How Accounts Shape Lending Decisions through Fostering Perceived Trustworthiness

Scott Sonenshein[1]
Jesse H. Jones Graduate School of Business
Rice University
6100 Main Street, Houston, TX 77005-1892
(713) 348-3182
scotts@rice.edu

Michal Herzenstein
Alfred Lerner College of Business and Economics
University of Delaware
Newark, DE 19716

Utpal M. Dholakia
Jesse H. Jones Graduate School of Business
Rice University
6100 Main Street, Houston, TX 77005-1892

Sonenshein, S., M. Herzenstein, and U. Dholakia (2011) "How Accounts Shape Lending Decisions through Fostering Perceived Trustworthiness," *Organizational Behavior and Human Decision Processes,* 115(1), 69-84.

[1] We thank Rick Andrews, Tom Becker, Karen Jansen, Dave Mayer, and John Sawyer for their helpful comments on a previous draft, as well as Associate Editor Linn Van Dyne and the three anonymous reviewers. We also thank Kim Jones Davenport and Rachel Wheeler for their assistance coding the data, as well as Tina Borja for her editorial assistance.

How Accounts Shape Lending Decisions through Fostering Perceived Trustworthiness

Abstract

We examine the roles of social accounts in influencing lenders' decisions about loaning money to borrowers. Using field data and a laboratory experiment, we show that lenders will lend money depending on the accounts borrowers tell. In Study 1, field data from a peer-to-peer lending website reveal that two account combinations (explanation-acknowledgement and explanation-denial) increase the likelihood of favorable lending decisions. A laboratory study helps explain the important role of accounts by unpacking the process of perceived borrower trustworthiness in lending decisions. A final field study assessing the performance of loans two years after origination shows that accounts, despite having a positive effect on the loan decision process, negatively predict loan performance. Collectively, the three studies show that accounts facilitate economic exchanges between unacquainted transaction partners because of their role in increasing perceived trustworthiness, but that ironically, accounts can negatively relate to loan performance.

At the center of the recent global financial crisis is a set of poorly performing loans originated by bankers who, for a variety of reasons, made poor decisions about borrowers who assumed too much risk (Lewis, 2010). Until recently, most loans were originated by local bankers who knew borrowers personally. However, in the last decade or so, a growing proportion of lending decisions have been made by bankers with little firsthand knowledge of the prospective borrower beyond the loan application. These more hands-off transactions are characterized by meager knowledge about the borrower who, in fact, may never even have banked at the company providing the loan. In this paper, we examine an alternative way of conceptualizing lending decisions under conditions of uncertainty—proposing and testing theory that seeks to understand the effect of social accounts on lending decisions and the importance of perceived trustworthiness in this process.

When decision makers in general and lenders in particular enter into economic exchanges such as those described above, they rarely have perfect information about potential transaction partners. They must decide whether to engage in the exchange, and on what terms, using the best information available. In settings where objective quantitative data about transaction partners is difficult to obtain, insufficient, or unreliable, individuals scour for other information before making decisions. Under these circumstances, decision makers can turn to subjective, but nevertheless potentially diagnostic, qualitative data (Emanuel & Emanuel, 1992; Gigerenzer & Goldstein, 1996). Used appropriately, this qualitative data may offer the promise of helping facilitate important economic decisions by building the requisite trust needed to consummate an exchange.

One type of qualitative data that may be particularly useful to decision makers, especially lenders, during times of uncertainty is a social account (hereafter, account) constructed by a borrower. Accounts, which trace back to the work of Scott and Lyman (1968), are statements that a social actor uses to explain unanticipated or deviant behaviors (for example, "I'm late with my mortgage payment because there was a medical emergency in my family"). Within a person's discourse, accounts refer to specific text meant to alleviate something that may be perceived as deviant, as opposed to a more general and subjective description of a situation. For example, organizational behavior scholars have elaborated on the accounts literature to examine how social actors mitigate the harmful effects of negative events, particularly acts of injustice (Bies, 1987; Bobocel & Zdaniuk, 2005; Lind & Tyler, 1988; Shaw, Wild & Colquitt, 2003). While much of the literature emphasizes the use of accounts to mitigate justice infractions, accounts can also explain other situations that are deviant, and while doing so, can be used to portray the person offering the account in a more positive light (Bozeman & Kacmar, 1997; Goffman, 1959; Leary & Kowalski, 1990; Schlenker, 1980). Whether true or false, accounts can provide important diagnostic information in times of uncertainty to decision makers through delivering broader (even if partial and potentially misleading) situational knowledge of an exchange partner. For example, a person who has filed for bankruptcy protection may provide an account describing an employment-ending work-related injury that explains the reason for filing for bankruptcy. This helps provide some context for a decision maker who is deciding whether to provide a loan, even if the account is not independently verifiable. The decision maker can make an assessment about whether the account is compelling and whether the person offering it is trustworthy in making the lending decision.

In this paper, we seek to build on the rich literature of accounts to explain how they can facilitate economic exchanges, particularly lending decisions, under uncertainty. In doing so, we aim to fill two important gaps in the literature. First, we seek to contribute to research about decision making under uncertainty, explaining how accounts can facilitate economic exchanges when little objective information is known about transaction partners. We argue that accounts provide diagnostic information affecting the decision calculus of decision makers. Such a gap is important to fill because it shows how decision makers (in this case lenders) can rely on non-traditional information to cope with uncertainty, and also suggests how borrowers can exert greater control over decisions about them through the use of discourse (Elsbach, 1994).

Second, we seek to broaden the accounts literature to go beyond its primary emphasis on justice infractions and show that this construct has a wider application to negative situations that do not necessarily involve harm to the person receiving the account. In doing so, we argue for returning accounts to the broader construct it was initially theorized as (Scott & Lyman, 1968)—that is, accounts arise when individuals need to put some deviant action into a broader context, not just an action that creates an injustice. Such an endeavor is important because scholars have amassed a great deal of knowledge about accounts but have largely applied this knowledge in a relatively limited domain of justice research. Despite the potential influence of accounts, we know very little about how accounts affect decision making about economic exchanges. Yet, accounts can play an important role in many types of economic exchanges, particularly where uncertainty can be high such as in employment decisions (Shapiro, Buttner, & Barry, 1994), strategic alliances (Artz & Brush, 2000) and purchasing decisions (Erdem & Keane, 1996).

The basic question that oriented our research was, to what extent do accounts influence economic exchanges between unacquainted actors when uncertainty is relatively high? After articulating our theoretical framework, we describe a field study in which we collected data from a peer-to-peer lending exchange to examine the accounts of real borrowers and their impact on actual lending decisions. Briefly, peer-to-peer lending describes situations in which one individual lends money to another (rather than institutional lending in which institutions lend money to individuals). Our field study (Study 1) uses data from a peer-to-peer lending website (Prosper.com) that serves as a marketplace to enable transactions between potential borrowers and lenders, both being individuals rather than institutions. In the field study, we first examine whether accounts impact lending decisions at all, exploring whether simply providing one tilts a lending decision in favor of a borrower. Afterwards, we build on these initial findings and examine more specifically which types of accounts are most influential in lending decisions. Next, we report the method and findings of a laboratory-based study (Study 2) in which we examine a key psychological process through which accounts affect lending decisions: the development of perceived trustworthiness. Finally, in Study 3, we return to the field data to examine whether the decisions that lenders make based on accounts perform effectively by evaluating the financial performance of loans two years after their origination.

THE ROLE OF ACCOUNTS IN PEER-TO-PEER LENDING

Review of the Accounts Literature

Accounts allow social actors to explain situations and events that are deviant or unanticipated (Scott & Lyman, 1968). This research originated out of an examination of how, by constructing an account, individuals developed a greater sense of control and understanding of their environment, thus maintaining self-esteem in the face of negative events. This allowed them to cope with negative events by producing a degree of closure for the past and hope for the future and helping to establish order in social interactions (Orbuch, 1997). While many of these aspects have implications for the individual *offering* the account, accounts also function to neutralize negative events or consequences (Scott & Lyman, 1968), thereby enabling individuals to influence *others'* perceptions about the meaning of a potentially negatively viewed event. It is this property of accounts that is especially important during economic exchanges between unacquainted individuals because accounts provide a means of re-narrating negative information, such as a bad credit report. That is, using discourse, individuals can attempt to influence a decision by reframing the meaning of an event or situation in a more positive light.

Much of the recent research about accounts has been in the area of justice in which scholars examine how individuals who harm others can ameliorate the injustice perceived by the victim through providing an account. For example, Shapiro et al. (1994) examine how explanations, which are a type of account (explaining deviant behavior by giving more details about why the behavior occurred), can mitigate negative reactions to deceit, in part by providing contextual details surrounding the actions. The concept of accounts has been employed in a wide range of research on justice, including interactional justice (Bies & Shapiro, 1987), procedural justice (Lind & Tyler, 1988), distributive justice (Sitkin & Bies, 1993) and informational justice (Greenberg, 1993). These articles have a common focus on how accounts provided to a victim can reduce that victim's sense of injustice. However, there is little research examining the extent to which accounts affect an economic exchange between two parties, especially when the account focuses on an event or situation occurring before the exchange partners' first interaction and thus did not directly affect the exchange partner.

While much of the research on accounts has been in the area of justice, some related literatures that have used this construct to support the utility of accounts in understanding other types of related behaviors. For example, scholars studying conflict management have used the accounts literature to examine how accounts can ameliorate potentially bad outcomes managers bestow on employees (for a comprehensive review, see Sitkin & Bies, 1993). Accounts provide a way of discursively altering a situation so that the parties involved in a potential conflict situation are less likely to reach the interpretation that a conflict even exists in the first place. Theorists have also used the accounts literature to study phenomena at the organizational level of analysis. For example, Elsbach (1994) examines how organizations use accounts to create a sense of legitimacy after controversial events that harm others. This suggests that accounts can re-establish the legitimacy (and by extension, the trust) that stakeholders place in organizations.

How Accounts Facilitate Economic Exchanges

While existing research has helped scholars understand the impact accounts can have on ameliorating justice infractions, smoothing conflict, and restoring corporate legitimacy, we argue accounts can also help facilitate economic exchanges. First, accounts provide a supplementary source of information about an exchange partner. While this information is potentially biased because the partner is seeking to make a favorable impression (Goffman, 1959), it nevertheless offers additional information, with corresponding attributions about how trustworthy a person might be, based on the account. Put another way, while borrowers can intentionally exploit uncertainty and shape facts in ways favorable to their circumstances (Gabriel, 2004) to obtain resources, including access to capital (Martens, Jennings, & Jennings, 2007), lenders can choose to reject such accounts because they question the plausibility of the account, and therefore the trustworthiness of the account maker.

Second, scholars have historically tied account making to identity work, such as in the impression management literature (Bozeman & Kacmar, 1997; Leary & Kowalski, 1990; Schlenker, 1980). Accounts can be a form of a self-portrait (Goffman, 1959) in which individuals position themselves — often in an overly flattering light (Leary & Kowalski, 1990).

In return, the recipient of the account (i.e., the decision maker) extrapolates dispositional attributes about the person based on what they have heard or read and make decisions accordingly. That is, an account can prompt lenders to make dispositional attributions about the person, such as whether a person is trustworthy because of what he or she said. Such attributions, regardless of their ultimate veracity, nevertheless influence important decisions (e.g., Green & Liden, 1980; Weiner, 1985).

Third, even in cases where lenders have some suspicion about the veracity of an account, decisions may nevertheless be impacted by these accounts because individuals have a tendency to overweigh qualitative data, even in the face of contradictory quantitative data (e.g., Adaval & Wyer, 1998). Accordingly, accounts, as a supplementary yet sometimes deal-making or deal-breaking information source to lenders, are predicated on compelling discourse versus objective facts. Moreover, recent failures of financial markets suggest that using solely quantitative metrics such as credit scores may be less efficacious in a world characterized by extreme uncertainty. In recent history, quantitative financial metrics have proven unreliable in accurately predicting the ability of consumers to repay unsecured loans and the likelihood of consumer default (e.g., Anders, 2007; Feldman, 2009; Finlay, 2009). As such, decision makers may be more likely to scour for other sources of information to make decisions.

STUDY 1

In the first part of this study, we sought to examine whether constructing an account would positively influence a decision about loan funding—that is, whether lenders are more likely to fund a loan request by borrowers who construct accounts. We theorize that, regardless of the content of an account, the mere presence of one provides diagnostic information for decision makers to make attributions about a borrower (Cramton, 2001). Absent an account, and given the high degree of uncertainty in many lending decisions, the lender may reason that the borrower is withholding important information relevant for the exchange, thereby leaving the decision maker with inadequate information from which to make a judgment. When individuals do not provide a portrait of themselves, they may miss the opportunity to show they have the requisite background or knowledge sought by their transaction partner (Chen, Yao, & Kotha, 2009; Martens et al., 2007).

