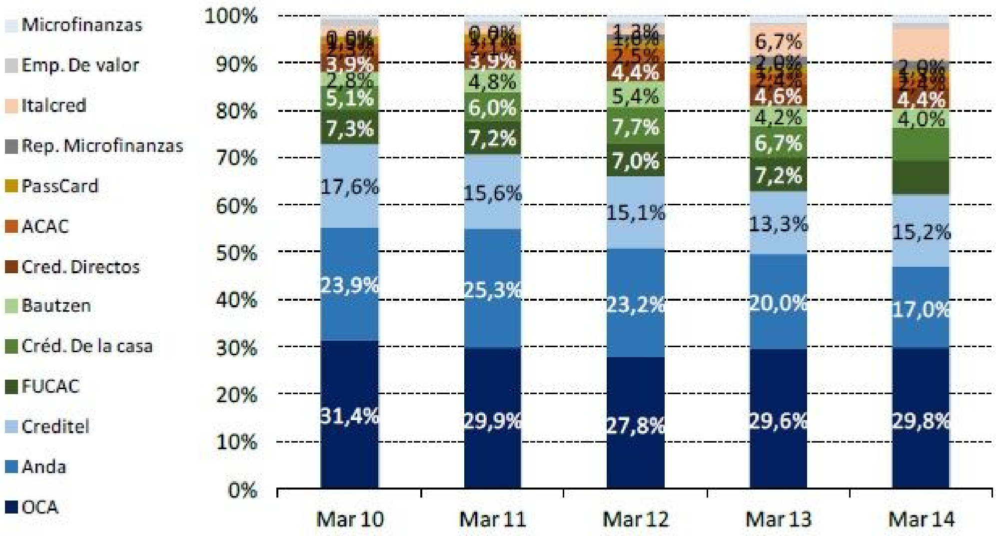


SOURCE: Authors' elaboration with Financial Inclusion Module in National Household Survey

Although there are several credit-providing institutions, the market share is primarily composed of three major institutions: OCA, Anda and Creditel. This market could be characterized by being relatively oligopolistic, since the shares of these three institutions add up to 60-70% of the whole consumer credit market (through NBFIs). The evolution of the market share also reveals that it has remained fairly stable in the past four years (figure 5).

[15] Recall that, on the one hand, teachers of public schools play an important role in this category. And, again, civil servants receive their payments through the state bank (BROU), which has its own line of consumption credit, of easy access for these workers.

Figure 5. Consumer credit market share evolution (2010-2014).



SOURCE: Equipos SPES

Most NBFIs offer not only cash loans but also loans through credit cards; and there are also some institutions which offer purchase orders. Most of the money emitted in credit, though, originates from the credit cards[16]; probably because through this mechanism people have a more 'prolonged' access to the money, since the institutions monthly recharge your card with a certain amount[17]. Cash loans, on the other hand, require the person to go back to the store if they need another loan.

All in all, some of the considerations stated in the theory are confirmed by the Uruguayan case. In this sense, there has been an important increase in the consumer credit market and an increase of Non-Banking Financial Institutions, that have revealed as a relevant third actor in this market, almost equalizing the banks' participation in it. Many non-banking financial institutions have been bought by banks, partly because of the relative flexibility regarding regulation has made these institutions into a significant asset of private financial capital.

Regarding those who could be considered the 'typical' user of consumer credit from NBFIs, they are usually less educated people, with lower incomes (particularly the poor)

[16] It is noteworthy that credit cards have had the greatest impact regarding access to consumer credit and the purchasing of goods and services, the possession of this financial tool is still clearly stratified across socio-economic sectors and related to the formal banking system. Within the top fifth quintile, 79% of this population has a credit card. On the other end of the spectrum, only 34% of the people who belong to the lowest quintile have a credit card (see figure 1 in appendix). The trend is clear: as incomes rise, so do the possibilities of accessing a credit card.

[17] The increase in credit card use will probably keep increasing in the next years, given that a new law has been passed in Uruguay (law #19.210), which settles several significant changes regarding financial inclusion. One of these changes establishes that purchases made with credit cards receive a discount of two points in the product's sales tax (V.A.T). One of the most important features of this new law is the fact that all formal workers must receive their salaries through a formal banking institution or a cooperative. In addition, all workers have the possibility to request a payroll loan from the institution they enroll in. The payroll loan implies that the person can request a credit, which is then directly discounted from his/her salary. This new mechanism implies important changes in the credit-requesting system.

and workers of the private sector of the economy or the self-employed. This population also tends to have weak labor ties. This is an approximate 'profile' of the consumer credit-takers from NBFIs, which mainly destine this money to covering the household's daily costs.

Market regulations

The Uruguayan Central Bank defines 'Credit-providing institutions' as those financial institutions offering loans through any mechanisms (credit cards, cash loans or purchase orders). It also considers credit unions, cooperatives and other civil associations[18] providing loans as 'credit providers', as long as this economic activity has a significant weight relative to the rest of the activities it takes on.

According to the national regulation any institution that fits the above description must comply with the requirements established by the Central Bank. Although most of the regulation applies to all of these institutions, the Central Bank discriminates the 'credit-providing institutions' based on the amount of assets they receive: those with more than (approximately) US$3 million in assets must respond to further criteria than smaller institutions. The regulations establish guidelines regarding a diversity of issues: conditions for the registry of a 'credit-providing institution', origins of the financing assets of the institution, client-business relationship, interest rate, information transparency and information provision, among others[19].

The law establishes that transparency of information is not only imperative when offering a product, but also when formally closing the deal. Contracts must be as thorough and comprehensive as possible: amount lent, interest rate, interest on arrears, amount of payments, total sum, payment due dates and deadlines and proper identification of the client, among others. On the other hand, the regulation sets that any change in the contract cannot be effectuated without the consent or knowledge of both parts. Institutions are also prohibited from including unfair contract terms[20].

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[18] The unions and cooperatives, besides being contemplated in the Central Bank's regulation, must also comply with additional criteria established in the 18.407 law ("Cooperative system. General regulation on its compliance"). Regarding this last fact, credit unions and cooperatives are allowed by law to retain part of the client's salary if he/she fails to pay the credit installment on time or fails to cancel the debt.

