Peer-to-Peer Lenders versus Banks: Substitutes or Complements?

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ABSTRACT

This paper studies whether, in the consumer credit market, peer-to-peer (P2P) lending platforms serve as substitutes for banks or instead as complements. I develop a conceptual framework and derive testable predictions to distinguish between these two possibilities. Using a regulatory change as an exogenous shock to bank credit supply, I find that P2P lending is a substitute for bank lending in terms of serving infra-marginal bank borrowers yet complements bank lending with respect to small loans. These results indicate that the credit expansion resulting from P2P lending likely occurs only among borrowers who already have access to bank credit.

Keywords: peer-to-peer lending; access to credit; financial innovation.

JEL Classification: D14, E51, G2

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