H-1: Lenders are more likely to make favorable lending decisions if borrowers construct at least one account in their loan request.

Accounts are especially useful when an individual's actions are more deviant (Scott & Lyman, 1968). In these cases, the deviant person has a greater need to provide contextual information regarding the deviant act to restore social order as well as to help the deviant person feel better about him or herself. One way of providing more contextual information in the case of greater deviance is through using a wider repertoire of accounts (e.g., multiple accounts to clarify and account for the different aspects of the deviance). In the case of lending decisions, one of the most, if not *the* most, deviant situations a person can find him or herself in is to have credit problems (Williams, Nesiba, & McConnell, 2005). In fact, one way of interpreting a borrower's credit score is through the lens of the deviance literature, in the sense that the lower an individual's credit score, the more deviant that person will be construed by decision makers who are considering whether to lend him or her money. Those with lower credit scores will therefore have the motivation to provide more detailed contextual information to reduce the negative effects of the deviance, which is likely to manifest in the provision of a wider range of accounts by them (since they likely have more negative events to account for).

H-2: The lower a borrower's credit score, the wider the repertoire of accounts the *borrower will provide to lenders.*

Method

Research setting

We study previously unacquainted borrowers and lenders (decision makers) engaging in a bilateral economic exchange transaction involving an unsecured loan. The borrower posts a request for money on an online site and the lender then decides whether to lend money and at what interest rate. Our research employs a dataset of loan auctions posted on the website, Prosper.com (hereafter, Prosper). Prosper is the first, and one of the largest, peer-to-peer (P2P) loan auction sites in the United States, with approximately 990,000 registered members and $205 million in personal loans (as of September 2010) originated since its inception in March 2006. Following the principle of theoretical sampling (Eisenhardt, 1989), we selected Prosper as our context because in this setting borrowers and lenders never meet in person, thereby allowing us to better assess the role of accounts in overcoming the challenges of uncertainty from transactions involving unacquainted actors.

The process of borrowing and lending money through a P2P loan auction on Prosper works as follows. Before posting their loan request, potential borrowers give Prosper permission to verify their relevant personal information (including current household income, home ownership status, bank account details, etc.) as well as access their credit score from Experian, one of the three major credit-reporting agencies in the United States. Using this information along with other documents, such as pay-stubs and copies of income tax returns, Prosper assigns each borrower a credit grade that reflects the risk lenders will endure if lending to them. Credit grades can range from AA, indicating the borrower is extremely low in risk (and has a high probability of paying back the loan), to A, B, C, D, E, to HR, signifying the highest risk of default (i.e., a high probability of not paying back the loan). After a credit grade is assigned, borrowers can post their loan requests for auction on the Prosper site.

When posting their loan auction, borrowers choose the amount they wish to request (up to a maximum of $25,000) and the maximum interest rate they wish to offer lenders. Borrowers may also use an open-text question with unlimited space to write anything they want, such as provide details about their past, current life circumstances and financial situation, or anything else they think would be helpful for lenders to know.

After the listing becomes active (see example for an active listing in Figure 1), lenders review the listing and decide whether to bid on it and, if relevant, how much money to offer and at what interest rate. Most lenders bid the minimum amount ($25) on each individual loan (Herzenstein, Dholakia, & Andrews, 2010), thus diversifying their portfolio (a person that lends a total of $250 can potentially contribute to up to 10 different loans). Similarly, a borrower asking for $1000 can have his or her loan financed by one lender who lends $1000 or at the other extreme by 40 lenders, with each lending $25. Upon the auction's close, listings that have received bids covering the requested amount are funded. If the auction receives bids covering more than the requested amount, the bids with the lowest interest rates covering the amount "win" the auction; the winning lenders' bids are deducted from their respective Prosper accounts, consolidated, and deposited into the borrower's account. However, if the auction did not receive bids equal to or greater than the requested amount, the request is not funded and the lenders do not pay. Prosper handles all ongoing loan administration tasks including loan repayment and collections on behalf of the borrowers and lenders, and receives fees of .5 to 3.0% of the loan value from borrowers, and a 1% annual loan servicing fee from lenders.

**** INSERT FIGURE 1 ABOUT HERE****

At the time of our data collection (June 2006), according to the U.S. Bureau of Economic Analysis (BEA.gov), the gross domestic product grew by 2.78%, which is lower than the growth rate in both 2005 (2.94%) and 2004 (3.65%). The inflation rate was 3.24% and the prime rate was 8.25%. More importantly, 2006 was the peak of the housing bubble where housing prices reached an all-time high and credit was relatively easy to obtain (Lewis, 2010). Thus, at the time our data was collected, deviant behavior such as paying late or defaulting on loans was not common among the general public. Accordingly, such behaviors had to be accounted for by "deviant" individuals, thus rendering the accounts important for lenders' decision making.

Data

Our dataset consists of 512 loan request listings posted by borrowers on Prosper in June 2006. We extracted our dataset using a stratified random sampling strategy. First, using a web crawler we extracted all loan requests made during June 2006 (approximately 5,400 listings). It is worth noting that a significant proportion of borrowers on Prosper have very poor credit histories (e.g., an HR, or "high risk", rating) and most of loan requests listed on the site are not funded. To avoid the overweighting of high-risk borrowers and unfunded loans, we sampled an equal number of loan requests from each credit grade. To do so, we first divided the funded and unfunded loan requests. We then further divided these two groups into seven sub-groups according to the credit grade assigned by Prosper (AA, A, B, C, D, E, and HR). Finally, we eliminated any loan requests without text in the open-ended question. The latter elimination has two reasons. First, adding these loan requests would confound the choice to write something in the open text box but not utilize accounts with the choice to write nothing at all. And second, virtually all loan requests without text in the open-ended question do not get funded (90% of the loan requests without text did not fund, and the loan requests without text represent only 9% of all loans posted during June 2006, when we collected our data). Next, we randomly sampled 40 listings from each of the 14 sub-groups (funded or not × credit grade), to obtain a total of 512 listings[2]. Each listing in our dataset included information on the borrower's credit grade, the requested loan amount, the requested interest rate, the percentage of the request to receive commitment for funding, and the open-ended text data.

Dependent variable

Our dependent variable in this study was loan funding, which is the percentage of the loan request to receive a commitment of funding. For example, if a loan request for $1,000 received bids from lenders worth $500, then the loan funding for this listing would be recorded as 50%. However, if the same request received bids worth $2,000, its loan funding would reflect as 200%. Percentages greater than 100% indicate the loan request was "oversubscribed", suggesting high levels of interest from lenders. Percentages less than 100% indicate the loan failed to garner enough confidence among lenders to receive commitments for the full amount, and the request remained unfunded.[3] The loan funding percentages range from zero to 905% in our dataset. These statistics are highly skewed because of the equal inclusion of all credit ratings. Thus, successful loan requests represented 50% of our data, compared with the overall average of 10.5% in June 2006. The distribution of loan funding in our dataset is provided in Figure 2.

****INSERT FIGURE 2 ABOUT HERE****

[2] We excluded repeat postings (the same borrower asking for money more than once) and at some point exhausted our sample of listings which were both successful and had open-ended text.
[3] We opted to include unfunded loans (e.g. loans with less than 100% funding) in the study because they contain variance around lender interest. For example, a loan with an 80% funding garners much more interest than one with only 20% loan funding, even though neither borrower receives any funds.

Independent variables

For each potential borrower in our sample, we examined the open-ended question on Prosper to extract any accounts participants provided to lenders (see Table 1a for definitions and illustrative examples of the accounts). To code accounts in the data, we followed Elsbach's (1994) framework of accounts, in which she posits three main classes of accounts: acknowledgements (admitting the deviant act), denials (refuting the deviant act), and explanations (explaining the deviant act). This framework was particularly relevant for our data for several reasons. The properties of economic exchanges under uncertainty better match her framework than most of the other research on accounts, which tends to focus on justice infractions. For example, similar to her study, many of the objective aspects of our borrowers were difficult (but not impossible) to fully deny; the deviance in our sample was moderate, and not severe from the perspective of the receiver of the account (compared to in the justice literature, which focuses on specific and direct harms to the receiver of the account). However, it is important to point out that we also modified Elsbach's (1994) framework as we coded the data. In her framework, she uses two types of explanations—what she labeled technical and institutional characteristics—which were situationally relevant to her context. Technical characteristics were explanations that signaled efficiency or effectiveness, whereas institutional characteristics were explanations that tried to create legitimacy. By their very nature, Elsbach (1994) implies that these types of explanations are situationally determined by her unit of analysis and context. Because her research is both in a different context (deviant acts in the livestock industry) as well as a different unit of analysis (organizations), her type of explanations were not appropriate for our context. Instead, we used a general "explanation" account, but as we coded the data (Miles & Huberman, 1994), it became clear that there were two different versions of explanations in our data differentiated by their level of unusualness. We labeled explanations that are more commonplace and less outrageous simply as “explanations”, and labeled the less commonplace and more outrageous ones as “unusual explanations” (for example: “I could not work because I donated a kidney to my best friend”).

**** INSERT TABLE 1A ABOUT HERE****

A research assistant, unaware of our hypotheses, coded the data for the presence (or absence) of each of the four accounts for each borrower. Using these four accounts, the research assistant then assigned a “1” if a particular account was found in a borrower’s data and “0” if it was not. Following Elsbach (1994), our analysis focused on the breadth of accounts versus their frequency, as such an approach allows for understanding the multiple types of accounts individuals use. To validate the results of the first research assistant, a second research assistant, again unaware of our hypotheses, independently coded a subset of the data (60 participants, 12%). The agreement rates between the two research assistants were at least 80% and Cohen’s Kappas were substantial in most cases (see Table 1b). About half of the listings in our dataset (255 out of 512 loan auctions) were coded as having at least one account.

**** INSERT TABLE 1B ABOUT HERE****

Control variables

On average, borrowers on Prosper with better credit history (higher credit grades) are substantially more likely to have their loans funded. Similarly, the amounts that borrowers request and the maximum interest rates they offer are also significant predictors of loan funding. In fact, these three variables have been found to be the most influential drivers of funding on Prosper (Herzenstein, Andrews, & Dholakia, 2009; Ryan, Reuk, & Wang, 2007) and are therefore controlled for in all our analyses. We coded the credit grades in order of improving quality as follows: 1 = HR, 2 = E, 3 = D, 4 = C, 5 = B, 6 = A, and 7 = AA. Although we analyzed for the effect of loan request purpose, i.e., whether it was for personal (repair my kitchen, car loan, or go on vacation) or business (purchase supplies, or pay fees) purposes, this distinction did not affect our results and is not discussed[4].

Results

We tested H-1 by employing a linear regression with loan funding as the dependent variable and with a dichotomous variable indicating whether the borrower created at least one account as the main predictor. Additionally, we controlled for credit grade, requested loan amount, and maximum interest rate. Results show that after controlling for the financial predictors, lenders tend to fund loans that belong to borrowers that utilized accounts in their loan description (β = .37, $p < .05$). Indeed, the percent of the loan request funded is higher for borrowers who utilized one or more of the four accounts in their loan requests than for those who did not utilize any accounts (35% difference for the low credit grades ($t(151) = 2.17$, $p < .05$), 15% difference for the mediocre credit grades (not significant), and 55% difference for the high credit grades ($t(139) = 1.70$, $p < .1$)), thus supporting H-1.

H-2 suggested that the lower the borrower's credit scores, the wider the repertoire of accounts used in requesting a loan. We employed an ANOVA with the number of unique accounts utilized in the open-ended question on Prosper as the dependent variable, the credit grade as the independent variable, while controlling for the maximum interest rate and the

---

[4] We found that 78.1% of loan requests were characterized as personal loans, and 22.5% as business loans. Some loan requests were for both personal and business loans.

requested loan amount[5]. Results show that the credit grade is a significant predictor of the number of unique accounts ($F(6, 503) = 12.24$, $p < .001$), such that borrowers with lower credit grades create a wider variety of accounts ($M_{\text{High Risk}} = 1.26$, $M_{E} = 1.36$, $M_{D} = 1.00$, $M_{C} = .73$, $M_{B} = .63$, $M_{A} = .33$, $M_{AA} = .24$). Thus, H-2 is supported.

The first part of this study found that constructing an account increases the likelihood that a decision maker will consummate an unsecured loan transaction, and that a wider repertoire of accounts get used by borrowers with lower credit scores. Next, we examine whether the *content* of the account matters. In total, we found 11 accounts and account combinations in our dataset: explanation, denial, acknowledgment, unusual explanation, explanation/denial, explanation/acknowledgment, explanation/unusual explanation, explanation/denial/acknowledgment, explanation/denial/unusual explanation, explanation/acknowledgment/unusual explanation, explanation/denial/acknowledgment/unusual explanation.

