

# Peer-to-peer lending to small businesses

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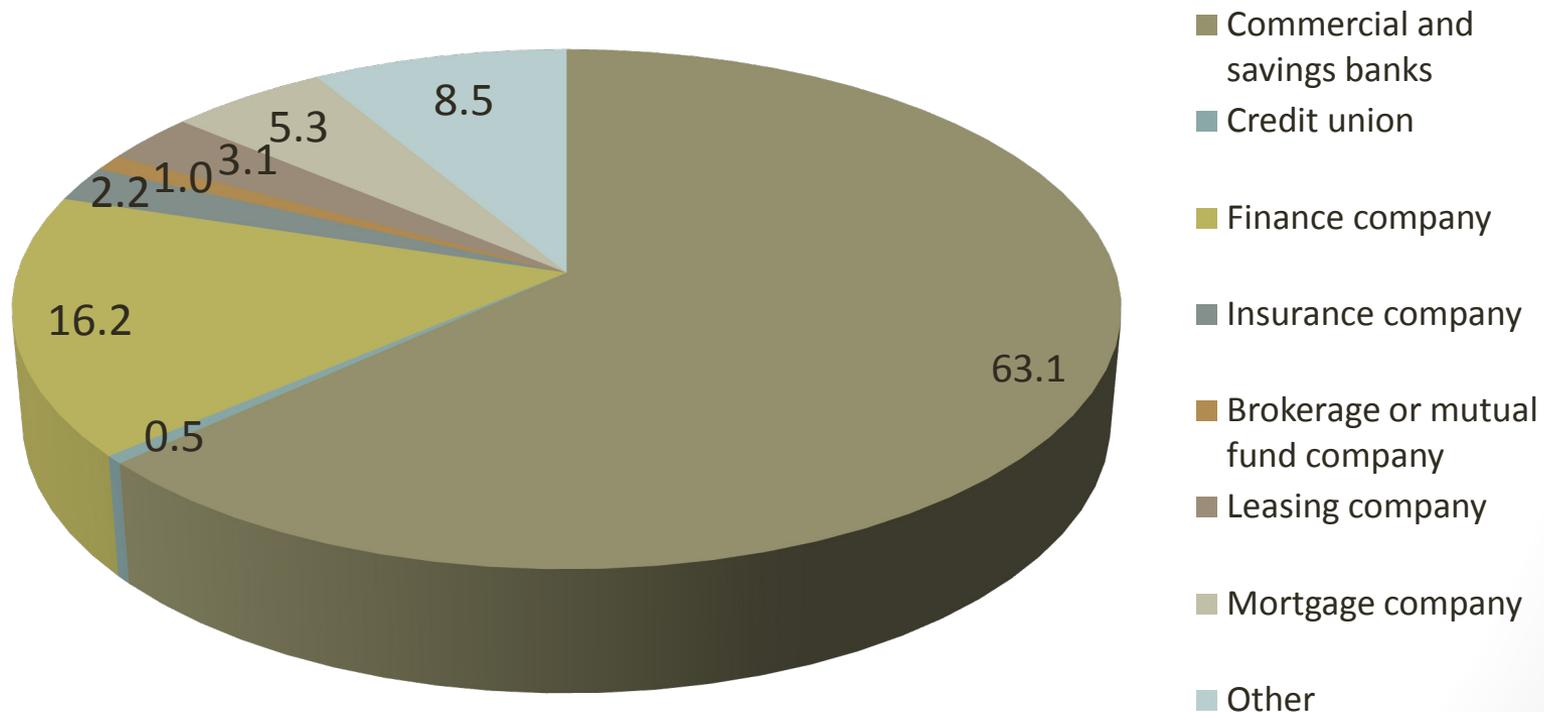
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**\*The views expressed herein are those of the authors. They do not necessarily reflect the views or opinions of the Federal Reserve Board or its staff.**

