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Fund Seekers' Deception in Peer-to-Peer Lending in Times of COVID

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Abstract : This article examines the likelihood of deception on the part of borrowers wishing to obtain credit from institutional or private lenders. In our first study, we identify five explanatory variables that account for nearly forty percent of the propensity to act deceitfully: a poor credit history, debt, risky behavior, and to a much lesser degree, irrational behavior and disconnection from the bundle of needs, goals, and preferences. For the second study, we remodeled the initial questionnaire to adapt it to the needs of institutional bankers and borrowers, especially those that engage in money on-line peer-to-peer lending, a growing business fueled by the COVID pandemic. We find that the three key psychological variables that help to indirectly predict the likelihood of deceitful behaviors and possible default on loan reimbursement, i.e., risky behaviors, irrationality, and dis-connection, interact with each other to form a loop. This study presents two benefits: first, we provide evidence that it is to some degree possible to tighten control over lending practices. Second, we offer a pragmatic tool: a questionnaire, that lenders can use or adapt to gauge potential borrowers' deceit, notably by combining their results with standard hard-data measures of risk.

Keywords : bundle of needs, default, debt, deception, risk, peer-to-peer lending
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