Scholars have found that explanation accounts can reduce perceptions of unfairness and foster trustworthiness (Bies, 1987; Shaw et al., 2003). In fact, within the justice paradigm, “informational justice” includes the importance of viewing explanations as truthful (Greenberg, 1993), which helps improve employees’ perceptions of fairness. While in the context of economic exchanges we are not primarily concerned with fairness, explanations are similarly important if they can foster trustworthiness, which can be essential in economic exchanges between unacquainted exchange partners (Duarte, Siegel, & Young, 2010). More specifically, the value of explanations is important because of the situational knowledge it provides about a borrower. Decision makers tend to suffer from an actor-observer bias (Jones & Nisbett, 1971) in which, when provided with negative information about an exchange partner (such as a low credit

[5] We note that a simple correlation analysis could not be performed here because the dependent variable (number of accounts) is not normally distributed and since it takes very few values, it cannot be transformed to become normally distributed.

grade), they are more likely to make negative dispositional attributions regarding the partner (Weiner, 1985). These attributions are made due to the absence of situational awareness regarding the exchange partner. Explanations offer a means of obtaining situational knowledge and provide a much-needed context to lenders about a borrower that can enable more positive attributions.[6]

While explanations provide important situational knowledge, as Elsbach (1994) found, such situational knowledge is often not sufficient for positive outcomes, and a second account needs to be introduced. Elsbach (1994) offers two such supplementary accounts—acknowledgements and denials—that we argue when coupled with explanations will more likely lead to more favorable lending decisions.

When combined with an explanation, an acknowledgement can be a particularly effective account. Explanations provide an important description of the situation, and the acknowledgement adds something diagnostic about the person by signaling the person admits mistakes or takes responsibility for them, something that might signal trustworthiness. For example, Greenberg (1990) found that both acknowledging and explaining pay cuts to employees reduced office theft and feelings of inequity.

We note that the literature does not suggest that an acknowledgement on its own will foster positive lending decisions because taking responsibility without providing background (e.g., situational knowledge) leaves the decision maker without a sense of the context for why the mistake or negative event happened (Elsbach, 1994). This may lead the decision maker to

[6] We posit an important boundary condition here. In their conceptualization of accounts, Scott and Lyman (1968) argued that accounts need to be part of a common (i.e., not unusual) understanding of an event. Accordingly, we argue that *unusual* explanations will be disregarded by decision makers, because unusual explanations are likely to be construed as too outrageous to be credible, thereby suggesting that the borrower might be lying or deceiving the lender. Put another way, unusual explanations portray the borrower as too deviant. While accounts are used to mitigate the potential impression of deviance (Elsbach & Elofson, 2000; Elsbach & Kramer, 1996; Scott & Lyman, 1968), they may fail to mitigate deviance in the most extreme cases (Rindova, Pollock, & Hayward, 2006).

wonder if the borrower is being forthright with information or whether the borrower fully understands the situation that brought about the negative event. But when explanations and acknowledgements are used together, we posit that they are likely to be effective at influencing lending decisions.

H-3a: Lenders are more likely to make a favorable funding decision when a borrower uses an explanation and acknowledgement account combination.

We also posit that an explanation coupled with a denial will be an effective account combination. Again, we point out the importance of the joint presence of an explanation and denial. Previous literature suggests that, by itself, a denial account may not be effective because it increases ambiguity through creating conflict between the account and the borrower's objective information (Ashforth & Gibbs, 1990). For example, a borrower may deny responsibility for the negative information contained in the objectively provided credit report to a lender, leaving the lender with two different data points on the borrower. Denying something negative can also be perceived by decision makers as skirting around the issue (Elsbach, 1994). Moreover, should the decision maker discover that the denial was merely tactical and misrepresentative in nature, a significant loss of trust will occur (Ginzel, Kramer, & Sutton, 1993; Schlenker, 1980; Turner, 1976).

In many types of transactions involving uncertainty, determining whether a denial of something matches reality is impossible or too costly to obtain (for example, lenders cannot verify whether borrowers indeed disputed something in their credit report with the credit bureau). Because of this inability to independently verify what a borrower denies, a lender looks for other sources of knowledge to better assess the borrower. An explanation account is helpful in this regard, as it allows lenders to understand the context in which the borrower operates, as well as helps the lender make sense of the situation the borrower denies and why the borrower is denying it. Due to this additional information, a lender may view the denial as more truthful than if that denial was the only type of account as the denial account offers a more limited examination of the borrower. However, when coupled with an explanation, a denial may lead lenders to give borrowers the benefit of the doubt (Kim, Ferrin, Cooper, & Dirks, 2004) as lenders have a better sense of the borrower's situational context. Accordingly, we argue that a denial coupled with an explanation account will lead to a favorable lending decision.

H-3b: Lenders are more likely to make a favorable funding decision when a borrower uses an explanation and denial account combination.

Finally, it is important to note that we do not propose that combinations of three or more accounts will influence lending decisions. We suggest that lenders are likely to perceive such elaborate account combinations as lacking credibility. Too many accounts, just like too many promises, may lead to an impression of dishonesty (Oliver, 1977). Too many accounts may also lead lenders to conclude that the borrower is overpromising, over-compensating, or simply being insincere (Baron, 1989), thereby suggesting a lack of trustworthiness. Given the lender's risk of monetary loss, judging the borrower accurately (Petty & Cacioppo, 1979) will likely include being especially attuned to accounts that appear insincere.

Method

To test the hypotheses in this study we coded the data such that each account combination is constructed as a dichotomous variable that receives the value 1 if the borrower constructed this particular combination, and 0 otherwise. If a multiple account combination was constructed, then only that multiple account combination receives the value 1, with all the smaller combinations receiving the value 0. For example, if a borrower detailed three accounts, explanation, acknowledgement, and denial, then the dichotomous variable for the combined account, explanation/acknowledgement/denial, receives the value 1, while the following combinations receive the value 0: explanation/acknowledgment, explanation/denial, denial/acknowledgement, and also the single accounts (explanation, acknowledgment, denial) will receive the value 0. Constructing the independent variables in this manner (effects coding) increases the model's stability and enables a correct and exact interpretation of the coefficients.

Results

We utilized a regression model with the percent of loan funding as the dependent variable, the accounts and their combinations as predictors, and credit score, maximum interest rate, and the requested loan amount as control variables.

Results show that the four accounts — explanation, acknowledgement, unusual explanation, and denial — when offered alone were not significant predictors of loan funding. However, and as hypothesized, two of the two-account combinations emerged as significant predictors. Specifically, loan funding is positively influenced by constructing the combination of explanation and acknowledgement ($\beta = .67$, $t = 3.25$, $p < .001$) and explanation and denial ($\beta = .63$, $t = 2.28$, $p < .05$), thereby supporting H-3a and H-3b. The mean percent of commitment for funding for these combinations was 154.2% and 143.5% respectively, as compared with a mean percent of 91.7 for all accounts (explanation/acknowledgement: $F(1, 485) = 9.32$, $p < .001$; explanation/denial: $F(1, 485) = 4.56$, $p < .05$). None of the multiple account combinations of three or more were significant and were therefore grouped together. This grouped variable also did not emerge as significant.

The model presented in Table 2, which includes the above two significant combinations and controls for credit grade, requested loan amount, and maximum interest rate, predicts loan funding significantly better than a model that includes only the three financial indicators (adjusted $R^2 = .17$ and .14 respectively, $F(8, 499) = 2.38$, $p < .01$). This result demonstrates the explanatory power of account content in predicting loan funding.

****INSERT TABLE 2 ABOUT HERE****

Discussion

Our results indicate that constructing accounts increases the funding a loan request receives, and also show that the combinations of explanation and acknowledgement and explanation and denial are particularly effective account combinations in securing funding. Taken together, the two parts of Study 1 show that both the inclusion *and* content of accounts matter for predicting lending decisions above and beyond objective data. Interestingly, while different in their approaches, explanation-acknowledgement (which admits the deviance) and explanation-denial (which refutes the deviance) may impact lending decisions by the same mechanism (fostering trustworthiness) either by suggesting that the borrowed acknowledges a mistake (which might be seen as an honest act) or by disputing the negative information (which might neutralize the negative information). We examine this possibility in Study 2, and then examine whether it is beneficial to lenders to be influenced by accounts in Study 3.

STUDY 2

In this study, we used a controlled laboratory setting to better understand a key process — perceived trustworthiness—by which lending decisions are affected by accounts. Because of the risk inherent in any exchange, let alone one characterized by a high degree of uncertainty, individuals need to consider the attributes of their transaction partners, particularly their trustworthiness (Ring & Van de Ven, 1992). In other words, as the conditions of risk and interdependence increase, trustworthiness becomes absolutely essential (Rousseau, Sitkin, Burt, & Camerer, 1998). Following other scholars, we define perceived trustworthiness as a set of attributes of the person (Mayer, Davis, & Schoorman, 1995). While scholars have put forward several attributes, three of them stand out as most important: ability, integrity, and benevolence (Mayer et al., 1995).

The first of these, ability, refers to a domain-specific set of skills, competencies, and characteristics (Mayer et al., 1995). Recently, this attribute was found to be the most important one in building trust between team members in order to increase productivity (Beatton, 2007). Integrity, the second attribute, refers to the trustor's perception that the trustee adheres to an acceptable set of principles, such as a strong sense of justice or the belief in the congruence of actions and words (Mayer et al., 1995). Simons (2002) has used the term behavioral integrity to capture the belief that a manager's words and actions are consistent. He argues that managers' accounts serve as an important means to reduce employees' attributions of a lack of behavioral integrity within a manager. The third attribute essential for perceived trustworthiness, benevolence, involves thinking that a trustee has altruistic motives, such as in a mentor-mentee relationship (Mayer et al., 1995). Finally, it is important to point out the boundary condition of domain specificity, as trustworthiness in one area of context (such as profession) does not confer a similar degree of trustworthiness in another area (such as financial competence).

One of the main determinants of the development of perceived trustworthiness is the history between two exchange partners. In reviewing the literature, Kramer (1999; see also, Lewicki, McAllister, & Bies, 1998) called the development of trustworthiness a "history-dependent process" (575), noting that historical interactions give decision makers access to information useful for assessing the trustworthiness of individuals. When trust violations occur, individuals can restore their trustworthiness through a series of trustworthy actions (Schweitzer, Hershey, & Bradlow, 2006), thereby pointing to how the historical base of trustworthiness can shift over time.

While a rich interaction history provides important information that can serve as the foundation for assessing an exchange partner's trustworthiness, there are times when such a history is not available (McKnight, Cummings, & Chervany, 1998). Under the conditions of uncertainty that characterize many arms-length exchange relationships, prior research has shown that accounts are an important means of fostering trustworthiness. For example, Lind and Tyler (1988) proposed that decision explanations (an account type) are an effective means of improving perceptions of trustworthiness. Similarly, Bies and colleagues (Bies & Shapiro, 1987; Sitkin & Bies, 1993) argue that accounts can minimize the potential misperception of the level of severity of an act by providing a justification, implying that the act was misrepresentative of is the true nature of the accused. Kim and colleagues (2004) have examined how trust can be repaired after a deviant act and find that accounts facilitate this process.

Based on the role of accounts in facilitating trust, we theorize our two focal accounts from Study 1—explanation-acknowledgement and explanation-denial—facilitate lending by altering the borrower's perceived trustworthiness in the eyes of the lender more than any other account combination. More specifically, explanation-acknowledgement restores both the ability and integrity aspects of trustworthiness. The explanation account provides situational cues about a person's circumstances necessary to provide a window into why he or she behaved in a particular way (Shapiro et al., 1994). This explanation provides context to a lender, thereby leading the lender to forgive or reduce the negative perceptions they may have about a borrower and their abilities. That is, once the lender has a better understanding of why a borrower acted in a particular way or ended up in a particular situation (e.g., such as being late in paying back a credit card balance), the lender is less likely to make negative attributions about that borrower's competency. The acknowledgment account portion of the combination helps ground the integrity aspects of trustworthiness by signaling a borrower is taking responsibility by admitting mistakes, an act facilitating attributions of trustworthiness (Elsbach, 1994).

Within our second two-account combination, explanation-denial, explanation serves a similar purpose as detailed for explanation-acknowledgement: it provides situational knowledge that helps restore the perception of borrower competency. Denial, on the other hand, helps restore integrity because it involves a disaffirmation of a negative circumstance, such as by contesting the accuracy of a credit report. When a borrower explicitly denies the veracity of the objective information, the decision maker is left uncertain and must adjudicate between the two conflicting stories—the more objective story found in "public" information accessible to the lender (albeit information that is often incomplete and not necessarily 100% accurate) and the more subjective story of the individual's discourse describing and responding to that public and "objective" information. Under such a scenario, lenders may give borrowers the benefit of the doubt (Kim et al., 2004). For example, Riordan, Marlin, and Kellogg (1983) found that decision makers made less negative character evaluations when a person denied a transgression. A denial could tilt the decision maker to put more credence in the more subjective world.

