**Credit Risk Premium Dynamics of P2P Lending: Do Small Business Owners Pay More?**

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**Abstract:**

We attempt to assess and explain the credit risk premium of peer to peer (P2P) loans for small business purpose. Our evidence shows that P2P borrowers pay significantly higher interest rate for small business financing purpose than for other purposes, controlling for loan amount and borrower’s characteristics. The higher interest rates can be justified by higher default risks carried by small business borrowers. Robustness check further supports that the credit risk premium as well as the default risk are sensitive to macroeconomics shocks. The loans with higher interest rates and poor credit records are more likely to default across all economic states, especially during the economic recessions. The observation is more evident in the loans for small business purposes. Small business borrowers do pay more and suffer the most and are more likely to default during economic downturns. The finding is consistent with our expectation that economic conditions have greater impacts on small business growth during economic downturns than during economic boom due to declining market demand and profitability.