Policy Uncertainty and Household Credit Access: Evidence from Peer-to-Peer Crowdfunding

Xiang Li, Bibo Liu, Xuan Tian

Tsinghua University PBC School of Finance

Abstract

This paper studies how policy uncertainty affects household credit access. Using crowdfunding data from a major peer-to-peer (P2P) crowdfunding platform, Prosper.com, and a news-based policy uncertainty index developed by Baker, Bloom, and Davis (2016), we find that policy uncertainty negatively affects household access to small loans. Using an instrument variable based on partisan conflict and a difference-in-differences analysis ruling out plausibly exogenous variation in policy uncertainty generated by gubernatorial elections, we show that the relation is likely causal. Investors’ increased caution on deal selection and enhanced value of the “wait-and-see” strategies and thus are more likely to fund high-quality requests, which bids amount decreases significantly during periods of high policy uncertainty. Policy uncertainty significantly reduces crowdfunding activities and hence households’ access to small loans in the P2P market.

Identification Strategies

The instrumental variable approach

• The instrument: Partisan conflict
  • The instrument: Positive sentiment of newspaper articles containing terms related to lawmakers’ policy disagreement (Shiller, 2000; Hanke and Morck, 2010; Benston, 2004).
  • Reference: Political conflicts affect policy uncertainty
  • Evolution: The instrument captures only the intensity of the debate rather than the content

The difference-in-differences approach

• The difference-in-differences approach (Baker, Bloom, and Davis, 2017; Quan, 2017, June; 2017, July), which allows for comparing the crowdfunding activities before and after the endorsement of gubernatorial elections, the difference-in-differences analysis ruling out plausibly exogenous variation in policy uncertainty generated by gubernatorial elections, we show that the relation is likely causal. Investors’ increased caution on deal selection and enhanced value of the “wait-and-see” strategies and thus are more likely to fund high-quality requests, which bidding amount decreases significantly during periods of high policy uncertainty. Policy uncertainty significantly reduces crowdfunding activities and hence households’ access to small loans in the P2P market.

Equilibrium Results

Policy uncertainty is negatively correlated with the value of loans made on Prosper.com

Demand Side Results

Policy uncertainty appears to have a negative and causal effect on P2P crowdfunding activities; with a one-standard deviation increase in BBD, the funded amount decreases by 0.012 (2.8% of the mean). The funding duration increases by 0.27 days (31.4% of the mean) and the fraction funded decreases by 0.001 (0.2% of the mean).

Demand Side: Policy uncertainty appears to have insignificant effect on crowdfunding outcomes

Supply Side Results

Table 1. Endogeneity test using the two-stage instrument variable regressions

Table 2. Endogeneity test using the difference-in-differences (DiD) approach

Table 3. Demand side analysis: Logistic regression

Table 4. Demand side analysis: Logistic regression

Table 5. Mechanism tests

Conclusions

Policy uncertainty significantly reduces crowdfunding activities and households’ access to small loans in the P2P market.

References