[19] Before 2010, the law established that these institutions could only be financed through its own resources or through financial intermediaries. According to reports emitted by consulting agencies, this guideline was not clear enough and gave room for misinterpretation of the law. Therefore, the Central Bank's charter was rewritten in this respect, now including a concrete list of possible sources of financing for these institutions: (i) physical persons who are either directors or shareholders of the credit-providing institution, (ii) national or international financial intermediary institutions, (iii) international credit organizations or development-promoting organizations, (iv), international pension funds or investment funds subjected to a regulative authority and (v) any legal person with financial assets or financial trusts. What is most important to note, however, is that in Uruguay credit-providing institutions cannot take deposits from its clients. Any institution that fits the above description has ten days to officially register in the Central Bank, presenting certain required data. The data refers, on the one hand, to general characteristics of the institution (such as number of employees, number of stores, offered products and services, etc.), as well as financial statements and judicial statements that legitimize the capital being used to finance de institution[19]. In addition, every institution is required to keep the Central Bank updated on this information. This includes, for example, informing if a store is open or closed. The "large" credit-providing institutions (those with more than 3 million in assets) must present information of every shareholder, partner, director and CEOs that allows the Bank to evaluate their "moral, professional and technical eligibility (Libro I: Autorizaciones y registros. Banco Central del Uruguay)

[20] Another regulation that applies to the credit-providing institutions (as well as to every other financial institution) is the "Code of Good Practice". This code establishes a series of values and norms that assure clients a reasonable standard of treatment (employees must treat clients "fairly and must act with integrity"[20]). It is also reaffirmed in this code that the institutions must provide full information during every phase of the

Institutions must present the accounting statements at the end of every economic period, as well as statements regarding capital requirements. The largest institutions must respond to certain additional requirements from the Bank (their accounting statements must be reported monthly, monthly updated information about their clients for the 'Risk Central'[21]).

Each institution assigns a score to each borrower based on their experience complying (or not) with their payments. The regulation states, though, that customers must be informed when their information is sent to the Central Bank. If an institution does not comply with any of the established rules, there are different types of sanctions that may apply, varying from monetary fees to the expulsion from the registry. Non-compliance may refer to giving erroneous information to the Bank, delays in the provision of information, inadequate resolution of conflicts with consumers or any other type of omissions or faults.

One of the most important aspects regarding regulative aspects of the functioning of the credit providers deals with the interest rates that these institutions can charge. There is a specific law where the guidelines are established (this law applies to any institution that provides credits, meaning than banks are included as well). The law 18.212, enacted in 2007, is a modification of a past regulation that also dealt with interest rates but did not establish enough limits for the credit-providing institutions (non-banking ones) that provided loans of much smaller amounts[22]. The new law sets limits on interest rates; past these limits, the interests being charged will be considered to be usurious. In addition, the law establishes specifically what type of items must be considered in the calculations of usurious interest rates.

At the same time, the law sets a list of costs that must be included in the interest rates (e.g. taxes, insurance, administrative costs, etc.). More specifically, the limits on the interest rates are defined according to the amount being lent (amounts larger or smaller than 2 million UI[23]), intended use of credit (consumption or mortgage), loan terms (up to one year or more than one year) and, lastly, type of loan (credit card or cash). The Central Bank publishes, each month, the average interest rates according to these specifications. For loans up to approximately US$240,000), the interest rates established by the institutions cannot be larger than 55% of the established average interest rates. The default interest rates for these types of loans cannot surpass 80% of that rate. For loans larger than 2 million UI (approximately US$240,000 the limit of interest rates cannot exceed 90% of the average interest rate, while the default interest rates cannot exceed 120% of the established

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transaction. In addition, institutions must have a systematized mechanism of conflict resolution. This mechanism must be accordingly diffused and published. Clients must also know that if their issue is not resolved within the financial institution, they can recur to a special section in the Central Bank with their situation. The regulation even includes specific steps regarding this conflict resolution process, such as the amount of days the institution has to respond to the client's concerns. Lastly, each credit-providing business must have a specific employee in charge of customer support. In another sense, the regulation includes a number of guidelines regarding the prevention and detection of illicit activities. Firstly, as wish customer support, the institutions must assign a specific employee with the task of supervising these type of activities; this person must even be adequately trained in the Central Bank. The business must also establish a procedure that allows it to know who its clients are and to maintain a proper registry of all the transactions that take place, with the objective of controlling suspicious activities. If suspicious activities are detected, these must be immediately reported to a special unit in the Central Bank[20]. Each year, in addition, the institutions must provide the Bank with a report on all of the unusual activities that were detected.

[21] A credit bureau held by the Central Bank that unifies information on all borrowers

[22] Rodríguez, Diego. "Nuevas reglas pare el mercado de créditos en Uruguay". Ferrere Abogados.

[23] UI is an indexed monetary unit the Central Bank sets. As of October, 2014: 1 UI = US$0,12

average rate. For further illustration, this was the case for the month of July 2014, with respect to cash loans of less than US$240,000 (Table 1).

Table 1. Cash loans of less than US$240,000 (July 2014)

	Loan terms	
	Up to one year	More than one year
Average interest rate established by the Central Bank	10,98%	9,10%
Maximum interest rates that the institutions can set:		
Interest rate	17,02%	14,11%
Default interest rate	19,75%	16,38%

Finally, the law established civil and judicial sanctions, applicable in those cases where the institution has set usurious interest rates.

How the non-banking market works?

Requirements and tests

Practically all of the interviewees mentioned the same paperwork required by the different institutions to obtain a loan: I.D., a wage receipt and a utility bill (in order to verify the home address). In some cases the interviewees were also required to give contact information of other people (friends, family and neighbors). In most cases, the process was quick and easy and the loan was given in that exact moment, once the proper documentation was presented.

This is consistent with what was obtained through the 'mystery clients' strategy. In general, most stores have very similar ways of functioning. On the one hand, they all require the same documentation to request a credit: wage receipt, household bill (electricity, water, etc.) under one's name and personal I.D. card. The different variations with respect to these are, for example, amount of time spent at a job (mostly all require at least 3 months of experience at that place, although it is usually more demanding for younger people).

Another important difference regarding the employment factor is how each institution deals with formal and informal workers. In every store visited, the first things they ask for is the information stated above. The fact that they ask for a 'wage receipt' automatically means they are referring to formal workers. These requirements are also stated in their websites and in most flyers and advertisements (see appendix).

Nonetheless, when inquired about the situation for informal workers (who do not receive wage receipts), most of them do have alternative procedures for these cases. A few institutions (mostly Credit Unions and Cooperatives) do not lend to informal workers since they extract the money directly from the person's salary. In the rest of the cases, though, a few alternatives were presented. One alternative was presenting some type of documentation which validates your employment status and, most importantly, your salary; some type of proof or letter from your employer in addition to the employer's contact information (in order to verify what is being presented). Another alternative was presenting the required documentation (wage receipt and household bill) of some person which will serve as a 'guarantor'. Again, what is interesting in this case is that these procedures are not stated formally. We were only made aware of these exceptions when inquiring about them at the stores.

Information and transparency

Non-banking credit institutions don't usually inform their clients the details of the conditions and characteristics of the loan their clients are buying. In the fewer cases the 'mystery clients' were informed explicitly how much they would be lent, how many installments they would have in order to pay the loan and the interest rates they implied.

The amount of information that 'mystery clients' were given when inquiring about the different products tended to be insufficient. The most extreme cases were those in which they were not given any data since we were not officially beginning the process of the request. Again, they were told that without the proper paperwork they could not give them any relevant information.