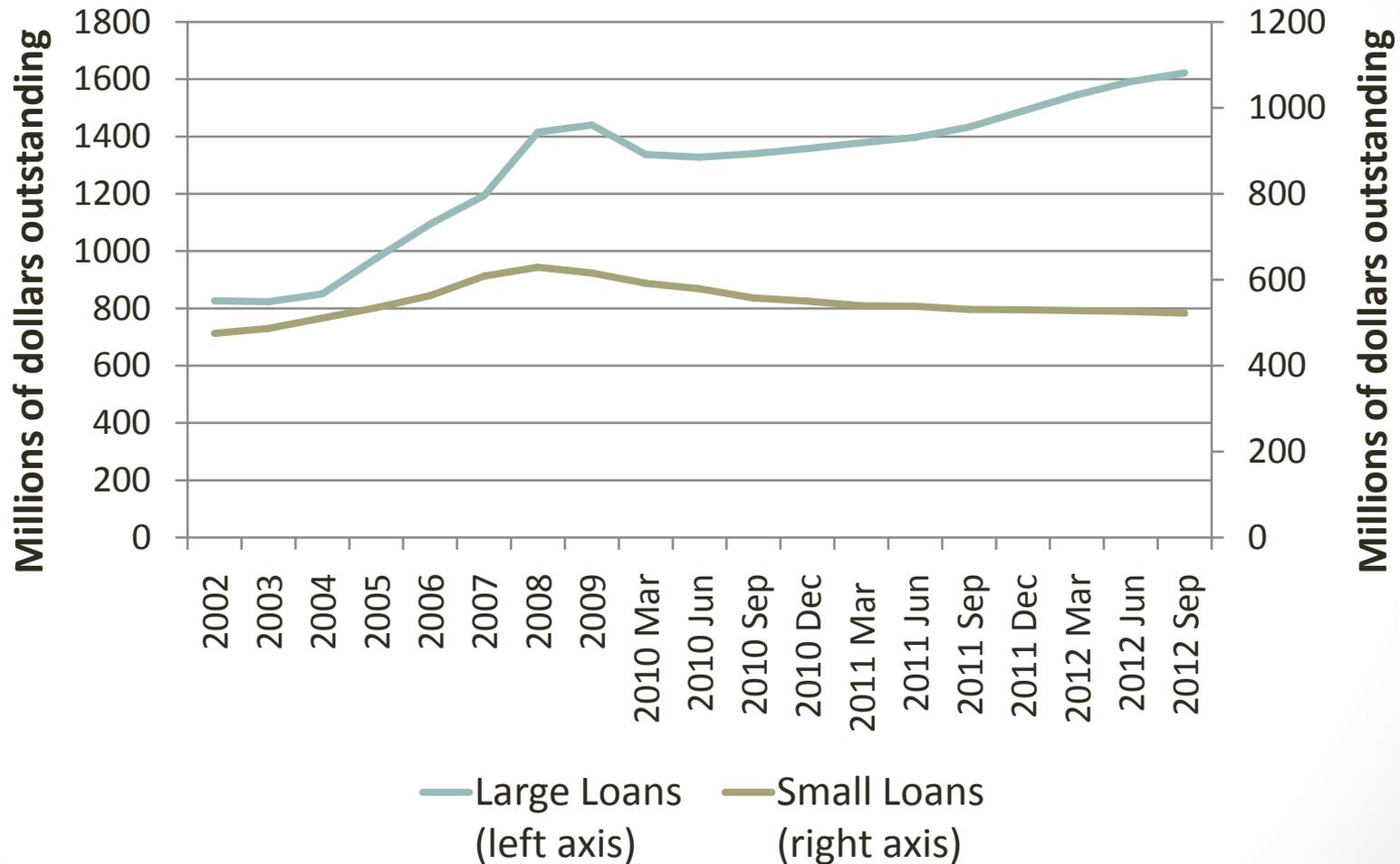
# Where do small businesses get credit?

