The way you write could impact what you pay for a loan

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A person's writing style can help lenders determine which borrowers are more likely to default on a loan, new research finds.

Rick Sias, a professor in the University of Arizona Eller College of Management, and his co-authors examined writing by potential borrowers in a debt crowdfunding platform—where a large group of investors can lend money to a business or individual—to see if investors in an online marketplace use information captured by an individual's writing style when making decisions regarding the author. They focused on three linguistic dimensions: readability, tone and indications of deception.

"We found that, in fact, writing style does play a role in influencing lenders' behavior," Sias said. "Borrowers whose writing is more readable, more positive and contains fewer deception cues enjoy lower interest rates. And the converse is true when their writing is less readable, more negative and includes more deceptive clues—those borrowers are charged higher rates by lenders."

The research, forthcoming in the *Journal of Financial and Quantitative Analysis*, also examined whether the response is rational. In other words, can lenders actually extract valuable information from a borrower's writing style?

Researchers found that borrowers' writing styles do contain information that can be used to help predict the likelihood that a borrower will fail to pay back a debt. Borrowers are less likely to default when their writing is more readable, more positive and when it is more likely to be truthful, according to the research.

Sias' final set of tests examined whether evidence suggests crowdfunding lenders fully use the information gained from a borrower's writing style.

"While borrowers' writing appears to influence lenders' decisions, lenders fail to fully incorporate the informational content that can be garnered from borrowers' readability, tone and deception cues," Sias said. "Although a borrower whose writing is less readable pays a higher interest rate on average than an otherwise similar borrower, the rate is not high enough to fully offset the increased default likelihood associated with lower readability."

In other words, the evidence suggests that readability, tone and truthfulness matter in borrowers' writing, and lenders should be paying more attention.

"Platforms, or third parties, can potentially find opportunities to improve market efficiency by better leveraging linguistic features," Silas said. "Existing and future fintech (financial technology) platforms should recognize that there may be an informational efficiency cost associated with eliminating borrowers' writing, even if there are other efficiencies gained elsewhere."

Provided by University of Arizona

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