Since the possibilities regarding amounts of money lent and amount of installments offered vary according to several conditions, the information regarding these aspects was not given. Nonetheless, in some institutions they did provide information based on hypothetical cases. They usually had 'simulators' in their computers where they entered amount being requested and, based on different options regarding the amount of months of payment (6 months, 12 months, 18 months, etc.), the amount to be paid each month. Still, these were hypothetical numbers based on a simulator and this information was given in the minority of the institutions.

There is one particular institution, one of the largest and most popular in the market, which has a simulator that, based on a series of questions, calculates how much can be lent to that person. This process stood out in comparison to the rest of the NBFIs since in most cases the only personal information that is asked is that which is found in the required paperwork.

A couple of other websites stand out because they have 'online calculators' where you can enter the amount of the loan you wish to request and the amount of months you wish to divide your payments in. The calculator then gives you the amount of money you have to pay per month, giving you the necessary information to calculate the interest rate. Still, these calculators serve as a tool for calculating how much you will be charged but does not necessarily mean that you will be granted that amount. None (except for one) state the amount of money that will actually be lent. Instead, they state ranges or offer certain special products but they are all subject to approval.

Also, interest rates here are generally stated in a very technical language and are not very visible. Most are found in the 'terms and conditions' documents, which are also not easily found or not sufficiently emphasized. Those documents have tables with the different products (credit cards, cash loans or purchase order) and their respective interest rates and in the fewer cases the default interest rate as well. Nonetheless, they are not stated in a manner that any common citizen will be able to interpret (especially not citizens with lower levels of education).

The 'mystery clients' had the same impression: this data was not given unless upon consultation. In those institutions where they also offer credit cards, the information was even less since there are more aspects included in the use of this product (for example, the monthly fixed cost of the credit card itself). Also, facts regarding other additional costs (such as insurances) were most of the time omitted unless we specifically asked about them.

In-depth interviews confirm the lack of information and transparency that was perceived through the mystery client strategy. When asked about the information they were given at the time of their inquiries, they declare that '*They don't tell you anything. If you are late on your payments they don't tell you how much they charge, they just charge you per day, they don't tell you anything. I don't think any institution does'* (Estefanía). Other testimonies point to the same problem:

> *'(…) I asked 'how much can I borrow' and they told me the maximum was $3000 according to the salary I received. And they told me the amount I had to pay each month and how many installments and nothing else'* (Mariela)
>
> *'If you ever get to see a billing statement from Anda, you will never finish understanding.. It is very confusing, the statement (...) And that way you can never follow the pace of the bill. It is very complex. And if you call Anda they don't pay much attention. They charge delay, additional charges, ATM use...'* (Pedro)
>
> *'It happened to me with Italcred. I took out a loan, they offered it and I accepted. But they never explained that they charged you with an insurance fee. I don't even know that the insurance was for. And when I went to use it when I was low on cash they told me I couldn't because I had a debt (...) Because I was never aware that I had to pay an insurance and I wasn't given the option' (*Marisa)

Nonetheless, as was expressed by other interviewees, the institutions provide the paperwork with the terms and conditions of the loans, although they might not communicate them accordingly. These statements show another point of view which in turn might lead one to conclude that, even though they are usually unclear and imprecise regarding the conditions of the loan, this does not mean that the information is not available.

This was specially the case for those institutions where 'mystery clients' declared to be informal workers. This situation gives place to a much larger 'gray' area and if to this condition they added that they were registered in the *Clearing de informes* (a sort of "black list" from a credit score agency that registers debtors), this pattern was even more intense. Even when being persistent and requesting specific and concrete numbers (on how much they would be lent and how much they would have to be paid), they we responded that 'it depended' and that the case had to be 'studied' once the required documents were presented (the 'studying' of the case is usually done at that same moment).

Still, the general impression was that the conditions of the credits and loans are always 'subject to negotiation'. Naturally each institution has certain established conditions, such as a minimum wage or minimum age, but the 'mystery clients' perception was as though, at the end of the day, there was not fixed criterion that applies to everyone the same way.

As expected, the type of information that was almost always mentioned was that regarding additional benefits. This is mostly the case of Credit Unions or Cooperatives, which offers a variety of products and services to its members (see appendix, section D, mystery client material), as well as discounts and participation in raffles in different stores (see appendix, section D, mystery client material).

Most stores visited had numerous advertisements in their walls and display windows regarding special products and offers. Most of these advertisements do show concrete amounts of money to be lent but the fine print states that they are subject to approval. The same occurs with the advertisements one finds in their websites (see appendix, section D, mystery client material).

In most cases, though, besides the fact that the amount of information given was poor and scarce and that the amount lent would be established once the proper paperwork was presented, the message that was clearly transmitted was that once you take the required documents and once the loan was approved (which takes less than 15 minutes), one would immediately receive the cash. Even in those institutions that only offer credit cards, the person receives the card right away and can also immediately use it at an ATM.

Marketing strategies

Easiness and immediacy

The possibility of obtaining a credit quickly and easily, without complications, is present in most of the messages that, through different channels, reach the potential borrowers (see appendix, mystery client material B). NBFIs also use frequent marketing strategies, such as street, TV, radio and web advertising. Some interviewees also mentioned that they received phone calls from a particular institution (with which they had not operated before) to offer them a loan.

Offering credit cards

Some of the NBFIs offer credit cards as well as cash loans. One aspect that picked up in many of the interviews was that, once the person obtained a cash loan from a particular institution, the institution would then offer them a credit card. In some cases, the credit card would be given automatically at the same time of the cash loan, even without request by the client. In other cases, once the person is done paying their first loan (or they have paid several installments), then they receive an offer for obtaining the credit card from that institution. Testimonies express that *'They include the credit card. It comes with the envelope (...) I think that at that moment you can't return it.'* (Natalia) and *'When you are done paying the loan they offer you the card.'* (Estela). Moreover, *'(…). They forced me to have a credit card with them'* (Julieta).

Loan renewal

Another form of persuasion commented by the interviewees was that some NBFIs have contacted them a few months before they finished canceling the debt in order to offer them a renewal of the loan. Karina, Agustina and Marisa revealed this phenomenon in the interviews:

> *'Yes, when you have 14 installments, if you are on your eighth or ninth installment they call you and they want you to get hooked again. '* (Karina)

*'So I said: 'Ok, I'll see how much they'll give me'. So I went there and they gave me 44 [thousand pesos], but they discounted the 5 or 6 installments I had left, because I was going to finish paying in February. So, of course, they included them. They renewed it, discounted, and gave me 32 thousand pesos in hand.' (*Agustina)

'And, for example, know that I am almost done paying they asked me if I wanted to get another loan. They called me and told me they would discount those installments that were pending and the rest I could take in my hand.' (Marisa)

6. The poor and their relationship with non-banking consumer credit

The characteristics of the non-banking consumer credit market and its practices is only half of the evidence relevant for understanding how the poor are accessing credit. The other half is related to (i) the real options this population has when deciding to take a loan, (ii) the needs they have, (iii) the way the make decisions for borrowing and (iv) the way the manage indebtedness and overindebtedness.