Share of outstanding dollars

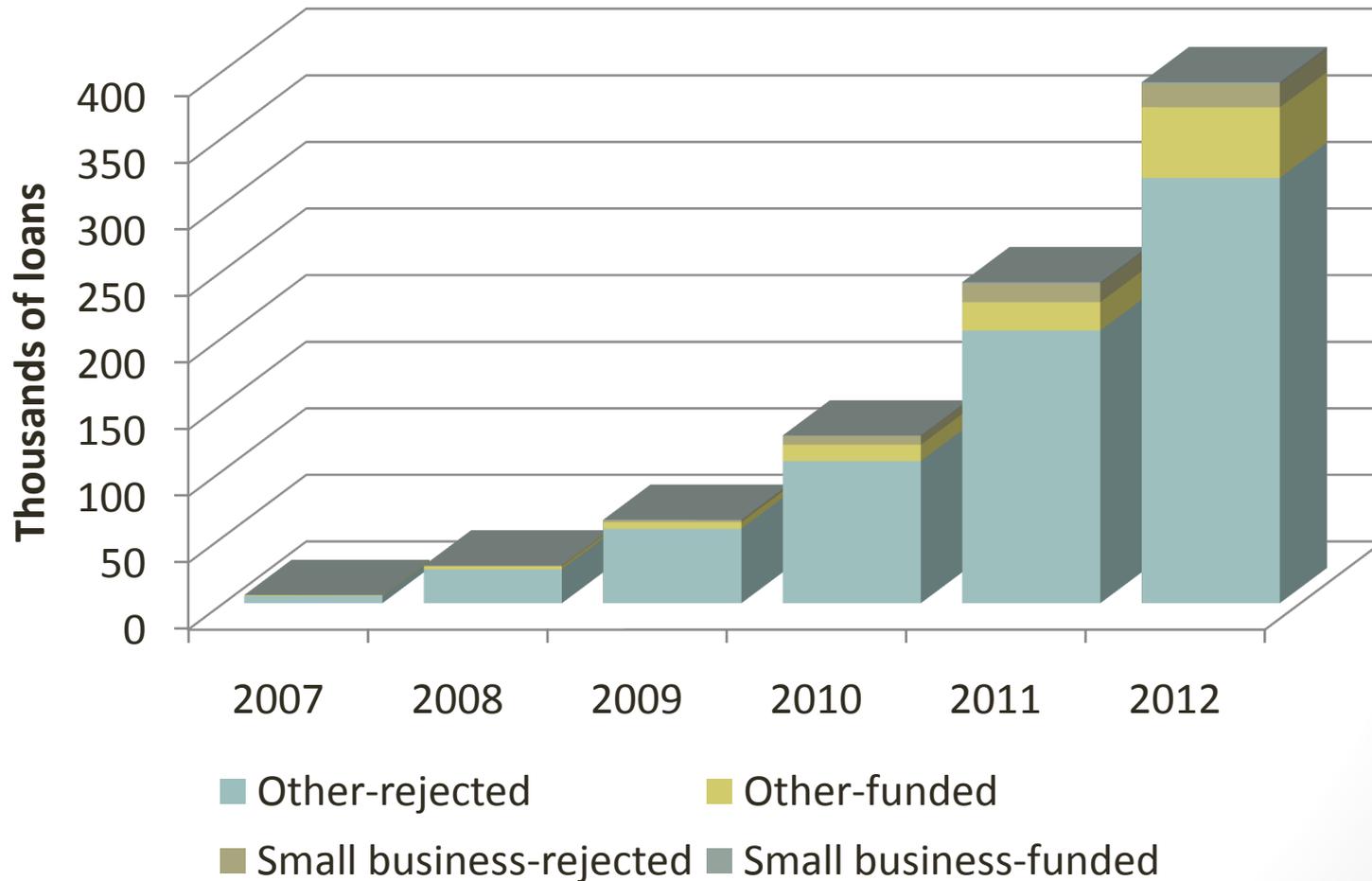


Source: 2003 Survey of Small Business Finances

