Voluntary Information Disclosure and Funding Success: Evidence from Peer-to-Peer Lending

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An Important Topic

- Rapid growth in peer-to0peer lending market

- Emerges as an important alternative avenue to access credit especially for credit constrained agents and among developing countries

- Huge implications on economic growth

- How to alleviate the frictions and facilitate the development of this financing channel
  - This paper: the role of information (disclosure)

Data

- Nice, novel data from Renrendai（人人贷）in China
  - Loan listings (and outcome) + loan characteristics
  - Some borrower information required (ID, age, asset ownership)
  - Some other information is provided on a voluntary basis: education, income, employment, occupation, marital status, purpose of borrowing, living place

Summary of Findings

- Key findings
  - The funding success is positively correlated with the borrower's decision to disclose (optional) information
  - Lender (investor) interest is also positively correlated with voluntary disclosure
  - The effect is stronger among borrowers with lower credit rating
- Voluntary disclosure is defined by
  - Indicator variable
  - Number of disclosure items

Comment 1 : Selection

- By definition, voluntary disclosure is a choice variable
- Correlated with other (omitted) variables
- In the data, 96.9% borrowers disclose their borrowing purpose, 99.8% disclose marital status, 69.8% disclose their living city, whereas 69.7% borrowers disclose the size of the firm and industry they are working for.
  - A very large portion appears to disclose at least one item (the main dummy variable = 1)
- On the other hand, funding probability is very low (4.5%)
- Main specification finds a strong positive correlation between the two (Table 5)
  - Commonality among those who voluntarily disclose

Comment 1 : Selection

- A more basic question:

Why would anyone NOT disclose in those items?

  - Increase funding probability and reduce funding cost
  - Information is not verified by the platform
- Is it input error ? And is quality of data input correlated with location (or other attributes related to aggregate income and creditworthiness level)?
- Or what could be the reason?
- More institutional details about the role of Renrendai are called for:
  - Do they provide any screening?
  - Do they provide any credit guarantee (in case of default)?

Comment 1: Selection

- Exploit more information provided in the data
  - *“Renrendai provides verification services with national identification cards, credit reports, and addresses of borrowers. It assigns a credit score to each borrower according to his or her borrowing/lending history and the number of verified information.”*
  - back out gender, province and city, credit information of other existing loans
- Heckman specification
  - Exclusion restriction
  - At least one new variable in the selection equation for identification

Comment 2: Interpretation

- Selection (endogeneity) issues aside, can the evidence be interpreted as the effect of disclosure of *information?*
- Are investors rational and make the optimal lending decisions?
  - How should they interpret the voluntarily disclosed information that they have no means to verify?
- Why not look at the loan outcomes?
  - Do funded loans that contain those disclosure perform better than funded loans without disclosure?

Comment 3: Specification

- Besides funding probability, would it also be natural to look at interest rates at which loans are funded?

- Definitions of disclosure: dummy or count
  - Assuming a disclosure of high income to be equally informative as another disclosure of low income
  - Exploit the content of the disclosure?
  - How do borrowers report the values? (Potential bias?)