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“Trust and Credit: The Role of Appearance in Peer-to-peer Lending” Summary

Duarte, Jefferson, Stephan Siegel, and Lance Young. "Trust And Credit: The Role Of Appearance In Peer-To-Peer Lending." Review Of Financial Studies 25.8 (2012): 2455-2484. Business Source Premier. Web. 7 Feb. 2014.

Briefly, this article examines the relationship between appearance and economic lending. When trying deepen the summary of this “in-depth” article, it is important to observe the structure. The author’s simplistically organize the article into five parts: 1. Data Collection 2. Does trustworthy appearance affect lending decisions? 3. Does trustworthy appearance predict default? 4. Do lenders fully account for trustworthy appearance? 5. Conclusion.

The author’s begin by explaining how they received data for their research. They used received listing and loan data from Prosper, an online auction where potential borrowers place requests for loans. From the 176,537 listings and 17,480 loans, they randomly selected 20,000 listings and 6,500 loans made on Prosper between May 2006 and January 2008. The emphasis on the exact numbers shows the authors strive for credibility and accuracy. Mturk workers were then hired to observe the faces of the potential borrowers. Each borrowers had two Mturk workers observe their picture and rate trustworthiness. Demographics are important factors in the observation. The rating system ranges from one (not trustworthy) to five (very trustworthy), and the secondary, more specific question that was asked was, “Suppose that you lent the person/people in the picture ten dollars. Assuming that they have the money to pay you back, what are the chances that they would, in fact, pay you back?” The author’s use past research in the areas related to this topic to further their argument. For example, when they convey the confection of nationality and trust, they cite Guiso, Sapienza, and Zingales (2009).

Next, the author observes the data and answers the questions, “Does trustworthy appearance affect lending decisions?” and “Does Trustworthy Appearance Predict Default?”. After reviewing the data, the author’s results are that lenders who appear more trustworthy are more likely to receive loans, pay lower interest rates, have a higher credit grade and lower default rates. By now it is clear what the author’s argument is: People who look trustworthy are more likely to receive leniency with loans and interest rates, while also having higher credit grades and lower default rates.

Now the author observes if the Mturk workers were right. The people that they graded “more trustworthy” seemed to actually be more reliable. The conclusion of the article clearly shows the authors motivation. They were motivated to add to the ongoing conversation that stresses the importance of trust in financial markets. By proving their argument, they effectively showed that impressions of borrowers' trustworthiness, predict their behavior as well.