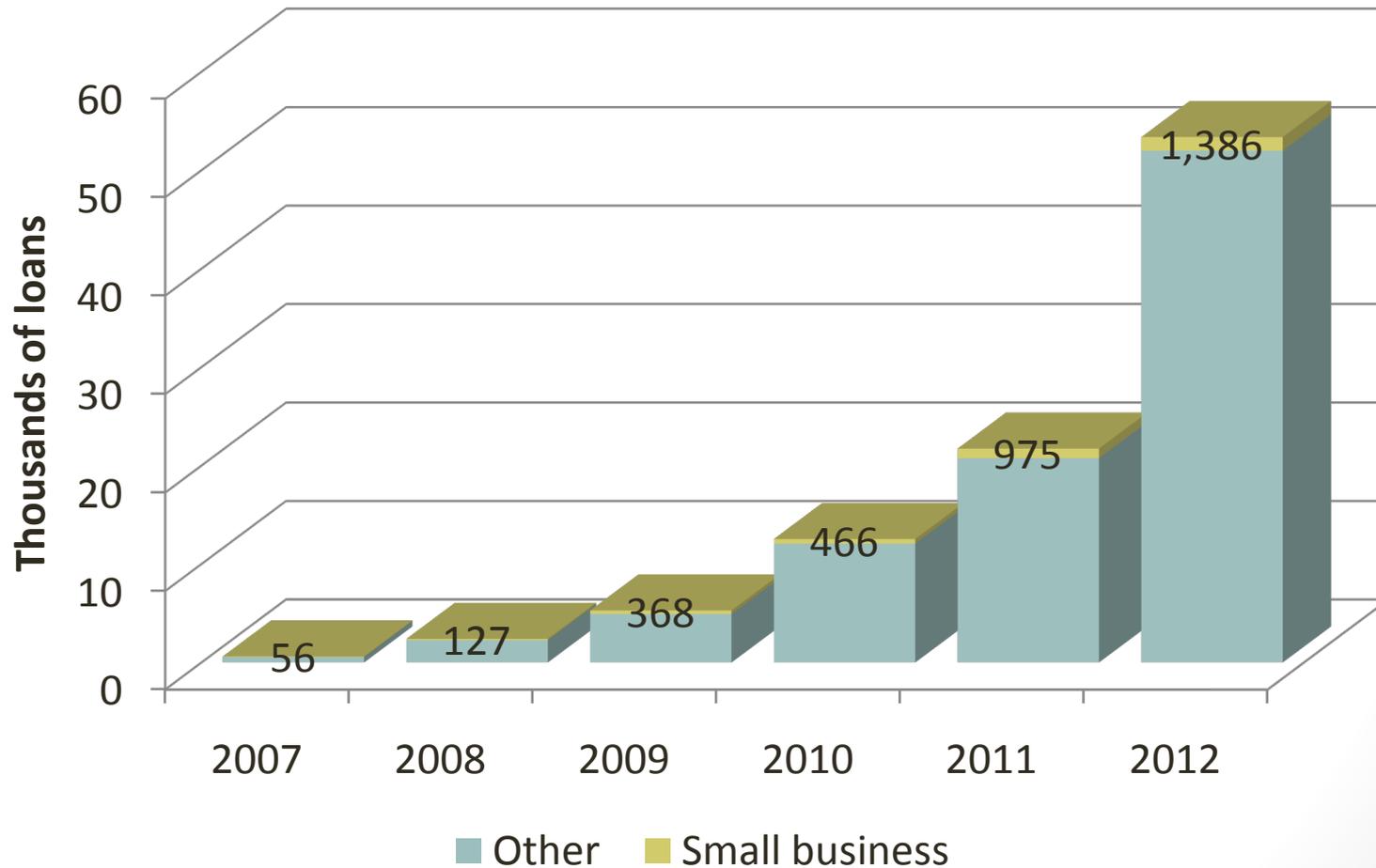
# Small business lending from commercial and savings banks fell and has not rebounded