It is worth noting that our focal two-account combinations from the field study are somewhat contradictory. While the borrower explains the situation in both combinations, in one it is denied and in the other it is acknowledged. However, the common ground in both cases rests in the additional account (denial or acknowledgement) presented in an attempt to improve the borrower's situation or character in the eyes of the lender and provide diagnostic contextual information that uniquely qualifies the explanation given.

> *H-4: Perceived trustworthiness will drive the greater ability of (A) explanation-acknowledgement, and (B) explanation-denial, account combinations (relative to other accounts and account combinations) in securing loan funding from lenders.*

Method

We conducted a controlled laboratory experiment to better understand why certain accounts lead to higher degrees of loan funding. Based on our theoretical framework, we sought to examine whether perceived trustworthiness would mediate the relationship between accounts and loan funding. We asked study participants to assume the role of lenders in a P2P lending setting resembling Prosper. However, to better assess perceived trustworthiness as a key mechanism, we instructed participants that the borrowers' credit history, initial interest rate, and requested amount were the same across the listings in their choice sets.

Pretests

We created loan requests reflecting the accounts from the field dataset, simplifying the stimuli to examine the segregated effects of accounts on lending decisions. Accordingly, we created four loans, one from each of our main accounts found in the field dataset (the first four accounts in Table 3). Later, we used these accounts to create the seven additional combinations we found in our field data (see the next seven accounts in Table 3) for the main experiment. Finally, we used the last account in Table 3 as our control (i.e., no account was created).

In the first pretest (n = 64), we looked at various causes and needs for loans to create a set of loan requests to which our study participants (undergraduate students) would relate. In this pretest, respondents ranked car loans ahead of mortgages, medical bills, credit card consolidation, and payday loans, the five dominant loan types in the field data[7]. Therefore, car loan was chosen as the need (or context) for the loans in the experiment.

In the second pretest (*n* = 71), we examined the four basic loan requests. Each participant saw the four loan requests in a random order and answered four questions after viewing each one. The questions were, "To what extent do you think the borrower has made an effort to (1) explain his/her situation, (2) deny aspects of his/her situation, (3) acknowledge aspects of his/her situation , and (4) detail unusual circumstance". The scales ranged from 1 = "very little", to 7 = "very much". We compared the loans on these four criteria and found our loan constructions successful (see Table 4 for results). Each account scored significantly higher than the other accounts on the question corresponding to the account type (e.g., participants ranked the borrower that utilized an explanation account in the loan request as making more effort to explain her situation than the other borrowers, etc.). On the basis of these results, we used these accounts in the main experiment.

****INSERT TABLES 3 AND 4 ABOUT HERE****

Participants, procedure, and materials

Participants included 307 undergraduate students (51% female, average age = 20.5, 47.4% currently employed at least part time) who were paid $5 for participating in the study. We created a total of twelve loan requests representing all combinations of accounts found in the field dataset and a control (see Table 3). Recall that two account combinations—explanation-acknowledgement and explanation-denial—were found to be most predictive of loan funding in the field data and we will refer to them as our "target loans" henceforth. Participants made

[7] While student loan was ranked ahead of car loan, participants commented that they did not think students were asking for loans on such websites because the amounts for student loans are far larger than the maximum amount allowed in P2P lending websites.

comparative choices for each target loan against one randomly selected loan from the ten remaining loans. We did not compare the two target loans with each other.

Participants arrived at a computerized lab and were asked to assume the role of a lender who lends money to other people through a lending website. After explaining a context similar to Prosper, we instructed participants that all the borrowers they would have to consider for a loan have average credit scores, that all loans would pay an annual interest rate of 15% (which is the average interest rate borrowers with a mediocre credit grade offer in our field data), and that all borrowers could include a statement about their loan request. Next, participants saw two choice sets of two loans: a set comparing an account of explanation-acknowledgement to a randomly selected account, and a set comparing an account of explanation-denial to a randomly selected account (that is different from the first randomly selected account, i.e., the two target accounts were compared with two other accounts drawn randomly from the pool of ten accounts). The main dependent variable in this experiment is a choice question: to which of the two borrowers will participants lend $500 of their money.

We also measured trustworthiness perceptions of borrowers using six items consistent with Mayer et al.'s (1995) conceptualization of trustworthiness, particularly the ability and integrity dimensions that were most relevant to our context and theory. Participants evaluated each borrower separately using three questions assessing integrity ("In your opinion how believable/truthful/trustworthy is this borrower?") and three questions assessing ability ("How certain are you that this person will pay you back?; In your opinion, what is the likelihood that this person has the intention of paying back the money?; To what extent do you think this person will be able to pay back the money?")[8]. The scales for these questions ranged from 1 = "not at

[8] It is important to point out that, consistent with prior research, our items were domain specific (e.g., based on a lending transaction). Also, we did not use any items consistent with the benevolence aspect of trustworthiness.

all", to 7 = "very".

Prior research has shown that emotions aroused in the decision task, particularly empathy and anger, can significantly influence choices (e.g., Aaker & Williams, 1998; Lerner & Keltner, 2000). Both these emotions are especially relevant and could potentially play a role in choices made by study participants regarding which borrower to lend the money to. Indeed comments made by our pretest participants regarding the loans expressed these emotions. For example, one participant wrote, "I am more sympathetic towards borrower number one…However borrower number two seem [sic] like a jerk. His attitude annoys me." Therefore, we thought it was important to control for the potential effects of these two emotions aroused by the loan requests on lenders, and measured anger and empathy for each borrower ("After reading the borrower's loan request, to what extent does this make you empathetic/angry with the borrower? 1 = "not at all", 7 = "very"). Finally, the respondent's gender, age, college major, and employment were assessed. We controlled for these demographics in all our analyses; however, none of them affected our results and will not be discussed further.

Results

Our target accounts in loans were chosen more than the other loans in the lending choice question (see Table 5). Specifically, the explanation-acknowledgement loan was significantly preferred over eight other loans, not different from one loan, and less preferred than one loan. The explanation-denial loan was significantly preferred over seven other loans and was not different from the other three loans. These findings are consistent with the results of the second

---

Given the arm's length nature of our transaction and that the parties did or will never meet, benevolence is not relevant. Benevolence would focus on the altruistic motives of the borrower, which in this case would not be relevant as the decision is about an arms-length economic exchange where there is no other relationship between the two parties (see Mayer et al., 1995).

part of Study 1.

****INSERT TABLE 5 ABOUT HERE****

The main purpose of the experiment is, however, not to replicate our field study but rather to understand the underlying processes explaining the selection of the target loans over alternative loans. To that end, we grouped all ten comparison loans together. We averaged the six trustworthiness items to create a single measure for each loan request (α_{EA} = .90, $\alpha_{comparison}$ = .92, α_{ED} = .93, $\alpha_{comparison}$ = .91)[9]. This was possible because these six questions are unidimensional—when they were submitted to factor analyses, they loaded on a single factor every time (with all loadings greater than .73). This analysis was repeated four times, twice for our target loans and twice more for our comparison loans. Similarly the anger and empathy items are also unidimensional as they reflect one factor that we interpret as emotional intensity (with anger being reverse coded) for each of the four loans (two target loans and two comparison loans) with loadings greater than .78.

Participants rated the borrower of the explanation-acknowledgement target loan as more trustworthy and likely to pay back the loan when compared to other borrowers (M_{EA} = 4.41 vs. $M_{comparison}$ = 4.14, paired $t(305) = 2.94$, $p < .01$). Similarly, the combination of explanation-denial also resulted in increased trustworthiness (M_{ED} = 4.31, $M_{comparison}$ = 4.09, paired $t(305) = 1.95$, $p < .05$).

To examine whether trustworthiness influenced loan choice, we employed two binary logistic regressions, one for each target loan. We collapsed all ten comparison loans together and constructed a choice variable that takes the value 1 when the target loan is chosen and the value 0 when the comparison loan is chosen. The independent variables included the two averaged

---

[9] For ease of exposition, we abbreviate explanation/acknowledgement by EA and explanation/denial by ED.

trustworthiness items (one for the target loan and one for the comparison loans), and the controls include the emotional appeals of the loan requests using a combined measure of emotional intensity toward each loan. Thus, this is a main effect model that aims to test the direct effect of trustworthiness in predicting the choice of the target loans over other loans. Since the financial controls were held constant by experimental design, we did need not to control for them. The results of these two models (one for each target loan) are presented in Table 6.

The models in Table 6 show, as expected, that perceived trustworthiness drives the impact of the target accounts on lenders' decision making. In other words, controlling for the emotions the target loans may elicit in lenders, these loans are being favored because lenders' perceive these borrowers as more trustworthy than other borrowers. Specifically, the coefficients for trustworthiness of the target loans' borrowers is positive and significant (Explanation-Acknowledgment: $\beta = 1.12$, Wald(1) = 26.45, $p < .001$; Explanation-Denial: $\beta = 1.24$, Wald(1) = 27.85, $p < .001$). Clearly if lenders perceive the borrowers of the comparison loans to be more trustworthy, it would have a negative effect on the choice of the target loan, and indeed the coefficients for trustworthiness of the comparison loan's borrowers is negative (Explanation-Acknowledgment: $\beta = -.98$, Wald(1) = 20.54, $p < .001$; Explanation-Denial: $\beta = -1.11$, Wald(1) = 30.32, $p < .001$).

****INSERT TABLE 6 ABOUT HERE****

Discussion

The results of the laboratory study reveal that the account combinations that fared better in the field data did so in the laboratory because they were able to increase the sense of trustworthiness that lenders require when loaning their money to unacquainted transaction partners via unsecured loans. Although studies 1 and 2 collectively show that by increasing the perceived trustworthiness of the borrower in the eyes of the lender, accounts are highly influential, we additionally sought to examine whether basing lending decisions on accounts will in fact affect the quality of the lender's decision and lead to the selection of better-performing loans.

STUDY 3

As studies 1 and 2 illustrate, lenders use accounts as a means of making lending decisions. Because the decision stakes are high, individuals in lending transactions engage in highly cognitive processing (Petty & Wegener, 1998). The strong incentive of potential financial loss leads to cognitive processing that tends to produce accurate attributions about a person and probabilities about future events (e.g., Osborne & Gilbert, 1992; Tetlock, 1985). Given this motivation for accuracy, there is a good reason to suspect that accounts are an effective means of assessing loans, simply because lenders use them to make decisions about how to invest their own money. From the borrower's perspective, individuals have a strong psychological desire for consistency between what they say and what they do (Cialdini & Trost, 1998; Cialdini, Trost, & Newson, 1995). In accounting for their past actions and explaining away their deviance, borrowers may be making the prototypical form of active, voluntary and public commitment shown to psychologically bind an individual to a course of action—which in this case, could be a borrower who meets his or her obligations. This may explain why accounts, regardless of their accuracy, can nevertheless become true (Merton, 1948) and help predict the performance of the lending decision.

On the other hand, accounts, by their very nature, are meant to alter perceptions of reality by providing an alternative depiction — one that may directly conflict with objective reality — of a person's circumstances. While accounts can provide useful information to decision makers under uncertainty, accounts also allow borrowers to exert control over the impressions given (Elsbach, 1994; Goffman, 1959), thereby allowing the opportunity to mislead decision makers as well. More specifically, accounts are partial and subjective constructions of events that are meant to explain away deviance, and therefore, by their very nature, are intended to build the self-esteem of the account maker (Scott & Lyman, 1968). In doing so, account makers construct positive impressions of themselves, and therefore in constructing a positive self, borrowers may misrepresent themselves and send of signals of credibility (and trustworthiness) that may not be objectively warranted (Elsbach, 1994). As such, despite thinking that accounts are helpful for a lending decision, they may actually not have an impact (or may even be harmful). Thus, we ask:

RQ-1: How are accounts related to loan performance?

Method

We used the same dataset from Study 1, with the addition of a new dependent variable: loan performance two years after loan funding. In the context of P2P lending, decision quality is reflected by continued borrower loan repayment. For each fully funded loan in our dataset, we obtained data about whether the loan was paid in full ahead of time (i.e., before the three year term expired), was current (i.e., paid as scheduled), late (i.e., payments were between one to four months late), or had defaulted. This data could not be obtained for unfunded loans as since these were not funded, there was nothing to pay back.