Credit market options

Most interviewees do not have bank accounts or debit/credit cards from banks. Those that do usually have debit cards from the state bank, through which they receive their salaries or receive some type of pension. Also, most did not recur to banks to request a credit since they all have the perception that the requisites and conditions they must comply with are much more demanding (such as having a minimum income, which is higher than theirs).

'...I would have preferred a bank always, but since I can't... I don't know if I can't, I never tried. ' (Karina)

'For example, Santander offered me a loan not so long ago but they charged a lot of interest too. And other banks, I don't know, I haven't looked for information, but they must request more years at a same job and stuff. So I didn't even try, I would go directly to the NBFIs.' (Juana)

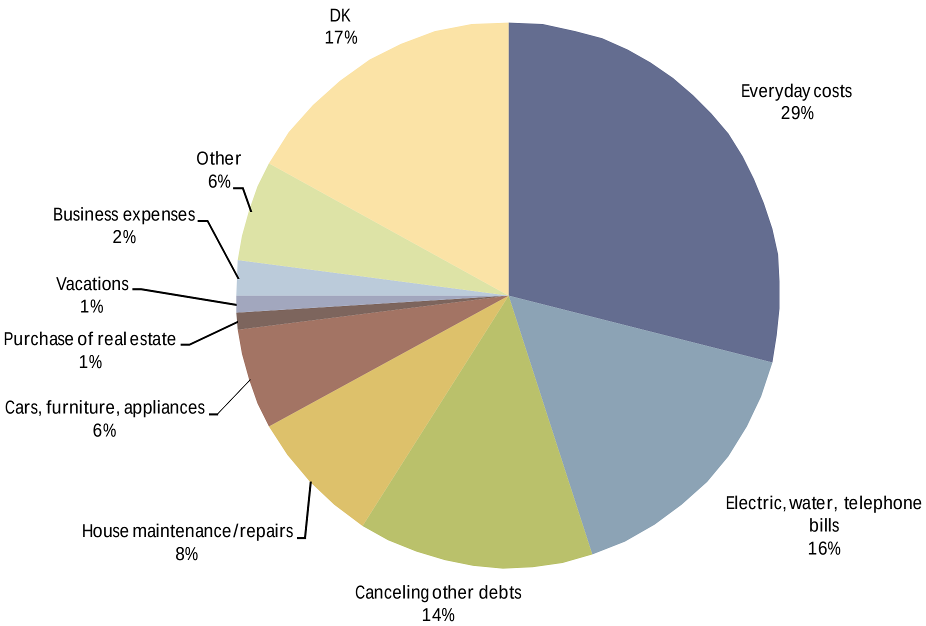
Another condition that some of the interviewees usually could not comply with is the fact that to request a credit in a bank one cannot be registered at the *'Clearing de Informes*', the credit bureau/credit report agency that contains the names of people who failed to cancel a debt with a financial institution (several of the interviewees find themselves in this situation, or had been in this list before). Still, it was discovered through the interviews that most of the non-banking financial institutions do not deny loans to people who form part of this 'list'. On the one hand, this could be seen as a positive aspect, since it is one less obstacle people have to consider when requesting a credit. On the other hand, it fails to serve its purpose of discouraging irresponsible habits regarding loans.

Credit uses and purposes

The Module from the National Households Survey looks into the areas that prove most troublesome for the families at the time of canceling the debt. The results indicate that in general, loans related to everyday costs (i.e. food and clothing) are the ones that give families a harder time canceling (29%)[24]. If we add the category of utility bills, such as water and electricity, these types of costs account for 45% the distribution. In other words, almost half of the indebtedness in uruguayan families is taken to cover daily household expenses. Additionally, 14% of the households claimed that the most troublesome debt to cancel referred to the canceling of other debts. These households could be a reasonable estimate of the over indebted population (Figure 6).

Figure 6. Main purpose for the consumer credit obtained

(In %)



SOURCE: Authors' elaboration with Financial Inclusion Module in National Household Survey

As expected, the most common cause of trouble differs by levels of income. Although everyday costs are the most troublesome within each category, the largest difference is seen in relation to these, whereas this figure varies by 14 percentage points between the two extreme quintiles (33% for Quintile 1, 19% for Quintile 5). Again, if we add up everyday costs and utility bills, these categories by themselves explain half of the uses of credit among the poorest households (53% vs. 30% among the top quintile). Among the poorest sector of the population, incurring in debt becomes a strategy to increase their monthly available income and, thorough this, face the everyday costs (table 2).

[24] More specifically, the question states: 'The debt that this household has more trouble paying was generated by... '.

Table 2. Main purpose for the consumer credit obtained, by per-capita income quintiles-
(In %)

	Quintile 1	Quintile 2	Quintile 3	Quintile 4	Quintile 5	Total
Everyday costs	33	29	25	20	19	25
Electric, water, telephone bills	20	17	13	12	12	15
Canceling other debts	11	13	14	16	14	14
Cars, furniture, appliances	7	8	10	10	11	9
House maintenance/repairs	8	9	9	9	10	9
Business expenses	1	3	4	2	5	3
Purchase of real estate	0	1	2	2	3	2
Vacations	0	0	2	1	3	1
Other	3	3	4	6	5	4
DK	18	16	17	23	18	18
TOTAL	100	100	100	100	100	100

SOURCE: Authors' elaboration with Financial Inclusion Module in National Household Survey

In-depth interviews offer more information on this same issue. When inquiring about the use that was given to the loan or credit, the most mentioned were: groceries and clothing, bills (e.g. water, electricity) or 'big' purchases (appliances or furniture) (table 3). These type of uses could be categorized as 'everyday' or common expenses. In addition, though, most interviewees mentioned that some of their loans were requested in order to cover extraordinary costs, for example, medical bills, advanced payments required when renting a house or household repairs. The different uses of loans could then be categorized in two big dimensions: common expenses/purchases and particular situations which required having a large amount of money available at that time. Both of these dimensions were generally mentioned by all of the interviewees:

> *'Well, sometimes because I needed [the money], because I wouldn't make it until the end of the month or I needed for something. And sometimes to go out or something, if my car broke down, if I needed money urgently. And the way- because I didn't have any saving, because I don't have any savings- the only way to get the money was like that, through a credit.'* (Pedro)
>
> *'But well, we had to repair some things in the house and well, pay the construction worker and materials that I paid with the credit card in installments. But I had to pay the construction worker with cash so I didn't have any other way of obtaining that money, I had to get a loan. '* (Juana)

