

Lighthouse in the Dark: Information in Private Lending

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Background

- RISK in Fintech credit market (i.g., marketplace lending):
 - Direct participation of naive individuals→exacerbate asymmetric information problem
- How to effectively deliver information to naive individuals? By whom?
 - Information center by gov. (public goods)?
- From 2012, Private Lending Registration Service Centres (PLcenters) were gradually introduced by local governments in many Chinese cities
 - Dissemination of financial knowledge and local private lending market info
 - China is the largest market for FinTech credit
 - Staggered Difference-In-Difference setting

PLcenter $\xrightarrow[\text{Offline, gov} \rightarrow \text{Online, private}]{\text{Information/Knowledge}}$ Renrendai (P2P)

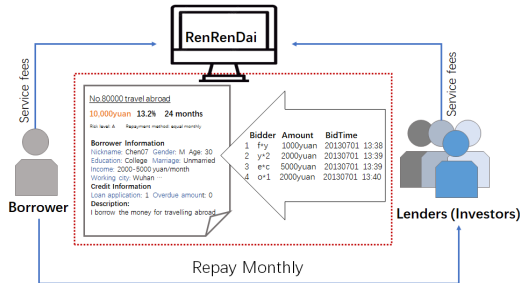
PLcenters: public information center

- Physical location, one-stop service
- Disseminate local market information and financial knowledge

Example: 20140915, Weekly Wenzhou Index

| 1m | 3m | 6m | 12m | 1y+ |
|--------|--------|--------|--------|--------|
| 19.87% | 20.34% | 17.48% | 16.26% | 18.01% |

Renrendai: marketplace lending



Research Question

PLcenters launched by the government introduce free reference information:

Local market information + knowledge

This paper tries to answer,

- With the introduction of PLcenters, will individual borrowers in the marketplace lending market change their setting of contracts and repayment performance?
How?
- Will the marketplace lending market work more efficiently?

Preview of Findings

- The number of P2P loan applications increases with the introduction of PLcenters. Interest rate \uparrow , loan size \uparrow , maturity \uparrow .
- With PLcenters, success rate and liquidity \uparrow . Interest rate proposed by borrowers contains more information. Less extremely low proposals.
- PLcenters reduce **the dispersion** in the contract terms (i.e., interest rate, maturity and amount). This effect is mainly driven by the lower educated.
- The introduction of PLcenters improves the repayment performance.

Contribution

Novel evidence that information can work as public goods to guide the informal financial market (search cost \downarrow).