

# The Online Payday Loan Premium

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Discussion by

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SWFA

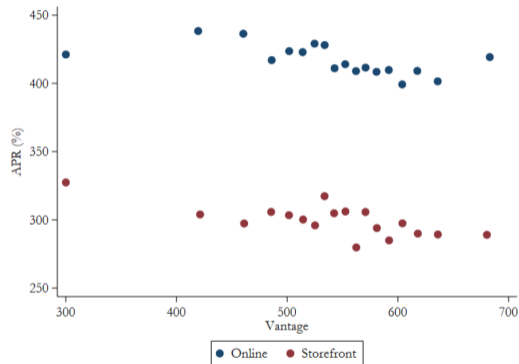
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## Research Question

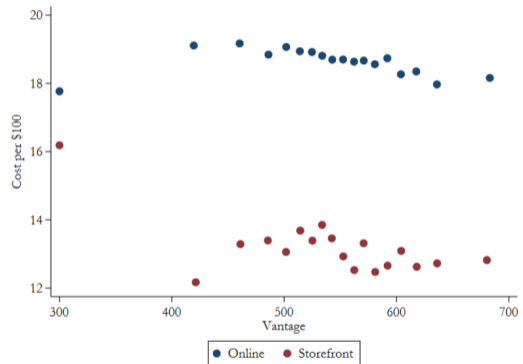
### **Are online payday loans more affordable or more expensive?**

- An important consumer credit market
- Link payday lending to fintech
- Ex-ante ambiguous

# Main Findings I: Online Premium

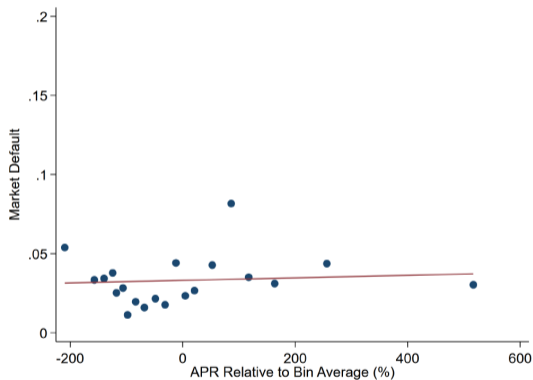


(a) APR

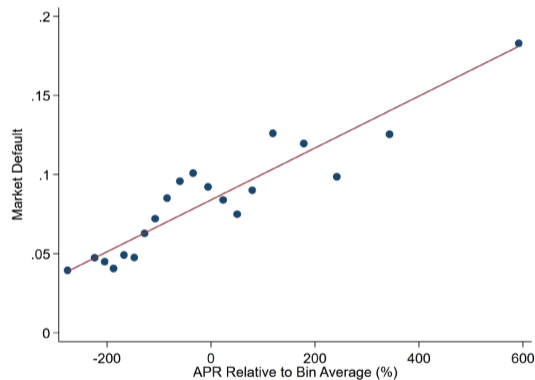


(b) Cost per \$100

## Main Findings II: Asymmetric Information



(a) Marked Default, Storefront



(b) Marked Default, Online

# My Take

## **This is an important paper!**

- First to document price differences between online and storefront payday loans
- First to rationalize online premium by credit rationing under information asymmetry

## **My comments**

- Other possible causes
- Asymmetric information

## Other Explanations

### **Convenience Premium**

- Online lenders can help borrowers save various types of costs (time, psychological)
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### **Higher default rate on online payday loans**

- People choose to default on their most expensive debt



# Asymmetric Information

## **Online lenders have a riskier pool of borrowers**

- Not traditional measures of credit risk
- What is unobserved risk? Some evidence on misreporting

## Self-Report

Panel B: Credit Visible Sample (2013-2019)						
Subsample:	All			Non-imputed	Online	Storefront
	Mean	Median	SD	Mean	Mean	Mean
<b>Loan Characteristics</b>						
Loan Amount (\$)	370	255	284	342	332	460
Repayment Amount (\$)	372	300	299	396	320	494
Loan Maturity (days)	19	15	9	19	19	19
Marked Default	7%	0%	26%	0%	8%	4%
Late Payment	32%	0%	47%	26%	32%	34%
APR	382%	336%	208%	372%	417%	300%
Cost per \$100 (\$)	16.9	17.5	5.8	16.4	18.5	13.3
Vantage score	510	538	113	512	500	535
Unscoreable	18%	0%	38%	18%	21%	10%
Online Loan	70%	100%	46%	68%	100%	0%
<b>Self-Reported Information</b>						
Owens Home	16%	0%	36%	14%	20%	6%
Age	42.1	41.0	13.5	42.4	40.1	46.6
Months at Address	30.5	24.0	24.2	30.0	31.0	26.0
Net Monthly Income	2578	2244	1514	2576	2844	1956

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## **Adverse selection or moral hazard**

- Adverse selection: explore the extensive margin (approval rate)
- Moral hazard: results with individual fixed effects

# Conclusion

## **My take**

- An important and interesting question
- Detailed and suitable data: Clarity
- Empirical design: statewide payday loan databases

## **My suggestions**

- Extract more information from Clarity data
- Discuss some alternative causes
- Dig more into the asymmetric information story