Also, the reasons for incurring in debt were in many cases related to some type of extraordinary event as well. Several interviewed mentioned that, because of a job loss in the household or because of a temporary leave from work (due to illness and such) they had to recur to a financial institution in order to cover those ‘holes’ in their regular income. The following statements reflect the importance of extraordinary events:

> *‘I needed the money to pay the bills because my dad fell sick for a year. So, sure, he was taken into the hospital and I also stopped working, because I was in the hospital with him. So, yes, I had to get a loan’* (Natalia)

> *‘He earned well, but since he was not working it was only my income. I had to work in two places because we didn't have enough (...) Maintaining a house with four children, a sick person (...) So, yes, I didn't have any other option, you see?’* (Estefanía)

Nonetheless, some interviewees mentioned that they would get loans without having anything particular in mind to spend it on; the reason for incurring in debt is having money in their pocket and being able to spend it if the opportunity to do so arises. As Pedro says, ‘*…sometimes it's too complicated to accumulate an important sum of money. So, through a loan, even though you have to pay interest, you have a more accessible way of reaching that money.(…) I can't save money and the easiest way of getting something is by getting a loan or buying on credit.’* (Pedro).

Although few interviewees expressed this behavior as explicitly as the testimony below, it is evident in other interviews that people request loans to have some extra cash available.

Requesting a loan and spending most of it for a particular purpose (such as buying furniture) but reserving an additional amount to keep form themselves also appears as a frequent practice. This does not mean that this money will not then be used to pay the supermarket bill, but at least it was not premeditated to be spent in a specific way. This is more frequent with credit cards, since their use is even more general.

Risk perception

People tend to accept the fact that taking out loans does imply certain risks, especially for certain people that might have harder time managing money or ‘resisting temptations’. On the other hand, they value the fact that it's easy and quick access to a certain amount of money that would be hard to obtain through other means:

> *‘There has always been people who have spent with their card and sometimes their vision gets blurry and they spend and spend and when it's the end of the month and they have to pay the bills they can't believe how much they've spent, or they don't have enough to pay it.’* (Carmen)

> *‘ (...) it's like an ambivalence, you see? Because it's positive at the moment it saved you but then you say: ‘I'm covered up to my head’ It's like a chain, like 'robbing Peter to pay Paul''* (Lourdes)

> *‘ [consumer credit is not always a good thing]…because you go in debt even though you don't want to. Since it's easier, you say : 'I'll just pay it in 12, 15 installments'. If people can extend it in time, they will get involved.’* (Karina)

'It's not something positive because one lives indebted but sometimes it gets you out of a hurry because you need a certain money for something specific, so you go and you do it. Then the only thing you do is complain about the debt.' (Teresa)

*'Yes because it gives you tranquility. Because you say: 'Well if I'm not too well economically at the moment, I use the card'. That's what gives it value. That it doesn't deny you anything, it doesn't condition you. You can buy food, clothes, whatever you need. So that's good.' (*Marisa)

'We always get loans. Because you are behind on some payment and you say: 'let's get a loan and we will pay it all at once'. But then in the long run you realize it's not useful. Because you obtain one, you pay, and then the bills come back again.' (Lucía)

Borrowing decisions

When inquiring about the motives for choosing that particular institution to request a loan, the interviewees were split in their reasons: approximately half of them mentioned that they did not have a particular reason for picking that institution, while the other half mentioned that they did inquire in different places before settling for a certain loan. These inquiries consisted in searching for either the right amount of installments, the amount of the loan or, in the least of the cases, the amount of the interest rate. Very few of the interviewees mentioned having done a thorough search or having spent a reasonable amount of time thinking and analyzing the different options.

The information they generally have about the conditions and the relative facility each institution offers is limited (table 3), confirming what was found by the 'mystery clients' regarding information and transparency of the NBFIs. It clearly appears that in many occasions the individuals pay closer attention to the monthly fee than to the interest rate associated with the loan they are requesting:

' Yes, the interest rate was higher than in others, but the installment fee worked better for me, to pay that percentage each month, and the credit card bill also has a minimum.' (Estela)

Table 3. Detail of the loan recent history of the interviewed.

Name	Institution	Type of loan	Amount of money / maximum on card (uruguayan pesos)	Amount of installments (cash loans only)	Monthly fee*	Final amount paid**	Credit purpose
Anabela	Pronto	credit card			1.000		Everyday expenses, clothing, other shopping
	Pronto	Cash					
	Italcred	credit card					
Estela	Pronto	Cash	6.000				Dentist (special surgery)
	Pronto	credit card	6.000		2.000		Supermarket bills, clothing
Karina	Pronto	Cash	35.000	14	2.900		Home repairs
Lourdes	Cash	Cash	20.000	28	2.000		Construction materials, furniture, appliances
Clara	Cash	Cash	15.000	18	900		Advance payment for new home rental, other moving expenses
	CACCSOE (credit cooperative)	Cash	6.000	9	500		Advance payment for new home rental
Estefanía	Pronto	Cash	10.000			18.000	Birthday party, other everyday expenses
	Anda	Cash	10.000	12	1.035		Home repairs
Olga	Oca	credit card	12.500		7.000		Everyday expenses, supermarket bills, clothing, appliances
	Oca	Cash	6.500				Cancelling credit card bill
Teresa	Pronto	credit card			8.400		Everyday expenses, utility bills, supermarket, clothing, pharmacy
Lucía	Italcred	credit card	2.800		1.000-2.800		Expenses for their children
Marisa	Pronto	credit card					Clothing, appliances, general expenses
	Italcred	credit card					Clothing, appliances, general expenses
Mariela	Cash	Cash	3000		700		Home repairs, utility and / or other bills
	Cash	credit card	3000				Home repairs, utility and / or other bills
	Fucac	Cash	21.000	36		70.000-80.000	Construction materials
	BPS	Cash	17.000				Home repairs, utility and / or other bills
Julieta	Fucac	Cash	5.000				Cover everyday expenses
	Fucac	Cash	18.000				Cover everyday expenses
	Pronto	Cash	7.000				Vacations

