Judging Borrowers by the Company They Keep: Social Networks and Information Asymmetry in Online Peer-to-Peer Lending
by
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Abstract:
We study the online market for peer-to-peer (P2P) lending, in which individuals bid on unsecured microloans sought by other individual borrowers. Using a large sample of consummated and failed listings from the largest online P2P lending marketplace - Prosper.com, we test whether social networks lead to better lending outcomes, focusing on the distinction between the structural and relational aspects of networks. While the structural aspects have limited to no significance, the relational aspects are consistently significant predictors of lending outcomes, with a striking gradation based on the verifiability and visibility of a borrower's social capital. Stronger and more verifiable relational network measures are associated with a higher likelihood of a loan being funded, a lower risk of default, and lower interest rates. We discuss the implications of our findings for financial disintermediation and the design of decentralized electronic lending markets.

Biography:
Mingfeng Lin is a PhD Candidate at the Robert H. Smith School of Business, University of Maryland, College Park. Mingfeng's research seeks to understand the transformational impact of recent developments in Internet and Web 2.0 technologies on traditional markets and industries. His dissertation examines how online social networks and Web 2.0 technologies help mitigate information asymmetry in emerging online markets such as peer-to-peer lending and online software outsourcing. His research has won several national and regional awards in the US, including the 2009 Kauffman Foundation Dissertation Fellowship, and the 2008 Economic Club of Washington Fellowship Grant. Mingfeng's paper on the role of social networks in online P2P lending markets won the Best Doctoral Student Paper Award at the INFORMS Conference on Information Systems and Technology (2009), and was nominated for Best Conference Paper at the 2009 International Conference on Information Systems. He was among a select group of Ph.D. students chosen to attend Oxford University's Summer Doctoral Programme in 2008 and the NBER (National Bureau of Economic Research) Entrepreneurship Research Boot Camp in 2009. Mingfeng has a BA and MA in Economics from Peking University and an MA in Economics from University of Maryland, College Park.