ABSTRACT

In the growing online peer-to-peer (P2P) lending market, the role of banks in the credit market is eliminated. We investigate whether macroeconomic conditions have an impact on interest rates of P2P loans, as they have on corporate loans and traditional credit markets. Using canonical correlation analysis, we uncover three latent factors - a macro default factor, a market uncertainty factor and a fundamental market value factor, that explain the common variation in P2P loans across different grade types. However, macroeconomic factors are not sufficient in explaining common variation in P2P loans across different term types.