

8th Crowdfunding Symposium
Dresden University of Technology / Germany

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Interest rate drivers in the peer-to-business lending market

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Who fixes interest rate in crowdlending? And How ?

the platform

vs

the crowd

Garage Hibon

présenté par October France

55 000 € 7.5% 48 mois • B



Fixez le bon taux d'intérêt

Taux d'intérêt minimum et maximum selon la durée et l'évaluation Unilend

	○○○	○○○○	○○○○○	○○○○○○	○○○○○○○
3 à 12 mois	6.3% 8.0%	5.3% 7.0%	4.0% 5.3%	3.5% 4.5%	3.0% 4.0%
18 à 24 mois	7.0% 8.7%	5.8% 7.5%	4.5% 6.0%	4.0% 5.0%	3.3% 4.3%
36 mois	7.8% 9.5%	6.3% 8.0%	5.5% 7.0%	4.3% 5.5%	3.7% 4.7%
48 mois	8.3% 9.7%	6.8% 8.5%	5.8% 7.5%	4.5% 6.0%	4.0% 5.0%
60 mois	8.5% 9.9%	7.0% 8.7%	6.0% 7.7%	4.8% 6.3%	4.3% 5.3%

Motivation & Research Questions

- In 2023, crowdlending platforms helped raise **more than 1.6bn € in France** (for a total CF market size of 2.1bn €). (Mazars, 2024)
- Inherent **riskiness of loan-based crowdfunding** (Hernando, 2016)
- It is essential to investigate the **interest rates** paid by the entrepreneurs which **should be directly linked to the risk of the loan** (mainly the default risk)

Default indicators**

[Last updated: Mar 16, 2024, 3:07 AM]

Calculation by: Volume (V) | Number (N)

Source : october.eu

Projects grade	A	B	C	TOTAL
Average rate	4.61 %	5.99 %	6.85 %	6.41 %
Capital Outstanding	€17,251,933.22	€55,712,987.56	€18,160,780.33	€91,125,701.11
Default rate (N)* ¹⁰	15.15 %	21.69 %	32.69 %	27.53 %
Default rate > 60 days (N)* ¹¹	15.15 %	19.66 %	27.85 %	24.02 %
	A	B	C	TOTAL

Motivation & Research Questions

- Our study aims to **explore the factors determining the interest rate in crowdlending** campaigns.
 - Are the the interest rates **similar when the platforms set the interest rate** or when it is set by **the crowd through a bidding process**?
 - What **factors** affect the determination of the interest rate for crowdlending projects?
 - Does **the crowd**, usually not composed of professional investors, use the same **drivers of interest rates** as the platform's analysts?
 - Since platforms are in competition and the ability to attract both investors and borrowers is a question of survival for the platform, does this **competition bias the interest rates** offered to participants?

Conclusions

- The interest rates are significantly lower when the platform sets the interest rate.
 - Lenders face a high level of asymmetric information and adverse selection problems when they make their lending decisions leading them to ask for higher interest rates to compensate for this uncertainty they encounter → **Confirming Hypothesis 1**
 - Platforms seem to be more aware of the borrowers' default risk, leading them to set interest rates at a reasonable level, in line, for example, with the research of Yan et al. (2018) focusing on peer-to-peer platforms
 - Contrary to lenders, platforms pay attention to the firm financial revenue when they set the interest rate, suggesting that they are more financial experts than the crowd → **Confirming Hypothesis 2a**

Conclusions

- The higher is competition, the lower the level of the interest rate set by the platform. → **confirming Hypothesis 3**
 - It is more costly for borrowers to opt for the highly visible platform since higher visibility also means a higher interest rate.
 - The competition amongst platforms is relevant and positively impacts the interest rates offered to entrepreneurs.

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Thank you for your attention.

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