We tested the effects of the accounts on the probability of belonging to one of four performance categories: “default”, “late”, and “current” in comparison to the probability of belonging to the category “paid”. Because loan performance is categorical, we used a multinomial logistic regression for the analysis. The contrasts of predictive effects on the dependent variable were created such that each category is compared to the “paid” category. We note that we grouped the payback status into the above four categories because this is how they are presented to lenders. We note however, that while it is clear that the categories “paid” and “current” are better than “late” or “default”, it is not clear whether lenders prefer their loans to be paid on time (“current”) or be fully paid before the maturity date (“paid”), which is why we treat loan performance as categorical data. Loans that are paid back before maturity are safer because the lender has received the original investment back; however, it might not be the best alternative *from an investment standpoint* as this money did not accumulate the anticipated interest rate for the full term. Furthermore, lenders will now have to spend resources (time and effort) investing this money in another loan, resources they did not plan to spend for at least another year. On the other hand, loans being paid on time are relatively safe and accumulate the desired and expected interest rate, but there is always the possibility the borrower will be late or even default before the loan’s term expires. Loans that are late in payments and loans that have already defaulted are clearly the worst ones in terms of performance because the lenders’ money is either already, or highly likely to be, forfeited.

Results

We assessed the effect of whether the borrower created an account in her loan request on the loan’s performance with a multinomial logistic regression, using “paid” as the reference category (the results are presented in Table 7). The main predictor in this analysis is a dichotomous variable that takes the value 1 if at least one account was created in the dataset and the value 0 otherwise. The coefficients in this regression represent the log of the following ratio: the probability of belonging to the category over the probability of belonging to the category “paid”. A negative coefficient indicates that there is a higher probability of belonging to the “paid” category relative to the other categories (default, late, or current). As in Study 1, we controlled for the credit grade, maximum interest rate, and requested loan amount.

****INSERT TABLE 7 ABOUT HERE****

Results show that although lenders look upon loan requests with accounts favorably, they probably should not be doing that. Specifically, the use of accounts in the loan requests predicts that the borrower is more likely to pay back late (β = 1.61, Wald(1) = 6.85, $p < .01$) or on time (β = .80, Wald(1) = 3.81, $p < .05$) compared with paying in advance. The model presented in Table 7, which includes the presence of accounts in the loan request and controls for credit grade, requested loan amount, and maximum interest rate, predicts loan performance significantly better than a model that includes only the three financial controls (-2LL = 524 vs. 532, $\chi^2(3) = 8.33$, $p < .05$). These results demonstrate the explanatory power of accounts in predicting loan performance, showing that lenders may be too favorable when evaluating a loan request that includes accounts.

While we did not offer a specific hypothesis regarding how the individual accounts and their combinations affect loan performance, given our findings for RQ-1, we dove deeper into the data for additional exploratory analyses. We utilized a similar model with multinomial regression, reported in Table 8. While all accounts and their combinations were included in the model, only the ones presented in Table 8 survived the procedure (i.e., they were utilized by borrowers who belong to all four loan performance categories). The intercept in each category represents listings without accounts.

****INSERT TABLE 8 ABOUT HERE****

Results revealed that although lenders look upon the combination of explanation and denial accounts favorably when making their lending decisions, this combination is actually detrimental to lenders. More specifically, borrowers who utilized this combination in their loan request are more likely to be late in repaying the loan than to pre-pay it ($\beta = 1.95$, Wald(1) = 3.68, $p < .05$). This raises the possibility that borrowers utilizing this particular account combination may be disingenuous in their claims, and trying to claim their financial circumstances to be more positive than they really are.

While lenders' decisions were not affected by the combination of explanation and unusual explanation accounts (see Study 1), borrowers who constructed the combination of these accounts in their loan request are more likely to be late in loan repayment ($\beta = 3.09$, Wald(1) = 8.98, $p < .001$) or current ($\beta = 1.81$, Wald(1) = 4.83, $p < .05$) rather than having already repaid the loan (with them being late more probable than on time, Wald(1) = 2.60, $p < .1$). This suggests that lenders who base a lending decision off this account combination make suboptimal decisions.

In sum, while certain types of accounts (explanation-acknowledgement and explanation-denial) positively impact loan funding, ironically, explanation-acknowledgement does not predict loan performance, and explanation-denial negatively predicts loan performance. This suggests that while decision makers are influenced by accounts to provide loans, they are ultimately misled by some of them, basing decisions on the very accounts that turn out to be wrong from a loan performance perspective. Moreover, it suggests that explanation-denial, while an influential account in the decision making stage, should be a red flag to lenders. When borrowers are denying something, they may in fact just be engaging in impression management to mitigate the negative deviance, rather than to correct an "inaccurate" record.

GENERAL DISCUSSION

Using a combination of field and experimental data, we show that accounts shape whether decision makers engage in economic exchanges, in part, through building the perceived trustworthiness of one transaction partner (the borrower). Additionally, we find the influence of these accounts on decision makers may negatively impact the quality of their decision based on which two-account combination is presented and selected. These findings have implications for understanding decision making under uncertainty, the role of trustworthiness in decisions and how discourse impacts both of these relationships.

Theoretical Implications

As the world becomes more complex and more interconnected, economic exchanges are increasingly becoming virtual (Cetina & Bruegger, 2002; Hensmans, van den Bosch, & Volberda, 2001). For example, online retail sales in the United States reached $130 billion in 2009 (comScore, 2010), and as much as 10% of these sales were on online auction sites like eBay where individuals directly engage in economic exchanges with unacquainted others. Even in more traditional settings, unacquainted recruiters with limited objective information (such as a résumé) making decisions such as who to interview for a job may be persuaded by an account (provided in a cover letter) that reframes the meaning of objective information. For example, a prospective job candidate may acknowledge the four jobs held in the past three years, but explain it as a consequence of a desire to gain different types of experiences.

Whether online or in more traditional settings, potential exchanges between unacquainted individuals under uncertainty creates significant opportunities (such as a wider range of exchange partners), but it also presents serious challenges around how exchange partners manage uncertainty. The use of accounts as discourse to facilitate economic exchanges builds on recent scholarly interest around the use of discourse in facilitating economic transactions. For example, Martens et al. (2007) found narratives help entrepreneurs secure resources for their nascent businesses in part, by telling a compelling story about the organization's identity. Similarly, we find that certain types of accounts (explanation-acknowledgement and explanation-denial) are more compelling to lenders. Chen et al. (2009) examined the business plans of entrepreneurs, which as a type of discourse also serves as a way of providing vital information during exchanges involving uncertainty. In their case, they found that passion failed to lead to persuasion, something they explained by the lack of sincerity it might engender in the wake of no substance, which in their case, was an absence of preparation. While not using the construct of trustworthiness, their explanation of a lack of sincerity as threatening transaction consummation hints at the importance of being perceived in positive ways by transaction partners. To this nascent literature, we add how accounts—as a very different type of discourse and one particularly suited to accounting for negative information—can re-write history and consequently influence the decision process. This shows that discourse can influence economic transactions even when focused on some type of deviant act. Such a finding is consistent with Kim and colleagues (2006) who find that, even after an alleged trust violation, decision makers are willing to overlook the trust violation when persuaded by particular forms of discourse.

Our study also contributes to research on selectively creating positive impressions and its role in decision making. There is a wide body of research that finds that individuals are particularly adept at constructing favorable self views for themselves and others (Bozeman & Kacmar, 1997; Giacalone & Rosenfeld, 1989; Leary, 1996; Leary & Kowalski, 1990; Schlenker, 1980). What is less clear is how perceptive decision makers are at making judgments about these impressions (Siegel & Brockner, 2005). Our study sheds light on this important question by addressing whether the accounts individuals use to influence decision makers positively or negatively predict the decision outcome. We find that, even for a process as complex and prone to unforeseen environmental contingencies (arising from future events like a job loss, a medical emergency, etc.) as a loan, decision makers influenced to lend by an explanation-denial account were more likely to make a poor decision. This suggests that while some accounts garner influence, they will not necessarily have a positive impact on decision-making performance, thereby failing to help decision makers cope with uncertainty.

Given that accounts either do not predict decision making performance or may be negatively related to it, it is important to consider why lenders might nevertheless rely on this information in making decisions. One reason why accounts may be influential to decisions, even if they do not improve decision performance, is that individuals are inherently drawn to fill in the blanks. They try to construct a story about a person and his or her circumstances to make more abstract decisions concrete (e.g., Borgida & Nisbett, 1977). Individuals often think in story form and an account provides an important way of completing the story (Bruner, 1990). But in some cases, these stories may be fiction, thereby allowing the borrower to tell his or her side in ways that may bias a decision maker.

This research also helps unpack a key mechanism for how accounts influence decision making—perceived trustworthiness. While scholars have stressed the importance of trustworthiness in fostering economic exchanges, especially in the absence of strong monitoring and control mechanisms (Duarte et al., 2010), they have only begun to understand how discursive constructions can impact senses of trustworthiness in economic exchanges. Our findings suggest that perceived trustworthiness can be fostered not only by the concrete actions of transaction partners, but also with what they say. The justice literature has examined the importance of accounts in response to a perceived harm, in part through rebuilding trust (Kim et al., 2004) We extend these arguments to economic exchanges. Such an extension is important because economic exchange partners frequently have no prior history of interaction. With lenders seeking to "fill in the blanks," individuals can play a more substantial role in shaping *and manipulating* perceptions of themselves and their situation.

Practical Implications

Our findings provide useful insights into how both borrowers (and more generally, a trustee) and lenders (and more generally, decision makers and trustors) can be more effective in exchanges under uncertainty. For borrowers, our findings show the power of constructing certain accounts (explanation-acknowledgement and explanation-denial) when attempting to influence a decision maker —which serve as a key means for building their perceived trustworthiness. This information should be especially comforting to those borrowers with objective, negative information because by presenting themselves in particular ways, they can build trustworthiness that overcomes their objective circumstances. For lenders, our findings suggest the importance of being mindful of how borrowers use discourse to shape their situations. While it is often attractive to supplement objective data with the consideration of subjective discourse, doing so, at least in the context of P2P lending, may provide a negative impact on decision-making performance.

Limitations and Future Research Directions

Our research has several limitations but, as a result, also suggests promising directions for future research. First, while we examined a key process through how decision makers evaluate accounts—perceived trustworthiness—there are other potential processes that may affect these exchanges. Narrative research suggests some types of discursive constructions are more influential than others, such as those that have a compelling storyline (Barry & Elmes, 1997).

Accordingly, we were limited in explaining only a part of the decision-making process. As rich mediums of communication, discourse contains more complexity than we explored. For example, such discourse may contain temporal structures that reveal how an individual reconstructs the sequential unfolding of events (Gergen & Gergen, 1997).

Second, our use of a loan database from Prosper provided the data needed to test our hypotheses about accounts and economic exchanges and our laboratory study helped extend these findings. However, there are many other possible types of exchanges and it is unclear how our current findings might generalize to these exchanges. For example, we examined four key accounts in the data, but future research should examine whether other types of accounts are present in different contexts, such as ideological accounts (Bies, Shapiro, & Cummings, 1988).

Finally, while our field and experimental data include important information about the borrower, the decision of the lender, and the outcome of the exchange, some questions still remain. For example, are decision makers consciously aware of the presence, number, and content of the accounts, or are their actions heuristically based? Do key factors explain why some decision makers are more adept at consummating transactions that tended to have more favorable outcomes, such as experience in lending? Is it possible that certain accounts resonate with certain types of decision makers, for example a lender who has overcome similar obstacles as faced by the borrower, thus increasing the likelihood of making a commitment to fund particular auctions? Knowing the background and personal characteristics of decision makers would be useful in this regard.

Conclusion

We find decision makers will lend money to some individuals depending on the accounts these prospective borrowers tell, but these decisions influenced by accounts can be ineffective. In doing so, our study opens up new avenues for research around the power of accounts to facilitate economic exchanges, with the important caveat that some of these exchanges turn out to be sub-optimal for the decision maker.

REFERENCES

Aaker, J. L., & Williams, P. (1998). Empathy versus pride: The influence of emotional appeals across cultures. *Journal of Consumer Research*, *25*(3), 241-261.

Adaval, R., & Wyer, R. S. (1998). The role of narratives in consumer information processing. *Journal of Consumer Psychology, 7,* 207-245.

Anders, G. (2007). Now, even borrowers with good credit pose risks. *The Wall Street Journal – Eastern Edition*, *250*(144), A2.

Artz, K. W., & Brush, T. H. (2000). Asset specificity, uncertainty, and relational norms: An examination of coordination costs in collaborative strategic alliances. *Journal of Economic Behavior & Organization*, *41*(4), 337-362.

Ashforth, B., & Gibbs, B. (1990). The double-edge of organizational legitimation. *Organization Science, 1*, 177-194.

