Final Report

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Project Title: *Access to Finance through Peer-to-Peer Lending During a Crisis*

1.1 Project Summary

In this research project, we investigated the dynamics of P2P lending during crisis periods. Specifically, we explored whether and how the access to finance through P2P has been impacted during COVID-19 period measured by comparing loan approvals, funding of loans and risk premiums. For the purpose of this research, our primary data source is the P2P lending platform, Prosper.com. Prosper is one of the largest P2P lending platforms in the world, and is based in U.S (https://www.prosper.com).

1.2 Project Outcomes and Impacts

Using a sample of nearly 47,000 listed peer to peer loans during 2018-2020 period, we show that during COVID the average listing of loans goes down. It might be the case that because the lending platform increases its scrutiny, the number of loans that are approved to be listed in the platform diminishes. However, the empirical evidence demonstrates that funding of listed loans increases during the COVID period compared to the pre-COVID period. In addition, the proportion of funded loans that are fully funded increases significantly during the COVID period vis a vis the pre-COVID period. Further, the proportion of fund supplied relative to the demand for funds goes up substantially on a per loan basis during as we move from pre-COVID to COVID period. At the same time, we find that the risk premium increases significantly during the COVID period relative to the pre-COVID period. We posit that lenders tend to invest more in P2P loans during the COVID period because of stricter screening process of the lending platform as well as the opportunity to earn a relatively high return. On the other hand, borrowers whose loans are listed have a better access to finance during the COVID period. Investigating this issue makes several contributions. First, it gives us a comprehensive understanding regarding P2P lending platforms' ability to sustain some of the traditional difficulties that risky debt markets face in time of crisis in terms of ensuring financial inclusion. Second, it helps us to attain an in-depth understanding of how the contracting dynamics between lenders and borrowers in P2P lending changes during a crisis like COVID-19 compared to normal economic period. Third, the research contribute to the growing body of literature on P2P lending, specifically in the area of how a shock influences the borrowers' interaction with P2P platforms and lenders. Fourth, findings of this research will help regulators and policymakers formulate policies that will ensure that P2P lending platforms can continue their role in terms of providing access to finance to individual and business borrowers during a crisis. Finally, this research has an important dimension in terms of the Canadian context. Given that P2P lending has recently in Canada, the findings of this research will be of immense interest to Canadian regulators and policy makers as P2P lending has huge potential in Canadian debt market.