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Predicting Repayment Success in IT-Mediated Peer-to-Peer Lending: The Value of Soft Information (Abstract Only)

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Abstract

The growth of IT-mediated online peer-to-peer (P2P) lending may have repercussions on the development of the financial industry. Due to the low costs and high benefits of deception, we hypothesize that borrowers with private information about their true high risk have incentives to misrepresent to improve credit conditions and funding success. To test our proposition, we derive linguistic artifacts of deceptive language. Using Content Analysis, we examine the relation of these artifacts to repayment performance through hard information and descriptions of 1099 loan projects on the P2P lending platform LendCo. While we observe that results are only robust for texts beyond 48 words in length, we find that (i) lenders make inefficient lending decisions, (ii) available hard information, such as the credit grade, is not sufficient for an accurate risk indication and (iii) borrowers who compose more expressive, affective and less complex loan descriptions are significantly more likely to default. Our results can be the blueprint to enable better decision making in credit decisions through new systems that automate the analysis of online profiles for lenders and banks. We thereby contribute to the ongoing discussion in IS on big data and social profile analysis for decision support.