Baron, R. A. (1989). Impression management by applicants during employment interviews: The “too much of a good thing” effect. In A. W. Eder & G. R. Ferris (Eds.), *The employment interview: Theory, research, and practice* (pp. 204-215). Newbury Park, CA: Sage.

Barry, D., & Elmes, M. (1997). Strategy retold: Toward a narrative view of strategic discourse. *Academy of Management Review, 22*, 429-452.

Beatton, D. A. (2007). Trust within teams: The relative importance of ability, benevolence, and integrity. Unpublished doctoral dissertation, Queensland University of Technology, Brisbane, Australia.

Bies, R. J., (1987). The predicament of injustice: The management of moral outrage. *Research in Organizational Behavior, 9*, 289-319.

Bies, R. J., & Shapiro, D. L. (1987). Interactional fairness judgments: The influence of causal accounts. *Social Justice Research, 1,* 199-218.

Bies, R. J., Shapiro, D. L., & Cummings, L. L. (1988). Causal accounts and managing organizational conflict: Is it enough to say it’s not my fault? *Communication Research, 15,* 381-399.

Bobocel, D. R., & Zdaniuk, A. (2005). How can explanations be used to foster organizational justice. *Handbook of organizational justice* (pp. 469–498). Hillsdale, NJ: Lawrence Erlbaum.

Borgida, E., & Nisbett, R. E. (1977). The differential impact of abstract vs. concrete information on decisions. *Journal of Applied Social Psychology, 7*(3), 258-271.

Bozeman, D. P., & Kacmar, M. K. (1997). A cybernetic model of impression management processes in organizations. *Organizational Behavior and Human Decision Processes, 69,* 9-30.

Bruner, J. S. (1990). *Acts of meaning*. Cambridge, MA: Harvard University Press.

Cetina, K. K., & Bruegger, U. (2002). Global microstructures: The virtual societies of financial markets. *American Journal of Sociology, 4,* 905-950.

Chen, X. P., Yao, X., & Kotha, S. (2009). Passion and preparedness in entrepreneurs' business plan presentations: A persuasion analysis of venture capitalists' funding decisions. *Academy of Management Journal, 52,* 199-214.

Cialdini, R. B., & Trost, M. R. (1998). Social influence: Social norms, conformity, and compliance. In D. T. Gilbert, S. T. Fiske, & G. Lindzey (Eds.), *The handbook of social psychology* (4th ed., pp. 151-192). Boston: McGraw-Hill.

Cialdini, R. B., Trost, M. R., & Newson, J. T. (1995). Preference for consistency: The development of a valid measure and the discovery of surprising behavioral implications. *Journal of Personality and Social Psychology, 69*(2), 318-328.

Cramton, C. D. (2001). The mutual knowledge problem and its consequences for dispersed collaboration. *Organization Science, 12,* 346-371.

Duarte, J., Siegel, S., & Young, L. A. (2010). *Trust and credit*, Working Paper, SSRN. Available online at: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1343275.

Eisenhardt, K. M. (1989). Building theories from case study research. *Academy of Management Review, 14,* 532-550.

Elsbach, K. D. (1994). Managing organizational legitimacy in the California cattle industry: The construction and effectiveness of verbal accounts. *Administrative Science Quarterly, 39,* 57-88.

Elsbach, K. D., & Elofson, G. (2000). How the packaging of decision explanations affects perceptions of trustworthiness. *Academy of Management Journal, 43,* 80-89.

Elsbach, K. D., & Kramer, R. M. (1996). Members' responses to organizational identity threats: Encountering and countering the Business Week rankings. *Administrative Science Quarterly, 41,* 442-476.

Emanuel, E. J., & Emanuel, L. L. (1992). Four models of the physician-patient relationship. *Journal of the American Medical Association, 267,* 2221-2226.

Erdem, T., & Keane, M. P. (1996). Decision-making under uncertainty: Capturing dynamic brand choice processes in turbulent consumer goods markets. *Marketing Science, 15*(1), 1-20.

Feldman, A. (2009). Peer-to-peer lending for banks, too? *BusinessWeek*, April 27.

Finlay, S. (2009). Loan defaults jar lenders. *Ward's Dealer Business, 43,* 59.

Gabriel, Y. (2004). Narratives, stories and texts. In D. Grant, C. Hardy, C. Oswick, & L. Putnam (Eds.), *The Sage handbook of organizational discourse* (pp. 62-77). Thousand Oaks, CA: Sage.

Gergen, K. J., & Gergen, M. M. (1997). Narratives of the self. In Hinchman & Hinchman (Eds.), *Memory, identity, community: The idea of narrative in the human sciences* (pp. 161-184). Albany, NY: State University of New York.

Giacalone, R. A., & Rosenfeld, P. (Eds.) (1989). *Impression management in the organization*. Hillsdale, NJ: Lawrence Erlbaum.

Gigerenzer, G., & Goldstein, D. (1996). Reasoning the fast and frugal way: Models of bounded rationality. *Psychological Review, 103,* 650-669.

Ginzel, L. E., Kramer, R. M., & Sutton, R. I. (1993). Organizational impression management as a reciprocal process: The neglected role of the organizational audience. *Research in Organizational Behavior, 15,* 227-266.

Goffman, E. (1959). *The presentation of self in everyday life*. New York: Doubleday.

Green, S. G., & Liden, R. C. (1980). Contextual and attributional influences on control decisions. *Journal of Applied Psychology, 65*(4), 453-458.

Greenberg, J. (1990). Employee theft as a reaction to underpayment inequity: The hidden cost of pay cuts. *Journal of Applied Psychology, 75*(5), 561-568.

Greenberg, J. (1993). The social side of fairness: Interpersonal and informational classes of organizational justice. In R. Cropanzano (Ed.), *Justice in the workplace: Approaching fairness in human resource management* (pp. 79-103). Hillsdale, NJ: Lawrence Erlbaum.

Hensmans, M., van den Bosch, F. A. J., & Volberda, H. A. (2001). Clicks vs. bricks in the emerging online financial services industry. *Long Range Planning, 34,* 231-247.

Herzenstein, M., Andrews, R. L., & Dholakia, U. M. (2009). The democratization of personal consumer loans? Determinants of the interest rate paid in peer-to-peer lending communities. Working paper, Rice University.

Herzenstein, M., Dholakia, U. M., & Andrews, R. L. (2010). Strategic herding behavior in peer-to-peer online loan auctions. Working paper, Rice University.

Jones, E. E., & Nisbett, R. E. (1971). The actor and the observer: Divergent perceptions of the causes of behavior. In E. E. Jones, D. E. Kanouse, H. H. Kelley, R. E. Nisbett, S. Valins, & B. Weiner (Eds.), *Attribution: Perceiving the causes of behavior* (pp. 79-94). Morristown, NJ: General Learning Press.

Kim, P. H., Dirks, K. T., Cooper, C. D., & Ferrin, D. L. (2006). When more blame is better than less: The implications of internal vs. external attributions for the repair of trust after a competence- vs. integrity-based trust violation. *Organizational Behavior and Human Decision Processes, 99,* 49-65.

Kim, P. H., Ferrin, D. L., Cooper, C. D., & Dirks, K. T. (2004). Removing the shadow of suspicion: The effects of apology versus denial for repairing competence-versus integrity-based trust violations. *Journal of Applied Psychology, 89,* 104-118.

Kramer, R. M. (1999). Trust and distrust in organizations: Emerging perspectives, enduring question. *Annual Review of Psychology, 50,* 569-598.

Landis, R. J., & Koch, G. G. (1977). The measurement of observer agreement for categorical data. *Biometrics, 33,* 159-174.

Leary, M. R. (1996). *Self-presentation: Impression management and interpersonal behavior*. Boulder, CO: Westview Press.

Leary, M., & Kowalski, R. (1990). Impression management: A literature review and a two-component model. *Psychological Bulletin, 107,* 34-47.

Lerner, J. S., & Keltner, D. (2000). Toward a model of emotion-specific influences on judgment and choice. *Cognition & Emotion, 14*(4), 473-493.

Lewicki, R. J., McAllister, D. J., & Bies, R. J. (1998). Trust and distrust: New relationships and realities. *Academy of Management Review, 23,* 438-458.

Lewis, M. (2010). *The big short*. New York: W.W. Norton.

Lind, E. A., & Tyler, T. R. (1988). *The social psychology of procedural justice.* New York: Plenum Press.

Martens, M. L., Jennings, J. E., & Jennings, P. D. (2007). Do the stories they tell get them the money they need? The role of entrepreneurial narratives in resource acquisition. *Academy of Management Journal, 50,* 1107-1132.

Mayer, R. C., Davis, J. H., & Schoorman, F. D. (1995). An integrative model of organizational trust. *Academy of Management Review, 20,* 709-734.

McKnight, D. H., Cummings, L. L., & Chervany, N. L. (1998). Initial trust formation in new organizational relationships. *Academy of Management Review, 23,* 473-490.

Merton, R. K. (1948). The self-fulfilling prophecy. *The Antioch Review, 8*(2), 193-210.

Miles, M. B., & Huberman, A. M. (1994). *Qualitative data analysis: An expanded sourcebook* (2nd ed.). Thousand Oaks, CA: Sage.

Oliver, R. L. (1977). Effects of expectations and disconfirmation on postexposure product evaluations. *Journal of Applied Psychology, 62,* 246-250.

Orbuch, T. L. (1997). People's accounts count: The sociology of accounts. *Annual Review of Sociology, 23,* 455-478.

Osborne, R. E., & Gilbert, D. T. (1992). The preoccupational hazards of social life. *Journal of Personality and Social Psychology, 62,* 219-228.

Petty, R. E., & Cacioppo, J. T. (1979). Issue involvement can increase or decrease persuasion by enhancing message-relevant cognitive responses. *Journal of Personality and Social Psychology, 37,* 1915-1926.

Petty, R. E., & Wegener, D. T. (1998). Attitude change: Multiple roles for persuasion variables. In D. T. Gilbert, S. T. Fiske, & G. Lindzey (Eds.), *The handbook of social psychology* (4th ed. pp. 323-390). New York: McGraw-Hill.

Rindova, V. P., Pollock, T. G., & Hayward, M. L. A. (2006). Celebrity firms: The social construction of market popularity. *Academy of Management Review, 31*(1), 50-71.

Ring, P. S., & Van de Ven, A. H. (1992). Structuring cooperative relationships between organizations. *Strategic Management Journal, 13,* 483-498.

Riordan, C. A., Marlin, N. A., & Kellogg, R. T. (1983). The effectiveness of accounts following transgression. *Social Psychology Quarterly, 46,* 213-219.

Rousseau, D. M., Sitkin, S. B., Burt, R. S., & Camerer, C. (1998). Not so different after all: A cross-discipline view of trust. *Academy of Management Review, 23,* 393-404.

Ryan, J., Reuk, K., & Wang, C. (2007). To fund or not to fund: Determinants of loan fundability in the Prosper.com marketplace http://www.prosper.com/Downloads/Research/Prosper_Regression_Project-Fundability_Study.pdf

Salancik, G. R., & Meindl, J. R. (1984). Corporate attributions as strategic illusions of management control. *Administrative Science Quarterly, 29,* 238-254.

Schlenker, B. R. (1980). *Impression management: The self-concept, social identity, and interpersonal relations*. Monterey, CA: Brooks/Cole.

Schweitzer, M. E., Hershey, J. C., & Bradlow, E. T. (2006). Promises and lies: Restoring violated trust. *Organizational Behavior and Human Decision Processes, 101,* 1-19.

Scott, M. B., & Lyman, S. M. (1968). Accounts. *American Sociological Review, 33,* 46-62.

Shapiro, D. L., Buttner, E. H., & Barry, B. (1994). Explanations: What factors enhance their perceived adequacy? *Organizational Behavior and Human Decision Processes, 58,* 346-346.

Shaw, J. C., Wild, E., & Colquitt, J. A. (2003). To justify or excuse?: A meta-analytic review of the effects of explanations. *Journal of Applied Psychology, 88*(3), 444-458.

Siegel, P. A., & Brockner, J. (2005). Individual and organizational consequences of CEO claimed handicapping: What's good for the CEO may not be so good for the firm. *Organizational Behavior and Human Decision Processes, 96,* 1-22.

Simons, T. (2002). Behavioral integrity: The perceived alignment between managers' words and deeds as a research focus. *Organization Science, 13,* 18-35.

Sitkin, S. B., & Bies, R. J. (1993). Social accounts in conflict situations: Using explanations to manage conflict. *Human Relations, 46,* 349-370.

Tetlock, P. E. (1985). Accountability: A social check on the fundamental attribution error. *Social Psychology Quarterly, 48,* 227-2.