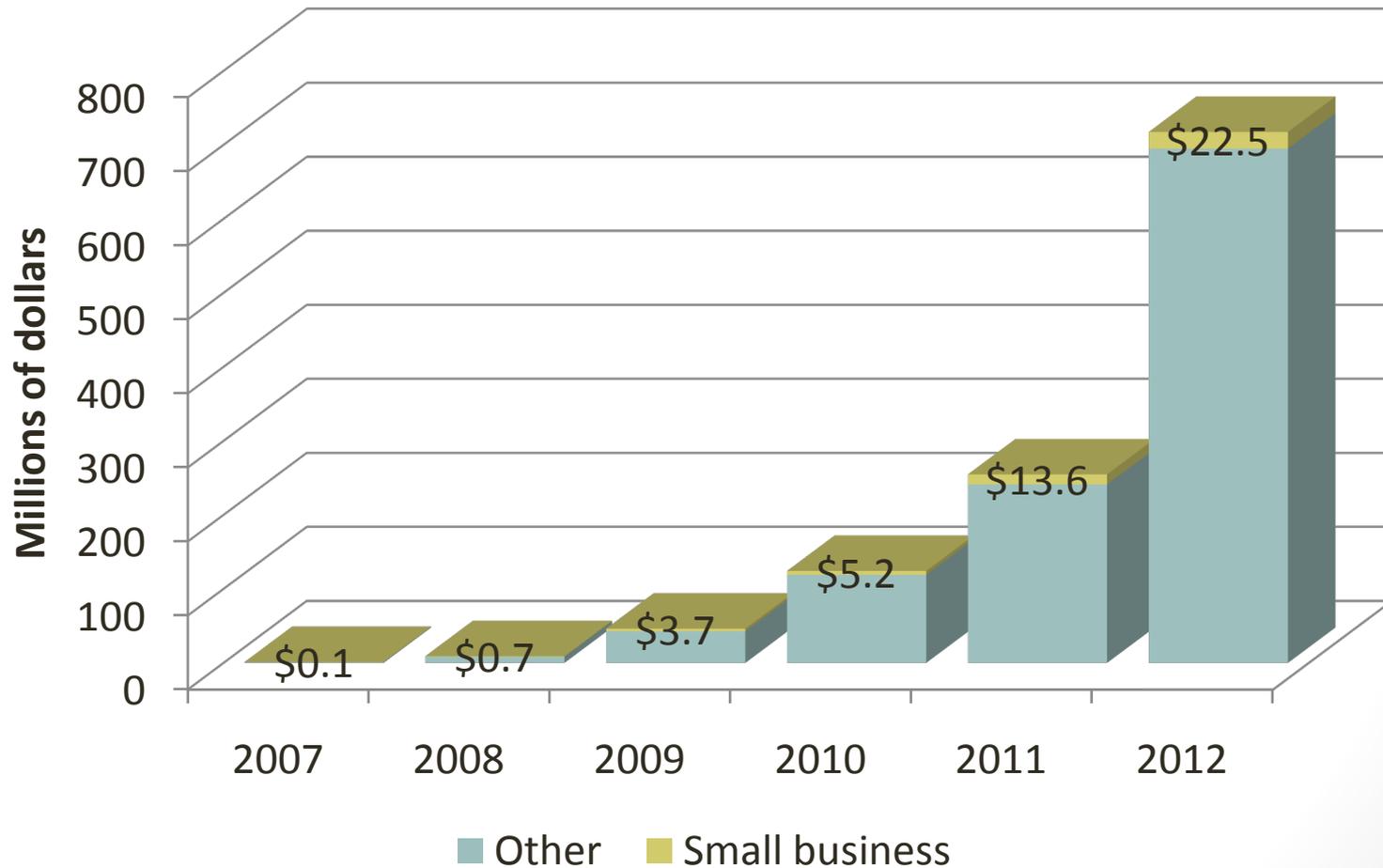
# Lending Club loan applications



# Lending Club loans funded



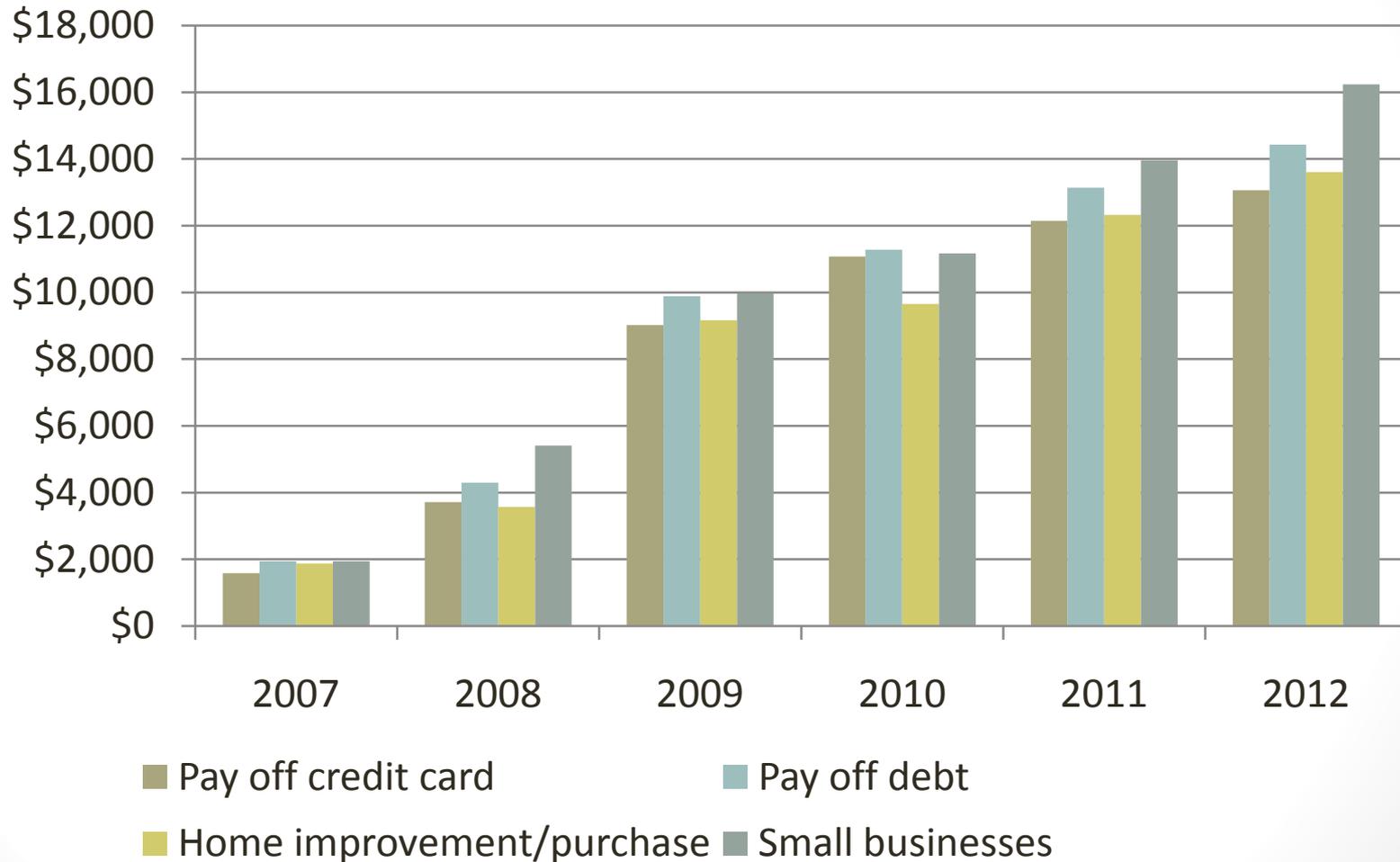
# Lending Club dollars funded



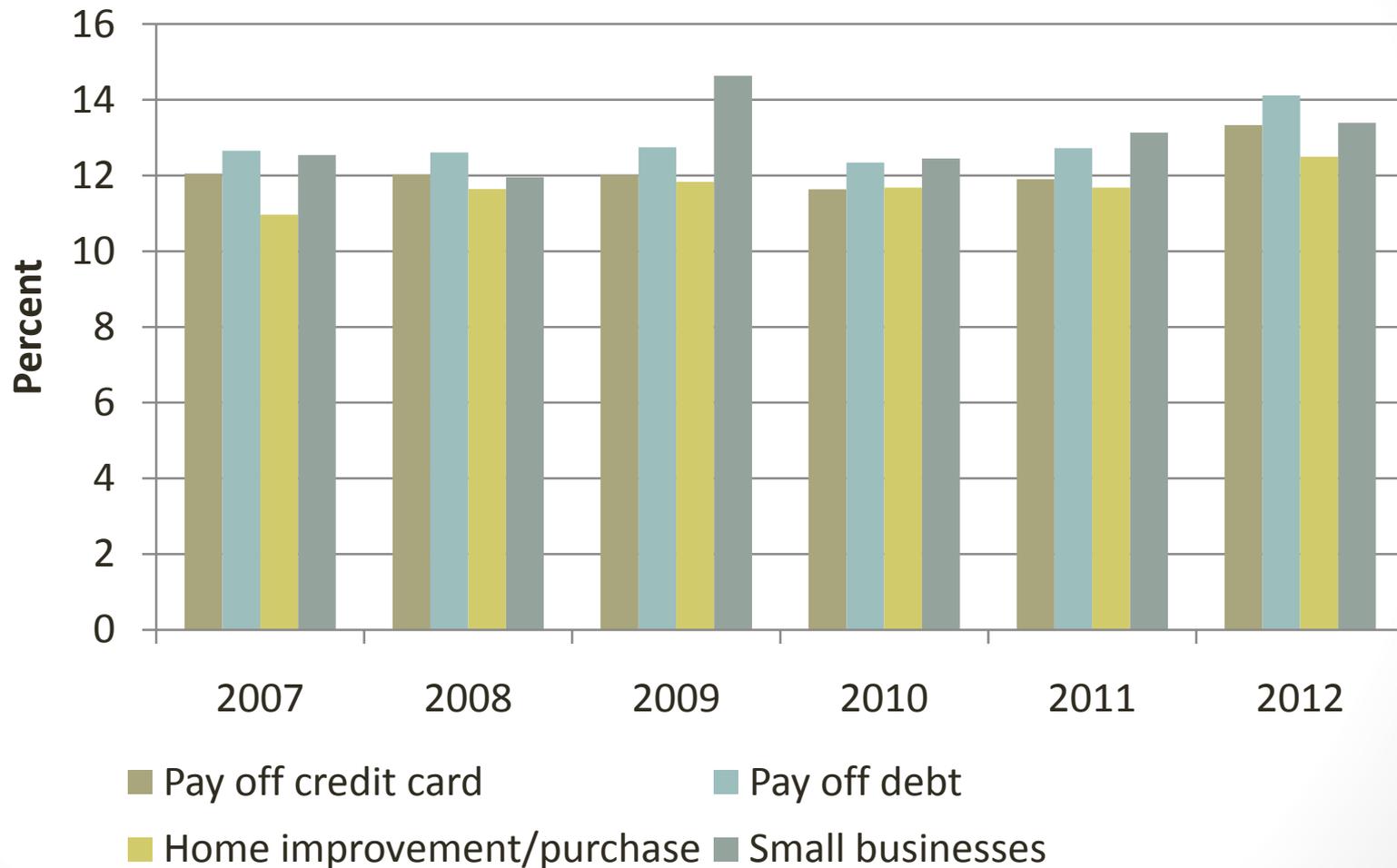
# Are loans for small business loans more likely to get funded?

- 6-7% of applications for small businesses are funded vs. 10-12% of applications for other purposes
- Estimate logit model controlling for observable characteristics
  - Loan for small business  $\Rightarrow$   $\uparrow$  likelihood of funding
  - Each \$1000 requested  $\Rightarrow$   $\downarrow$  likelihood of funding
  - Each year employment  $\Rightarrow$   $\uparrow$  likelihood of funding
  - Higher home price index  $\Rightarrow$   $\uparrow$  likelihood of funding
  - Higher Fico score  $\Rightarrow$   $\uparrow$  likelihood of funding

