Discussion of "The Value of "New" and "Old" Intermediation in Online Debt Crowdfunding"

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Starting point

1. Online crowdfunding is a (reasonably) new and exciting credit channel
2. As with all two-sided markets platform design is key for the success, it's also interesting to understand what makes these platforms different from the traditional banks
3. The authors focus on two different types of products: direct "peer-to-peer" lending and "marketplace' lending
4. Key emphasised difference: liquidity risk, i.e., the fact that at maturity the lender has to sell the portfolio at the secondary market herself which is costly

High-level description

1. Borrowers are exogenous, essentially making the model one-sided: platform's decisions only affect the behavior of lenders
2. Lenders choose between different opportunities (direct and portfolio) using discrete choice framework. Key parameters are rates, maturities and "expected liquidity" of a product
3. At maturity the lenders can either cashout or rollover – binary decision
4. For a given number of portfolios the platform chooses the interest rate and "maturity mismatch" parameters

Comments on the model

1. Presumably the key aspect of the platform design is to maximize the participation by both sides, and the model ignores the supply side
2. There is no liquidity "risk" in the model – investors know perfectly how long it will take to resell the loan
3. Heterogeneity in preferences for the investment decisions while no heterogeneity in preferences for the rollover decisions
4. The platform cares about the maturity mismatch, while investors don't, instead they care about σ which is treated as a fixed characteristic of the portfolio

Comments on estimation/identification

1. The authors estimate the model for the average (time-specific) lender, which might be problematic given that demand is highly nonlinear for the extreme values of the parameters
2. It is unclear if the variation left in σ after controlling for characteristics and fixed effects (crucial for identification) is known to investors at the time of their decision

Comments on the results

1. The results that the portfolio is welfare improving is expected given that investors are buying it in huge quantities despite having the access to direct loans
2. The result about almost equivalence of bank-type and marketplace models is also expected given that σ is very small the majority of cases
3. It is unclear how much we can trust the counterfactual with large σ: most values of σ are very low, and we do not know if the data is informative about the behavior for large (expected!) waiting times

Going forward

- σ is crucial for the counterfactuals and it would be nice to find exogenous variation in selling times that is (a) large to inform counterfactuals, and (b) known when investors make choices
- Given the richness of the data maybe it is possible to estimate the demand separately for active/nonactive investors, instead of average ones. This would make counterfactuals more transparent
- Given that maturities and the number of portfolios are essentially fixed in the counterfactuals, perhaps one could make the model more transparent by focusing mostly on the interest rate decisions by the platform