Turner, B. A. (1976). The organizational and interorganizational development of disasters. *Administrative Science Quarterly, 21*(3), 378-397.

Weiner, B. (1985). An attributional theory of achievement motivation and emotion. *Psychological Review, 92*(4), 548-573.

Williams, R., Nesiba, R., & McConnell, E. D. (2005). The changing face of inequality in home mortgage lending. *Social Problems, 52,* 181-208.

Table 1a.
Definitions of accounts and examples for data coding.

Account	Definition	Examples
Explanation (e.g., Elsbach, 1994; Lind & Tyler, 1988)	The borrower offers an explanation for a past problem	"I am a professional that was been unemployed since December and recently joined an organization in which I have an annual income of $100K plus; however our bills have gotten backed-up due to my unemployment and we are in desperate need of some funds." (Listing #17679) "When I initially purchased my home 2.5 years ago, I had a roommate who paid me $800 a month. Although, it was tight, I made my mortgage payments on time and stayed above water. Then I had a new roommate moved in and could only afford to pay $500 a month. Although it was a struggle, I tried to make it work because she was a friend." (Listing #17413)
Acknowledgment (e.g., Elsbach, 1994; Salancik & Meindl, 1984)	The borrower acknowledges that s/he did something wrong in the past or made a mistake	"I am asking to borrow these funds to get back on track with my finances. I have made some mistakes and wish to make it right and build my credit back." (Listing #19014) "…I have already shredded up the department store credit cards and have started being a cash kind of guy. I am beyond ready for financial independence and hope you can help me out." (Listing # 17460)
Denial (e.g., Elsbach, 1994)	The borrower denies or refutes something about past history	"I have an excellent household income. I am surprised at my Prosper.com credit rating of B as I just refinanced my minivan loan at only 4.9% at my local credit union and they told me that my credit score through their system was 757 and 747 respectively." (Listing # 18296) "I recently had a few of my trade lines deleted due to misreported information by that creditor which will re-appear in the next 30-90 days corrected (See Experian credit report page 2)." (Listing # 21920)
Unusual Explanation (inductively following Elsbach, 1994)	The borrower offers a highly unusual explanation of a past problem	"Three years ago I donated my Kidney to my best friend and was not able to work for a while." (Listing #18266) "I'm an American living in Spain. Things are going great except that I found out this week that a grant I was counting on to help me cover my expenses this summer won't be issued to me until the fall (unlike previous years). So that's why I'm here." (Listing # 22444)

Table 1b.
Frequencies and coders' agreement rates for the accounts.

	Frequency [a]	Agreement rate	Cohen's Kappa	SE	Interpretation [b]
1. Explanation	47.1%	83.3%	.61	.12	Substantial
2. Acknowledgement	14.5%	85.0%	.69	.13	Substantial
3. Unusual Explanation	9.4%	80.0%	.55	.13	Moderate
4. Denial	8.2%	86.7%	.68	.13	Substantial

a. This frequency represents all listings of borrowers that used the account, with or without other accounts.
b. The interpretation is based on the one used by Landis & Koch (1977).

Table 2.

Effects of account combinations on loan funding (linear regression model).

Predictors[a]	***β***	**SE**	***t***	***p***
Intercept (= no accounts)	-0.19	0.19	-0.97	0.33
Credit grade	0.25	0.03	7.76	0.00
Amount requested	0.04	0.01	5.92	0.00
Maximum interest rate	0.00	0.00	-5.39	0.00
Explanation	0.03	0.14	0.18	0.86
Denial	1.03	0.74	1.39	0.17
Acknowledgement	0.01	0.49	0.03	0.98
Unusual Explanation	-0.25	0.64	-0.39	0.70
Explanation / Denial	**0.63**	**0.28**	**2.28**	**0.02**
Explanation / Acknowledgement	**0.67**	**0.21**	**3.25**	**0.00**
Explanation / Unusual Explanation	-0.15	0.24	-0.64	0.53
Three accounts or more[b]	0.73	0.90	0.81	0.42

a. Only combinations that were used by one borrower or more were included as predictors.
b. None of the combinations of three accounts or more was significant and therefore they were collapsed into one category.

Table 3.
Accounts that were presented in the experiment.

Account Type	Text Presented to Subjects
Single accounts (our main account constructs)	
1. Explanation	I would like to pay off my high interest rate car loan. I ended up with a high interest rate because my company downsized me and I got behind on some payments, but now I am employed again and can pay off the loan.
2. Denial	I need a loan to pay off my high interest rate car loan. I ended up with such a high interest rate because although I paid all my bills, my credit card was maxed and the credit report shows it was not paid. This is wrong, and indeed my credit card company just confirmed they found my payment and they are now working on fixing my report. Therefore, my credit history should be better than what you see. I hate to be misrepresented like that.
3. Acknowledgement	I'm asking for this loan in order to pay off my high interest rate car loan. I ended up with such a high interest rate because I missed several payments on my car loan and the bank increased my interest rate. But I learned from my mistakes and am paying on time now.
4. Unusual Circumstances	I'm applying for a loan so I can pay off my high interest rate car loan. I missed some payments because I was hospitalized with a serious illness for several months. I am now fully recovered.
Target accounts	
5. Explanation/ Acknowledgement	I plan to use the loan to pay off my high interest rate car loan. My interest rate is high because I was downsized and got behind on some payments. I am employed now and can pay off the loan. I know I have made some mistakes in the past and as a result missed several payments on my car loan. This led to an increased interest rate. But I'm paying everything on time now and have learned from my mistakes.
6. Explanation/ Denial	I plan to use the loan to pay off my high interest rate car loan. I ended up with a high interest rate because I was downsized and got behind on some payments—but now I am employed and can pay off the loan. Also, please note that although my credit card was maxed and my report shows that it wasn't paid, it is wrong as I already paid it. My credit card company just confirmed they found my payment and they are now working on fixing my report. Therefore, my credit history should be better than what you see. I hate to be misrepresented like that.

Table 3 (cont'd).

Account Type	Text Presented to Subjects
Account combinations (as found in our field data)	
7. Explanation/ Unusual Circumstances	I would like to use the loan to pay off my high interest rate car loan. I ended up with a high interest rate because I had a serious disease. I was in the hospital for several months and have fully recovered. Then my company downsized me and I got behind on some payments, but now I am employed again and can pay off the loan.
8. Explanation/ Acknowledgement/ Denial	I would like to use the loan to pay off my high interest rate car loan. I ended up with a high interest rate because my company downsized me and I got behind on some payments, but now I am employed again and can pay off the loan. I also missed several payments on my car loan and the bank increased my interest rate. But I learned from my mistakes and I'm paying everything on time now. Finally, although I paid all my bills, my credit card was maxed and the credit report shows it was not paid. This is wrong, and indeed my credit card company just confirmed they found my payment and they are now working on fixing my report. Therefore, my credit history should be better than what you see. I hate to be misrepresented like that.
9. Explanation/ Unusual Circumstances/ Denial	I would like to pay off my high interest rate car loan. I ended up with a high interest rate because my company downsized me and I got behind on some payments, but now I am employed again and can pay off the loan. Recently, however, I was in the hospital with a serious illness for several months. I have now recovered. Finally, although I paid all my bills, my credit card was maxed and the credit report shows it was not paid. This is wrong, and indeed my credit card company just confirmed they found my payment and they are now working on fixing my report. Therefore, my credit history should be better than what you see. I hate to be misrepresented like that.
10. Explanation/ Acknowledgement/ Unusual Circumstances	I'm asking for this loan in order to pay off my high interest rate car loan. I ended up with a high interest rate because my company downsized me and I got behind on some payments, but now I am employed again and can pay off the loan. Recently, however, I was in the hospital with a serious illness for several months. I have now recovered. I also missed several payments on my car loan and the bank increased my interest rate. But I learned from my mistakes and I'm paying everything on time for a while now.
11. Explanation/ Denial/ Acknowledgement/ Unusual Circumstances	I'm applying for a loan so I can pay off my high interest rate car loan. I ended up with a high interest rate because my company downsized me and I got behind on some payments, but now I am employed again and can pay off the loan. Recently, however, I was in the hospital with a serious illness for several months but I am fully recovered now. I also missed several payments on my car loan and the bank increased my interest rate. But I learned from my mistakes and I'm paying everything on time for a while now. Finally, although I paid all my bills, my credit card was maxed and the credit report shows it was not paid. This is wrong, and indeed my credit card company just confirmed they found my payment and they are now working on fixing my report. Therefore, my credit history should be better than what you see. I hate to be misrepresented like that.
12. Control (no accounts)	I need a loan in order to pay off my high interest rate car loan.

Table 4.

Pretest results: perceptions of loan requests (that were constructed by the authors based on the field data).

Loan↓ / Item→	Borrower explained his/her situation	Borrower denied aspects of his/her situation	Borrower acknowledged aspects of his/her situation	Borrower detailed unusual circumstances
Explanation account loan	**5.32**	3.41	4.65	3.66
Denial account loan	4.10	**3.90**	4.23	4.11
Acknowledgement account loan	3.86	3.48	**5.11**	3.15
Unusual explanation account loan	4.21	3.20	4.39	**5.28**
$F(3, 280)$	14.11***	2.87*	6.05***	25.74***
Contrast $t(280)$[a]	6.34***	2.45**	3.80***	7.93***

[a] The contrast compares the target loan with the other three loans on each item. For example: in the first column, the explanation loan is compared with denial, acknowledgement, and unusual explanation loans (that is, the contrast coefficients are [+3, -1, -1, -1]).

*, **, *** reflect significance levels of .1, .05, and .01 respectively.

Table 5.
Choice frequency in the experiment.

	Explanation/ Acknowledgement[a]	t-test	Explanation/ Denial[a]	t-test
Explanation	66.67%	1.90*	50.00%	.00
Denial	67.86%	1.99*	75.86%	3.20***
Acknowledgement	89.29%	6.60***	71.88%	2.71***
Unusual Explanation	59.38%	1.06	50.00%	.00
Explanation/ Unusual Explanation	34.38%	-1.83*	39.39%	-1.23
Explanation/ Denial Acknowledgement/	66.67%	1.80*	68.57%	2.33**
Explanation/ Unusual Explanation/ Denial	69.70%	2.42**	75.00%	3.21***
Explanation/ Acknowledgement/ Unusual Explanation	65.71%	1.93**	65.63%	1.83*
Explanation/ Acknowledgement/ Denial / Unusual Explanation	75.00%	3.21***	70.37%	2.27**
Control	89.66%	6.89***	75.00%	3.00***

[a] Numbers in this columns represent the percent of participants who chose the target loan (at the top of the column) when it was compared with the loan on the left. For example, 66.67% of participants who were asked to compare between a loan that uses the explanation account and a loan that uses both explanation and acknowledgement accounts chose to lend money to the latter loan.

*, **, *** reflects the significance levels .1, .05, .01 respectively.

Table 6.
Accounts explain choice of loan due to perceived trustworthiness (binary logit models).

