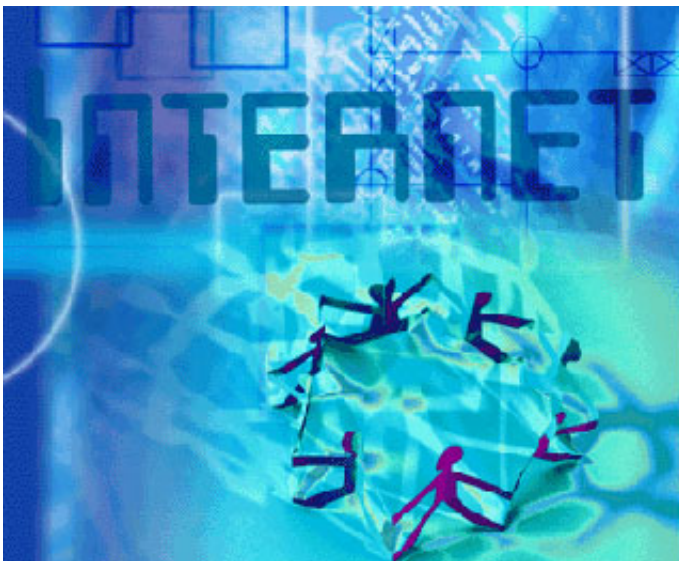


Rice U study finds that consumers may fare better with peer-to-peer online lending Web sites

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A new study conducted by Associate Professor of Management Paul Dholakia at Rice University's Jones Graduate School of Management shows that online peer-to-peer lending Web sites may be more attractive to Americans than traditional financial institutions.

The study -- "The Democratization of Personal Consumer Loans?" -- analyzed a database of 5,370 peer-to-peer loan auctions from the Web site Prosper.com. Prosper.com, and other companies like it, allows

people to lend and borrow money at more attractive interest rates than they find at a bank. The study also found that decisions made by lenders about whom to give loans to are much less likely to be influenced by race or gender.

Online lending sites enable individuals to lend and borrow money directly, without the involvement of any financial institution. By fusing elements of social-networking sites, like Facebook, and auction sites, like eBay, peer-to-peer lending sites allow people who have money to loan to bid on requests from those who need cash for a variety of reasons. Not all requests get funded, but those that do typically yield loans that offer borrowers lower interest rates than bank or credit card companies. The loans also give lenders a better return than they'd receive by investing their money elsewhere.

Before beginning the research, Dholakia wasn't sure what to expect. On the one hand, he said, plenty of research points to the fact that despite people's best intentions, stereotypes often influence decision-making. And since potential borrowers often share lots of personal information, including photos, lenders would usually be aware of a borrower's race and gender. On the other hand, many economists believe that people are rational decision-makers and therefore more inclined to give weight to information such as a borrower's credit and debt-to-income ratio, all of which is available on the auction sites.

"Since people are investing their own money, they should tend to behave more rationally and seek a return on their investment that takes into account factors other than race and gender," Dholakia said.

Dholakia also examined the impact of a borrower's membership in so-called affinity groups on loan approval. Sites like Prosper.com allow borrowers to join a community of their choosing, which can include, for example, alumni of a particular university. Dholakia discovered that

having such an affiliation helped borrowers get their loan requests funded.

"The fact that the borrower belongs to an affinity group has a positive effect on the loan success," Dholakia said.

Source: Rice University

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