Name	Institution	Type of loan	Amount of money / maximum on card (uruguayan pesos)	Amount of installments (cash loans only)	Monthly fee*	Final amount paid**	Credit purpose
Natalia	Pronto	Cash	27.000	48	875	42.000	Cover everyday expenses
	Oca	Credit card	4.500	6	1050	6300	Supermarket bills
							Supermarket bills
Agustina	Cash	Cash					Bathroom repairs
	Creditel	credit card			4000		Construction material, gifts, supermarket bills
	Así (Abitab)	Cash	12000				Cancel debt with Cash and Creditel
Carmen	Pronto	credit card					Supermarket bills
	Oca	credit card					Supermarket bills
	BROU (state bank)	Cash	8000	12	1000	12000	Cover everyday expenses
Sylvia	Anda	credit card	30000		2800		Everyday expenses, supermarket bills, clothing, shoes
Juana	Oca	credit card					Big purchases (e.g. furniture)
	Oca	Cash	50000	15	4600	70000	Home repairs
	Creditel	Cash	18000	1		21000	Plane ticket
	Pronto	Cash			8000		Cancel other small debts
Fernanda	Oca	credit card					Everyday expenses (except utility bills)
	Cabal	credit card	15000	1500			Everyday expenses (except utility bills)
	Pascal	credit card	1500				Everyday expenses (except utility bills)
	Creditel	credit card	13000				Everyday expenses (except utility bills)
	Créditos Directos	credit card					Supermarket bills
	BROU (state bank)	Cash	80000	2200	118800		Home repairs
	BROU (state bank)			1100	52800		Home repairs
	Fucerep	Cash	30000	2250	81000		Vacations, cancelling other debts
	Cash	Cash					Cover everyday expenses
Carlos	Créditos Directos	credit card			2000		Motorcycle repair, gasoline, clothing
	BROU (state bank)	Cash	18000	12	3500	42000	Car

Name	Institution	Type of loan	Amount of money / maximum on card (uruguayan pesos)	Amount of installments (cash loans only)	Monthly fee*	Final amount paid**	Credit purpose
	Cash	Cash	8000	11	800	8800	Car
	Creditel	Cash	7000	15	900	13500	Everyday costs, cancelling other debts
	Credicoop	Cash	10000	15			Cancelling other debts
	Cintepa	Cash					New motorcycle
Pedro	Anda	credit card	60000		6000		Gasoline, supermarket bills
	Cintepa	Cash	10000	12	1200	14400	Vacations
	Cash	Cash	20000	15	2300	34500	Car

Managing indebtedness and over-indebtedness

Since credit is used as a way of paying goods and services that are frequently consumed in the household, many families have a difficult time paying. The bottom line is that these households face their permanent income deficit by incurring in debt, which in turn leads to a subsequent difficulty of covering the monthly expenses, since their income restriction is still present.

If we define over-indebtedness as the financial state characterized by insufficient income to pay the bills of the different debts, then clearly most of the interviewees could be classified as being over indebted. As was mentioned earlier, there are two main reasons for over-indebtedness. The most frequent is when people incur in debts that are higher than their financial capacity; the least frequent are those situations classified as 'events,' such as when a spouse loses their job. Over-indebtedness generally creates certain pressures and limits the household's financial possibilities, which in turn obliges the families to turn to different alternatives in order to have a certain financial solvency.

In-depth interviews revealed several strategies: (i) prioritization, (ii) delaying payments, (iii) multiple borrowing, (iv) self-control and self-imposed limits and (v) borrowing through social networks.

Prioritization

Prioritizing or managing the households' expenses in specific ways each month as to not let any debt get too behind is one of the main strategies identified for managing indebtedness and over-indebtedness. On the one hand, some interviewees opt for cancelling the NBFI bill first, leaving behind other types of payments, such as the electricity bill. These individuals claimed that the installment fee had to be paid on time since accumulating two installments (plus late fees) implies paying a sum which is too large and impossible to cover. On the other hand, those who had other monthly expenses which they considered more important tend to put off the NBFI bill. Still, these two categories are not necessarily exclusive. Many interviewees stated that the order of priorities is not always fixed; instead, it is constantly changing, depending on the sum of each bill, their income of that particular month, which bill they are most behind on, etc. In short, this sheds light on the fact that these families (forcefully) make certain financial decisions in order to cope with indebtedness and eventually, over-indebtedness.

> *'For example, last month I didn't pay the electricity bill or the water bill to be able to cover all of Creditos Directos, which was higher than what I thought (...) And since I am always on time with the electricity and water bill, I say: 'Ok, this month you stay here.' (...) And, well, I am always looking to see, with what I have left, for which card I pay the total and which card I pay the minimum.'* (Fernanda)

> *'The loan money is the least important one for me. The most important is the electricity and water bill, or food, before paying for loans. If there is a certain loan I can't pay this month, I won't stress out. If it's Friday and I have to pay 4 thousand pesos of installment and I have those 4 thousand pesos and I have a chance to go to Punta del Este, then I will go and well, I'll see later, Monday or Tuesday, how I will pay it. I don't give it much importance.'* (Pedro)

'It's difficult because it's a bill that one doesn't have, that adds up but one doesn't have the money. And, sometimes, for example, the electricity is more important. So you say: Ok, Cash can wait (...) But then you remember that they can withhold the money from your wage and if you receive 900 less pesos then it doesn't count. And that's when you go crazy thinking.' (Clara)

'So you would say: 'this month I won't pay the installment' And I pay the other. Robbing Peter to pay Paul. That's the issue. It happens to me now: I cover one thing and I leave another behind. And next month I'll pay that bill that I left behind ' (Natalia)

Delaying payments

Being delayed on payments leads to a cycle of dependence with the institution, which, because of default interests and additional charges for delays, demands a higher payment from its customers

*'Then I got a loan in Cash and I also tried to pay those $3000 because it wasn't convenient for me. It was more what I paid than what they gave me. And now the same happened with FUCAC, who lent me $21000 to pay in 36 installments and when I finished paying I had paid around $70000 or $80000.' (*Mariela)

*'Imagine, I took out 10 thousand pesos in Pronto and ended up paying almost 18. Almost 10 thousand pesos more than what I had asked for.' (*Estefanía)

*'When I separated I was paying the minimum in order to not lose the card. But at the end it starts accumulating more because you are only paying the minimum and even if you don't spend anything the bill gets higher and higher. It was never ending.' (*Estela)

Generally the consequences of not paying lead to a partial exclusion from the credit market, since these situations imply being listed on the *Clearing*. This could be interpreted as a risk of losing access to an alternative channel of obtaining money to confront negative economic shocks that might occur in the household. On the other hand, considering the increased financial vulnerability of the household (because of over-indebtedness), the restriction to access the credit market might then lead to a prioritization of expenses.

Multiple borrowing

Almost all of the respondents currently hold a loan with more than one institution (table 3). Some respondents even appear to have incorporated this practice as a sort of routine: whenever they see the chance to request a new loan, they take it. Shirley, for example, claims that '(...) *almost every time I finish cancelling one debt I then approach another place and if they approve my request, I take another loan.'*

Some of these refer to cases were the respondent had to obtain a new loan in order to cancel existing debts with other NBFIs. This was the case, for example, of Fabiana, who experienced several delays with her installments and the total amount added up to a sum which was naturally much higher than the original amount of the installments she had to pay (given the default interests). Other testimonies confirm this situation:

> *'I have to request another loan to cancel this, or else it's impossible.' (*Lourdes)
>
> *'Surely, that is how I mange to 'cover the holes'.'* (Estefanía)
>
> *'When I started working here, since it's a state office they have special deals with cooperatives and credit unions. So, yes, I have them all. All you can imagine.' (*Lourdes)

Self-control and self- imposed limits

Some of the respondents had strategies which were more related to their own spending behavior than to the managing of already existing bills. For example, some set a certain limit on the amount of installments; others directly set limits on the amount they spend on the credit cards (depending on how much income they are sure of obtaining that month). Others opt for not even requesting a credit card and limiting themselves only to cash loans, or the other way round.

