

**Hyperbolic Discounting and an Induced Informal Credit Institution
by a New Technology:
A Case of Debit Card Pawning in the Philippines.**

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Abstract

This paper focuses on a recent example of institutional innovation in informal finance in the Philippines: the emerging credit arrangement called ‘ATM *sangla* (pawning).’ We report on the analysis of a small survey of 320 factory workers in an industrial estate near the Metro Manila area. ATM *sangla* is informal loan arrangement where the borrower’s ATM card is used as the collateral and where the lender uses the ATM card (or debit card) to withhold the repayment (principal and interest) from salary payment on every pay day until the entire amount is repaid. Slightly less than half of our respondents (42%) actually utilized ATM *sangla* at least once, and the average amount of the loan (principal) is 15,000 pesos, which correspond to 1.3 times the average monthly salary. We find that roughly one third of our respondents are hyperbolic discounters, who tend to hold higher loan balances with ATM *sangla* transactions than the time-consistent discounters. We find evidence that those hyperbolic discounters are naïve, rather than sophisticated, suggesting that the emergence of ATM *sangla* may have encouraged them to overborrow.

Key words: credit market; informal institution; hyperbolic discounting; behavioral economics; Philippines

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