Determinants of consumer credit within a debt constrained framework. Evidence from microdata

Working Paper No. 912 Keep in mind
The series Working Papers on Economics is published by the Office for Economic Studies at the *Banco de la República* (Central Bank of *Colombia*). It contributes to the dissemination and promotion of the work by researchers from the institution. This series is indexed at Research Papers in Economics (RePEc).

AUTHOR OR EDITOR Luis E. Arango Lina Cardona AUTHORS AND/OR EDITORS Luis E. Arango
Determinants of consumer credit are estimated by using information from a Credit Union located in Medellín-Colombia. To the best of our knowledge, this is the first investigation using this kind of data in Colombia. We find that life cycle-permanent income hypothesis (LC-PIH) related variables are the main determinants of demand for consumer debt. The current income elasticity is about 0.5% while the real interest rate semi-elasticity is around -2%. Being a homeowner and having college education (undergraduate and postgraduate) increases the demand for debt. Once we consider the credit limits and other credit supply related variables, such as the score assigned to each credit application, the determinants of the consumer credit are also estimated. In this case, the statistical significance of the determinants remains with the exception of house ownership. Thus, LC-PIH variables are determinants of credit demand and the consumer credit regardless of credit restrictions. Nevertheless, in the latter case the semi-elasticity of the interest rate and the current income elasticities turn to -0.56% and 0.37%, respectively. Sample selection and endogeneity issues are also addressed.