On this subject, Clara explained why she and her husband made this choice:

> *'We are scared of credit cards because one buys and buys because you don't have to pay anything in that moment, you don't have to take the money out of your pocket. But then that all adds up and by the end of the month you have to pay all that.'* (Clara)
>
> *'Because we sat down and thought about how much we wanted to pay. Maybe they offered a bit more money and higher installment fees but we set a limit of 1.000 pesos each month'.* (Clara)

Others also mentioned how they set limits in other ways, such as establishing a maximum amount of installments to pay. Some interviewees constantly remind themselves that what they are not paying today, they will have to pay tomorrow, which also helps them control their expenses.

> *'My limit is always three installments. Almost all the time I do it in one or two. Because at that moment I don't have the money... [I have it once I get paid]... and I get it off my shoulders (…) I know that every month that money is lost, or, better said, invested, but it's there, I have to pay it and I know that every month those 3000 pesos are already used.'* (Karina)
>
> *' They're very tempting. But you always have to think how you are going to pay it. Because if you are late on one, two, then you are dead. Because you need a wage to pay that. So you have to have a lot of control. It's good to have credit but one needs to know up to what limit.' (*Marisa)

'Yes, yes. I've had the chance to obtain credit someplace else, including Pronto, because I have their Visa. They have offered me, requiring only my signature, to get 65.000 pesos, but I don't want one.' (Marisa)

Family networks

Requesting loans for others is a very common and usual practice. Again, mostly all of the respondents mentioned this type of dynamic: either they requested loans for others or others requested loans for them (tables 4 and 5).

Table 4. Credit networks: Interviewed who took loans for others

Name	Institution	Type of loan	For	Amount of money / maximum on card**	Amount of installments (cash loans only)	Monthly fee	Obs
Estela	Pronto	credit card	couple	6.000			Person used all the money on the card and never paid. Interviewee sent to *Clearing*.
Anabela	Credil	cash	uncle	15.000			Person pays installments each month. Hasn't had trouble
	Creditel	cash	sister	20.000			Person pays installments each month. Hasn't had trouble
	Crédito de la Casa*	cash	brother				
Karina	Créditos Directos	cash (through card)	sister				
Estefanía	Anda	cash		10.000			
Teresa	Pronto	cash	friend	15.000	20	1.200	Person stopped paying. She has to pay the installments because she has a credit card with the institution.
Lucía		cash and store credit	Brother				Clearing- person never paid
Marisa	Motociclo	cash	niece	15.000	15	1.900	Person pays the monthly installments herself. She had to pay 3 or 4 because she did not want to make a late payment and then get in trouble (she has a personal credit card)
Agustina	Santander (bank)	Cash	daughter	44.000	26	2600	
Fernanda	Creditel	Cash	friend	14.000			person did not pay. Interviewee is paying the installments herself

Table 5. Credit networks: Interviewed who asked for others to take loans for them

Name	Institution	Type of loan	Through	Amount of money
Estela	Credicompras (varios con el hermano)	cash	Brother	
Karina	Itaú	cash	Boss	40.000-50.000 (Multiple times)
Lourdes	Multiple	credit card	Mother	
Estefanía	Creditel	credit card	Son	
Olga	Carlos Gutierrez (store credit)		Friend	
Lucía	BROU	cash	Boss	
Julieta	BROU	cash	Uncle	
Carlos	Credicoop	cash	Mother	10000

This may occur when a person has been incorporated into the *Clearing de Informes* (the 'black list' of non-payers). As was mentioned above, it was common among the interviewees for them to be in this situation (or for them to know people who are in this situation). Even though it was also revealed that some NBFIs lend money nonetheless, it was not common knowledge among all of the respondents that this is so. Also, not all of the NBFIs bend this 'rule', so one person might want a loan from a particular institution that will not give a loan to someone who forms part of the *Clearing*.

This practice is quite simple because once a person obtains the cash loan or the credit card, then the person that actually uses that money can directly pay the installments themselves, even if it is not under their name. This dynamic reveals that people can hardly be completely excluded from the credit market.

> *' (...) I was placed on the Clearing since I was 18 and I haven't had access to loans since. My mother is the one that takes them for me.'* (Lourdes)
>
> *'… when I need a credit my brother gets them form me in Credicompras since he works there, or in FUCAC. He gets them and I pay him'* (Alejandra)

According to some of the subjects that have others request loans for them, they also mentioned that it sometimes served as a sort of limit, especially in the case of the credit cards. In this sense, if one knows that the loan is under someone else's responsibility, then one will try to, not only comply with the installments on time, but also control the amount of money spent so as to not surpass a certain amount that one will be unable to cover. These interviewees emphasized the fact that they did not want to cause trouble on other's lives because they would be the ones held responsible for the delays, etc.

Estefanía's son took a credit card for her to use, and she mentions that '*(...) one reaches a moment where one loses control over how far one can take in debts. So with the card that my son gives me, I know until what point I can use it because it is not mine.'* (Estefanía)

Interestingly, the interviewees who count on others to request loans for them also request loans for other:

> *'The thing is I use [the credit cards] much more frequently than I would because I am always buying something for my sisters, especially with one card that I have exclusively for that.'* (Karina)
>
> *'It's not large amounts of money. From my sister, for example, too. But it's a two way deal: I lend you, you lend me... the usual..' (*Lourdes)

Nonetheless, the practice of serving as guarantor for a family member or a friend has certain consequences that might turn into additional risks, since he or she is assuming the other's payment responsibilities. And, as was mentioned before, several interviewees ended up in the Clearing because of this reason, which then restricted their own possibilities of obtaining loans.

> *'Yes, you get used to hearing: 'Hey, will you be my guarantor in such place?' There are a lot of trusting people and sometimes you get stuck with the expenses of others. Because you can't be in the Clearing... I would die if I get in the Clearing because of*

someone who is unconscious, that knows that he won't be able to pay those expenses each month. ' (Carmen)
'I remember when I cashed a bonus [from work] and I had to go crying to Pronto because I had served as guarantor for one of my nephews and I had told him: 'Please, don't let me get into the Clearing. Please, if you can't pay let me know and i'll get the money from somewhere.' And the boy would say: 'No, aunt, I'll pay it, I'll pay it.' And after that I said: 'Never again will I be the guarantor of anyone, never again.' (Agustina)

7. Concluding remarks

Uruguay is experiencing a growth and expansion of the consumer credit market. Besides its procyclical behavior, this market shows a growing tendency. The state bank in Uruguay (BROU) is responsible for providing approximately half of the country's total share of consumer credit. The other half is roughly divided among the private banking system and NBFIs (which also appear to be rising significantly). Regardless, and even though there are several credit-providing institutions outside the formal banking system, the NBFI market share figures show that this is a relatively oligopolistic market, since three major institutions hold more that 60% of the clients. In addition, it must be noted that the most important institutions belong to private banks, revealing an interest from these providers to expand their clientele by appealing to lower-income sectors through an NBFI.

