Discussion: Fed Liftoff and Subprime Loan Interest Rates: Evidence from the Peer-to-Peer Lending Market

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September 8, 2016

Summary

- What is the impact of the interest rate "liftoff" on lending rates?
- On the one hand, it increases the funding costs of lenders.
- On the other hand, it signals the Fed's perception to future economic development.
- Which effect is stronger?

Summary

- The paper uses P2P data to answer the question.
- In this form, they can disentangle supply and demand (perfect setting: a macro shock and microdata to analyze the impact)
- Authors find that interest rate on Prosper loans fell 16.9-22.6 bps after the Fed raised interest rates on 25 bps.
- The signaling effect is stronger.

Summary

- The authors collected hourly data on outstanding loans at Prosper around the liftoff announcement.
- Data allows to include borrower and loans characteristics (risk is measured in several forms).
- The inclusion of all these variables is a very restrictive approach ($R^2 = 0.97$) and results still robust.

Summary

- In a second part of the paper, authors introduce a theoretical model and suggest a few more predictions, which are tested and confirmed.
- The odds of getting funds after the liftoff increase after liftoff.
- The pace and speed of funding provision also increase.

My opinion about the paper

- Nice paper/ very good idea.
- Well written.
- Well executed, plenty of robustness checks, convincing results.
- Main concern regards the structure of the paper (not so reader friendly).

My opinion about the paper

- Much of the paper can be moved to appendix.
- I suggest to include only crucial information between the introduction and main result.
- Structure of the paper odd, empirical/model/empirical.
- The current structure of the paper lead the reader to think that there are two research questions.
- Maybe there are two papers in one.

Concern

- Relate their findings to the subprime segment of the market
- Disagree. P2P lending is market based form of credit provision.
- The pass-through from banks to consumers might be different. Banks are institution based form of credit provision and have to react to many different.