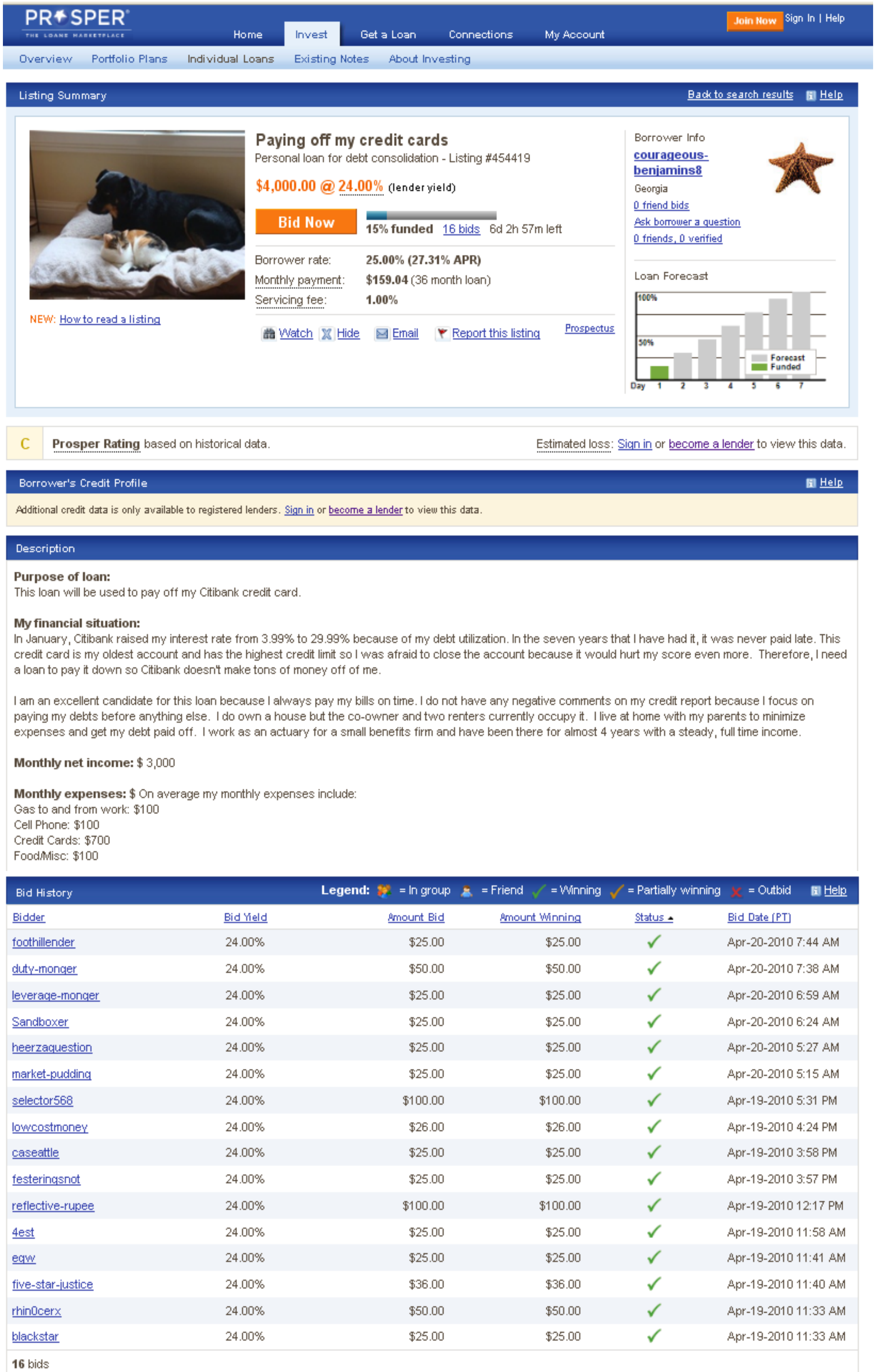
	Explanation/Acknowledgement				**Explanation/Denial**			
	β	**SE**	**Wald(1)**	***p***	***β***	**SE**	**Wald(1)**	***p***
Constant	.56	1.21	.22	.64	.65	1.03	.41	.53
Trustworthiness in target loan	**1.12**	**.22**	**26.45**	**.00**	**1.24**	**.24**	**27.85**	**.00**
Trustworthiness in other loans	**-.98**	**.22**	**20.54**	**.00**	**-1.12**	**.20**	**30.32**	**.00**
Emotional intensity target loan	**.51**	**.19**	**7.20**	**.01**	.28	.17	2.66	.10
Emotional intensity other loans	**-.32**	**.18**	**3.23**	**.07**	-.07	.17	.18	.67

Table 7.
Effects of accounts on loan performance (multinomial logit model).

Category	Predictors	*β*	SE	Wald(1)	*p*
Current	Intercept	0.76	0.55	1.89	0.17
	Credit grade	-0.27	0.09	8.85	0.00
	Maximum interest rate	-0.01	0.02	0.07	0.80
	Amount requested	0.00	0.00	2.03	0.15
	Accounts	**0.80**	**0.41**	**3.81**	**0.05**
Late	Intercept	0.30	0.73	0.17	0.68
	Credit grade	-0.56	0.16	12.95	0.00
	Maximum interest rate	-0.07	0.03	5.32	0.02
	Amount requested	0.00	0.00	6.05	0.01
	Accounts	**1.61**	**0.62**	**6.85**	**0.01**
Default	Intercept	0.10	0.76	0.02	0.89
	Credit grade	-0.68	0.15	19.99	0.00
	Maximum interest rate	0.02	0.03	0.87	0.35
	Amount requested	0.00	0.00	10.64	0.00
	Accounts	0.40	0.53	0.58	0.45

Table 8.
Effects of account combinations on loan performance (multinomial logit model).

Category	Predictors	*β*	SE	Wald(1)	*p*
Current	Intercept	0.58	0.57	1.04	0.31
	Credit grade	-0.27	0.09	8.28	0.00
	Maximum interest rate	-0.01	0.02	0.12	0.73
	Loan amount requested	0.00	0.00	2.21	0.14
	Explanation	0.61	0.39	2.44	0.12
	Explanation/Denial	1.04	0.75	1.94	0.16
	Explanation/Acknowledgement	0.41	0.52	0.62	0.43
	Explanation/Unusual Explanation	**1.81**	**0.82**	**4.83**	**0.03**
Late	Intercept	0.06	0.80	0.01	0.94
	Credit grade	-0.57	0.16	12.81	0.00
	Maximum interest rate	-0.07	0.03	5.86	0.02
	Loan amount requested	0.00	0.00	6.31	0.01
	Explanation	0.90	0.69	1.69	0.19
	Explanation/Denial	**1.95**	**1.02**	**3.68**	**0.05**
	Explanation/Acknowledgement	0.92	0.86	1.16	0.28
	Explanation/Unusual Explanation	**3.09**	**1.03**	**8.98**	**0.00**
Default	Intercept	0.10	0.78	0.02	0.90
	Credit grade	-0.69	0.16	19.75	0.00
	Maximum interest rate	0.03	0.03	0.96	0.33
	Loan amount requested	0.00	0.00	10.41	0.00
	Explanation	0.19	0.58	0.11	0.74
	Explanation/Denial	0.32	0.95	0.12	0.73
	Explanation/Acknowledgement	0.38	0.64	0.35	0.55
	Explanation/Unusual Explanation	-0.13	1.31	0.01	0.92



PROSPER
THE LOANS MARKETPLACE

Home | Invest | Get a Loan | Connections | My Account

Join Now | Sign In | Help

Overview | Portfolio Plans | Individual Loans | Existing Notes | About Investing

Listing Summary — Back to search results | Help

Paying off my credit cards

Personal loan for debt consolidation - Listing #454419

$4,000.00 @ 24.00% (lender yield)

Bid Now — 15% funded 16 bids 6d 2h 57m left

Borrower rate: 25.00% (27.31% APR)

Monthly payment: $159.04 (36 month loan)

Servicing fee: 1.00%

NEW: How to read a listing

Watch | Hide | Email | Report this listing | Prospectus

Borrower Info

courageous-benjamins8

Georgia

0 friend bids

Ask borrower a question

0 friends, 0 verified

Loan Forecast

100%

50%

Forecast

Funded

Day 1 2 3 4 5 6 7

C — **Prosper Rating** based on historical data. Estimated loss: Sign in or become a lender to view this data.

Borrower's Credit Profile — Help

Additional credit data is only available to registered lenders. Sign in or become a lender to view this data.

Description

Purpose of loan:
This loan will be used to pay off my Citibank credit card.

My financial situation:
In January, Citibank raised my interest rate from 3.99% to 29.99% because of my debt utilization. In the seven years that I have had it, it was never paid late. This credit card is my oldest account and has the highest credit limit so I was afraid to close the account because it would hurt my score even more. Therefore, I need a loan to pay it down so Citibank doesn't make tons of money off of me.

I am an excellent candidate for this loan because I always pay my bills on time. I do not have any negative comments on my credit report because I focus on paying my debts before anything else. I do own a house but the co-owner and two renters currently occupy it. I live at home with my parents to minimize expenses and get my debt paid off. I work as an actuary for a small benefits firm and have been there for almost 4 years with a steady, full time income.

Monthly net income: $ 3,000

Monthly expenses: $ On average my monthly expenses include:
Gas to and from work: $100
Cell Phone: $100
Credit Cards: $700
Food/Misc: $100

Bid History — **Legend:** = In group = Friend = Winning = Partially winning = Outbid — Help

Bidder	Bid Yield	Amount Bid	Amount Winning	Status	Bid Date (PT)
foothillender	24.00%	$25.00	$25.00	✓	Apr-20-2010 7:44 AM
duty-monger	24.00%	$50.00	$50.00	✓	Apr-20-2010 7:38 AM
leverage-monger	24.00%	$25.00	$25.00	✓	Apr-20-2010 6:59 AM
Sandboxer	24.00%	$25.00	$25.00	✓	Apr-20-2010 6:24 AM
heerzaquestion	24.00%	$25.00	$25.00	✓	Apr-20-2010 5:27 AM
market-pudding	24.00%	$25.00	$25.00	✓	Apr-20-2010 5:15 AM
selector568	24.00%	$100.00	$100.00	✓	Apr-19-2010 5:31 PM
lowcostmoney	24.00%	$26.00	$26.00	✓	Apr-19-2010 4:24 PM
caseattle	24.00%	$25.00	$25.00	✓	Apr-19-2010 3:58 PM
festeringsnot	24.00%	$25.00	$25.00	✓	Apr-19-2010 3:57 PM
reflective-rupee	24.00%	$100.00	$100.00	✓	Apr-19-2010 12:17 PM
4est	24.00%	$25.00	$25.00	✓	Apr-19-2010 11:58 AM
egw	24.00%	$25.00	$25.00	✓	Apr-19-2010 11:41 AM
five-star-justice	24.00%	$36.00	$36.00	✓	Apr-19-2010 11:40 AM
rhin0cerx	24.00%	$50.00	$50.00	✓	Apr-19-2010 11:33 AM
blackstar	24.00%	$25.00	$25.00	✓	Apr-19-2010 11:33 AM

16 bids

Fig. 1. A listing on Prosper.com.

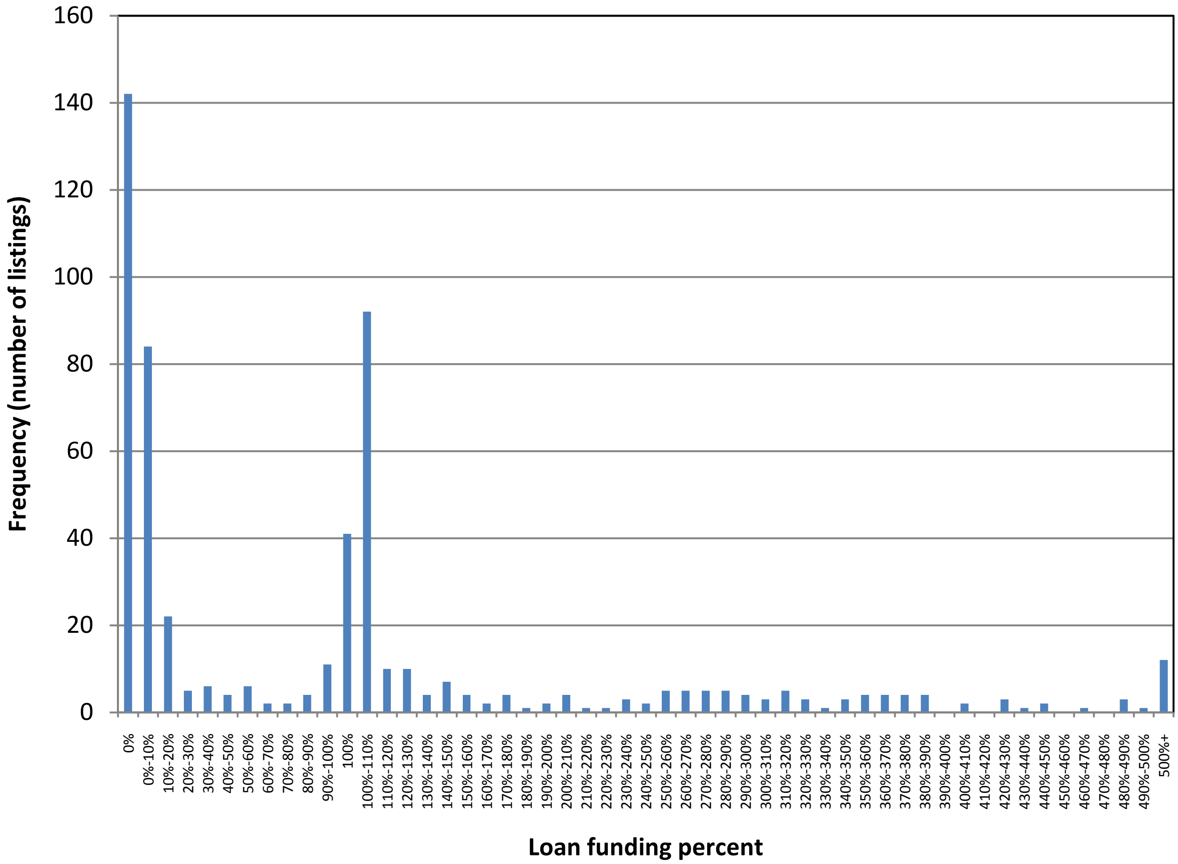


Fig. 2. Distribution of loan funding percentage.