According to data from the Financial Module of the Uruguayan Household Survey of 2012, approximately 40% of households have acquired some type of loan related to consumption. Further analysis shows a social stratification in relation to the type of credit-providing institution and the use of credit. Households from higher social (formal employees, higher degree education and higher income) tend to incur in debt mostly with private banks, while the loans are generally used for durable goods and/or vacations and trips. The least well off (informal workers, less educated, lower income and in most cases poor), turn to Non-Banking Financial Institutions to obtain loans, generally used to cover daily expenses.

Through this study, no informal market was identified. On the contrary, the poor and informal workers access credit easily through NBFIs, which are institutions that are supervised by the Central Bank and have to comply with certain rules and regulations that guarantee at least a certain level of security to its customers. Nonetheless, several aspects of the NBFI market reveal the presence of certain risks, especially for these low-income sectors.

With regards to accessing loans through the private banking system, there appears to be a general perception among the interviewees that their profiles are incompatible with the banks' requirements for obtaining a credit (insufficient income, working conditions, etc.). Although this is true, only a few actually inquired properly in a bank, while the majority went straight to an NBFI. It also appeared to some interviewees that the conditions banks offered were unfavorable.

One of the most valued aspect of the NBFIs is the fact that obtaining a loan is very easy and quick. The requirements these institutions usually have are not only lax but are also flexible. So, if a person does not comply with one of the few required conditions (e.g.

having a wage receipt), then some NBFIs offer alternatives, such as presenting a formal letter from your employee. And in the case that this particular institution is not flexible with its requirements, the market provides several other non-banking options. This characteristic led us to categorize it as a heterogeneous and stratified market (specifically with regards to its requirements). In consequence, it appears as though, at the end of the day, access to credit is available for the majority of the population. Although this has obvious advantages, the conditions of NBFI loans, added to the aggressive marketing strategies identified and the relatively low financial capabilities of this population lead to a greater possibility of over-indebtedness.

One of these dangers, associated to both the marketing techniques and the financial illiteracy of this population is the fact that, in general, people have limited or incomplete information on the interest rates and the general costs of the NBFI credit market. This was proved to be true through the mystery client strategy and the in-depth interviews. In the first case, the shopper was rarely given complete information on the terms and conditions of the loan, or the costs of the interest rates, default interest rates and additional charges. In most interviews it was also made evident that the customer is mostly ignorant with respects to what he/she is actually paying each month. It should be noted, though, that when a person obtains a loan, the conditions are stated in the contract they sign with the NBFI; whether or not this information should be given more explicitly is open to debate.

Another type of persuasive strategy identified by NBFIs is the frequent offering of either a renewal of the existing loan or other products (offering credit card if the customer has a cash loan, or the other way round). The renewal of the loan is especially troublesome since it greatly contributes to the 'never-ending' impression related to the cancelling of the debt. Many interviewees also mentioned that, when obtaining a cash loan, some NBFIs automatically give you a credit card, even against their own will.

Even though these strategies are sometimes properly identified by the customers as aggressive or deceiving, many interviewees admittedly claim to be persuaded by them. On the one hand, they understand that obtaining a loan with an NBFI implies paying a high cost and being tempted to fall for more, but on the other hand they have no other choice. This fact is true for all of the interviewees, which claimed that their only way to obtain a certain amount of money in a short time was through this channel; given their low incomes they have little or no chance of saving up money.

With regards to the use of the loans, these are generally destined either for everyday expenses (such as utility bills, grocery shopping and clothing) or other 'big' purchases, like furniture or appliances. Other situations which led people to obtain loans were extraordinary events that require a large sum of money to be paid at once, such as large home repairs or covering income holes due to a temporary loss of job.

Among those interviewees who had more than one debt (which was the case for practically all of them), sometimes one loan was obtained to cancel a loan with another institution. This is due to the difficult time most households have to cancel debts on time, which leads to an increase in the monthly installment (and, consequently, making it even harder to pay). In those cases where the person completely failed to cancel the debt, he/she is entered into the Clearing, which then blocks many opportunities to obtain other loans until the person completes the payment of the debt. (Again, most interviewees formed part of this list at some point in time). Given that the NBFIs in the market have different flexibility regarding the requirements to obtain a credit, being in the Clearing does not completely shut off one's possibility of accessing a loan. The other option is recurring to friends or family in order for them to request a loan.

The practice of requesting loans for others (or having others request a loan for oneself) was proven to be very common among the interviewees. This is possible given the easiness with which this process is carried out. Besides the already mentioned lose restrictions to obtain a loan, the original requester can then pay the installments himself/herself, without further need of intermediation by the formal debt holder. These frequent credit networks also greatly contribute to assuring an almost universal access to this financial resource.

Incurring in debt and having a new bill to pay each month, implies, for these low-income families, having to prioritize their expenses, given the difficulty (or impossibility) of paying every bill, every month. Through the interviews it was made clear that these families learn to juggle their bills in certain ways as to not let any particular one get too late, or delaying the payment of those bills which they consider less important. There was no consensus, though, as to whether the installments from the NBFI were necessarily the most important: some interviewees tried to never fail to pay on time, fearing the charges for delays, while others had other bills they considered more important (such as utility bills). Either way, each person has found a certain way to cope with their multiple debts and manage their household income. This does not mean, though, that their strategies are always efficient or that they are not accompanied by feelings of stress and anguish.

Recognizing that this ‘parallel’ market serves as an important step towards the financial inclusion of lower-income families, it is necessary for public policy to act on the potentially harmful features of NBFIs so as to not let these detrimental characteristics override the positive effects of having a much broader sector of the society access consumer credit. On the one hand, there should be greater regulation of the non-banking sector, not only through already existing mechanisms (such as setting stricter limits on interest rates), but also by setting limits on how much of the household's income can be destined to the payment of debts. Second, there is a need of greater transparency on the terms and conditions of the loans, which, in addition, should be stated in such a way that is easily understood by anyone (instead of in a technical language).

Along the same lines, but from a social policy perspective, it is necessary to offer these families some type of financial counseling when choosing credits while also incorporating programs on financial education. For the Uruguayan case, where low-income families receive monthly cash transfers as part of the social protection scheme, one possibility might be to allow special access to credit through the advanced payment of their pensions when facing a situation of sudden and unexpected expenses.

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