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Abstract

P2P Debt and the Capital Structure of Private Firms

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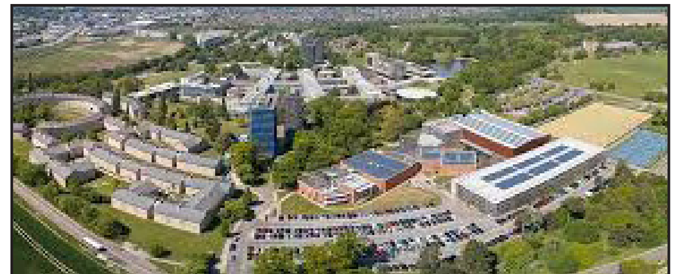
Abstract:

P2P (peer-to-peer) debt or crowdlending involves the funding of small unlisted businesses by a crowd of investors via an internet portal. This paper investigates the role of this new form of debt in the emerging capital structure of these firms in the UK, where crowdfunding is most advanced due to light touch regulation and the development of fintech – the application of digital technologies and Big data to finance. It investigates the financing decisions of a unique sample of 934 firms that were financed by Funding Circle – the world's leading P2P provider

- from 2010 to 2015. The firms are small (10-49 employees) with a median age of 9 years, and two thirds of the debt raised has a maturity of 5 years. The econometric results indicate that firms' debt ratios are sensitive to P2P debt and to firm characteristics like asset tangibility and debt composition. The larger the target leverage deviations, the higher the probability of firms issuing or holding P2P debt on their balance sheets. Our findings show that, in line with the trade-off theory, UK private firms have higher leverage ratios due to the high cost of issuing equity capital. Finally, they extend the traditional pecking order theory of capital structure for private firms as P2P debt can be considered as a novel external debt source after bank debt.

JEL classification: D92, G32, L20



Biography

Jerry Coakley from Business and Local Government Data Research Centre and University of Essex, United Kingdom.

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