

Authors

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Is there collateral-free lending?

Much of the promise of microfinance comes from the fact that people can get loans even if they do not have access to traditional physical collateral such as a house. The idea that people are trustworthy enough to repay loans even without the threat of losing their property makes for an uplifting story, but it is not always true. Guarantors are understandably upset when someone does not repay what they owe, and often try to take something of value from the debtor – such as a gas tank – in order to pay off what they had to guarantee.

Some microfinance institutions encourage and abet this behavior because they know their arrears will be lower if borrowers can recoup their guarantee related losses. I have even seen some cases where a group of clients did not especially want to go to the debtor's house, but their credit officer insisted because she wanted to make it clear to all clients that defaulters were always punished.

I don't know how widespread this is. I know that some institutions in Bolivia engage in the practice, but there's no data about how often they do it, nor where else it happens. I think it's an important enough question so that we should try to figure out if it's common, since to me it's contrary to the spirit of microfinance.

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