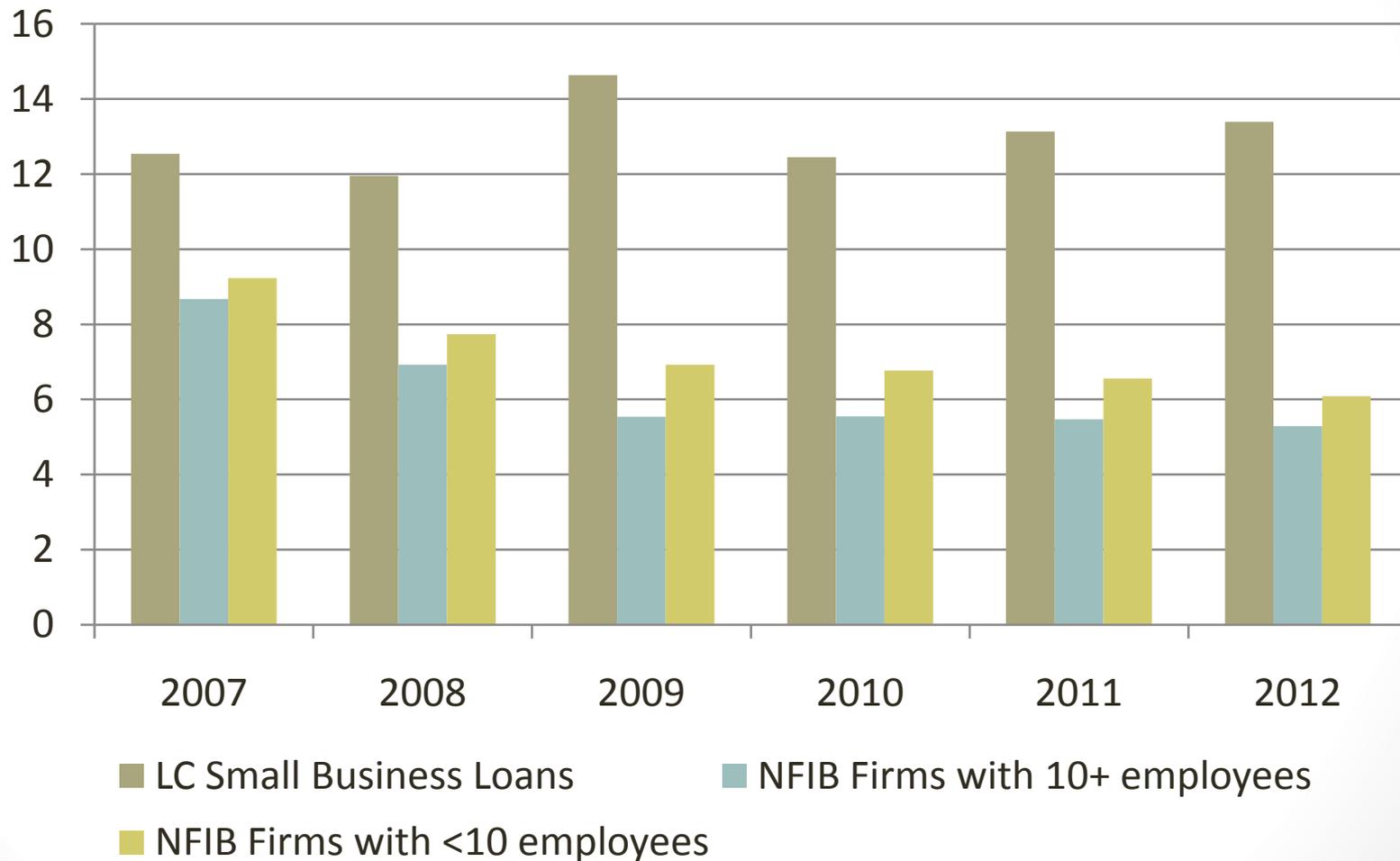
# Average loan size by loan purpose



# Average interest rate paid by loan purpose



# How does this rate compare to other small business loan rates?



# Are loans for small business loans charged a higher rate?

- Average rate similar across loan types
- Estimate regression model controlling for observable characteristics
  - Loan for small business  $\Rightarrow \uparrow$  rate paid
  - Each \$1000 requested  $\Rightarrow \uparrow$  rate paid
  - Each year employment  $\Rightarrow \downarrow$  rate paid
  - Higher Fico score  $\Rightarrow \downarrow$  rate paid
  - County per capita income  $\Rightarrow \downarrow$  rate paid
  - Home price index, county population  $\Rightarrow$  no impact on rate paid

# Conclusions

- Peer-to-peer loans for small businesses have increased substantially since 2007
- Peer-to-peer loans for small businesses more likely to be approved, controlling for quality
- Peer-to-peer loans for small businesses pay a slightly higher interest rate, controlling for quality

# Looking forward

- Peer-to-peer lending likely to continue to grow
- More research needs to be done on the long term impact of such loans on the longevity and profitability of firms using such loans (data not currently available)
- More education on the cost of such loans for potential borrowers seems in order