8th Crowdinvesting 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 €

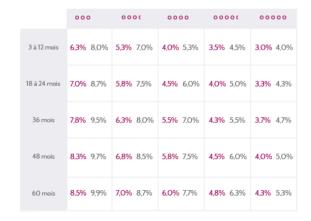
7.5%

48 mois

• B

Fixez le bon taux d'intérêt

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

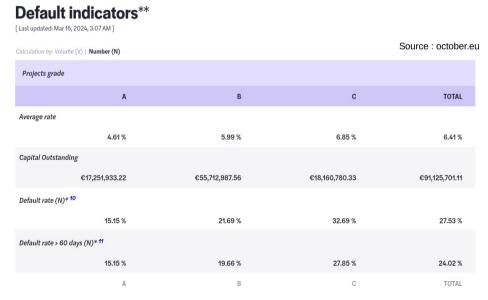






Motivation & Research Questions

- 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)





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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