

UNIVERSITY OF TARTU
School of Economics and Business Administration

Laura Inno

**FROM FRIENDS TO FINANCES: ANALYZING HIGH-RISK LOANS IN SOCIAL
MEDIA**

Master's Thesis

Supervisor: Kristjan Pulk, MBA

Tartu 2024

FROM FRIENDS TO FINANCES: ANALYZING HIGH-RISK LOANS IN SOCIAL MEDIA

I have written this Master's Thesis independently. All viewpoints of other authors, literary sources, and data from elsewhere used for writing this paper has been referenced.

Abstract

Facebook loan groups are emerging as popular platforms in Estonia, allowing individuals to request and provide private loans. However, little has been studied about the operations and characteristics of this informal lending market. This thesis studies Facebook loan groups through interviews with borrowers and debt counselors to describe the characteristics of this loan market and attitudes towards it. It was revealed that these groups serve as a last resort for many borrowers, offering loans at exorbitant interest rates. Yet some individuals chose the Facebook loan market due to quicker processes and easier administration. In general, most of the borrowers and all of the debt counselors had a negative connotation regarding the Facebook loan groups. The findings of this thesis can provide a basis for national institutions to evaluate and address the risks associated with this informal lending sector.

Keywords: Personal Finance, Borrowing, Debt, Behavioural Finance

CERSCS: S180 Economics, econometrics, economic theory, economic systems, economic policy

1 Introduction

In contemporary society, borrowing has become an increasingly common financial practice, with individuals turning to loans to fulfil various needs, from education and housing to entrepreneurship and personal expenses (Espenberg et al., 2021; European Banking Authority, 2023). This growing trend highlights the important role loans play in helping people manage their finances and achieve their goals and also raises concerns regarding the potential risks and outcomes of loans becoming too common and overused.

Availability of consumer credit can help poorer households acquire non-daily pricier items (Li et al., 2021). In addition to allowing households to strategically plan savings and consumption, making it feasible to incorporate significant expenses like vehicle purchases and home renovations without delay, it also empowers consumers to purchase goods promptly, stimulating economic growth and bolstering employment opportunities within industries (Durkin et al., 2014). Debt on the other hand, particularly non-mortgage credit debt, can have a significant negative impact on psychological well-being, leading to increased psychological distress, especially when debt levels are higher at the individual level (Brown et al., 2005; de

FROM FRIENDS TO FINANCES: ANALYZING HIGH-RISK LOANS IN SOCIAL MEDIA

Bruijn & Antonides, 2020) as well as decreased happiness, particularly among low- and middle-income individuals (Xiao et al., 2021).

Despite the wide accessibility of formal lending institutions thanks to technological advances, a significant portion of the population faces obstacles in securing legal and moderately priced loans and thus this segment of the population often finds itself excluded from traditional financial services due to various factors such as poor credit history, insufficient collateral, or limited access to banking facilities (Gloukoviezoff, 2007). Due to that, many individuals seeking financial assistance often find their way to the informal lending sector, where interactions with loan sharks or similar predatory lenders are not uncommon. Loan sharks are individuals or entities who charge very high interest rates and are also often known to use threats or violence against debtors (Mendenhall, 2007). The illegal loan market is known to be catered to those excluded from mainstream financial services, offering quick cash solutions with exorbitant interest rates and exploitative terms (Signal et al., 2012). In the absence of regulatory oversight and consumer protections, borrowers often face predatory lending practices that worsen their financial problems and keep them trapped in debt spirals (Mendenhall, 2007).

Loan sharks offer their loans in different ways, for example traditionally in casinos (Soudijn & Zhang, 2013) or in the a payday loan format (Rona-Tas & Guseva, 2018). A new way for loan sharks to offer their loans proves to be Facebook loan groups. Since social media loan markets are relatively new, there isn't much knowledge on what are the main reasons why people turn to those illegal loans and what conditions await them there, since loan conditions are discussed privately between the borrower and lender.

The objective of this thesis was to describe the workings of the Facebook loan market as a novel platform for borrowing. Since loans have such a wide and important role in the lives of many individuals, it is important to know how different lending platforms operate, who they are catered to and what loan conditions are common there. For this, four research questions were constructed which were about reasons why individuals seek loans from Facebook, what purpose do those loans serve, what are the loan conditions and the general interaction between lenders and borrowers and what is the overall attitude of the borrowers and debt counselors towards those loan groups. Since literature regarding Facebook or social media lending in general is scarce, the literature is built up to cover different alternative loans to describe the Facebook loan market through them.

FROM FRIENDS TO FINANCES: ANALYZING HIGH-RISK LOANS IN SOCIAL MEDIA

No public data is available about the Facebook groups' loan market characteristics, such as interest rates, purposes of these loans and the general dynamic of the borrowers and lenders. For this reason, a qualitative approach was chosen in the form of expert and borrower interviews, to gain the first insight into the world of Facebook lending. The debt counselors (experts) have experience with many borrowers who have found their way to Facebook groups and thus can give a wider view on this field. The borrowers can give a very narrow, yet deep and first-hand knowledge on the particulars of this loan market. The interviews were then coded and categorised and compared.

Since lending and financial problems tend to be very sensitive and uncomfortable topics, only a few of the borrowers agreed to the interview. In addition, the borrowers were hard to reach, because most of them operated anonymously and for those who didn't, the message request often stayed unnoticed or ignored. In total 12 borrowers agreed to share their experience with having applied for a loan in Facebook.

For this thesis, the information was collected from the borrower's viewpoint, as the borrowers and debt counselors who work with borrowers were interviewed. The literature used was from the financial behaviour domain. The results – characteristics of the loan market – are from the borrower's perspective. It must be mentioned, that when it comes to lending, there are different interest groups, like lenders and national institutions who have their own priorities and stances, which this thesis doesn't cover.

It was found that debt counselors sense a lot of predatory lending characteristics in the Facebook loan groups. The maximum annual percentage rate for consumer credit from regulated credit providers in Estonia is currently 52%, as of May 2024 (Eesti Pank, 2023b). The interest rates reported by the borrowers and counselors were on average around 520%, which is 10 times higher than the legal limit. It can be argued whether the lenders charge these rates due to usury or risk aversion. Although the interest tends to be very high, the borrowers are in some cases forced to take these loans that they can't actually afford, when they have no other options left. There are separate groups where the lenders post the defaulted borrowers publicly and it is extremely feared by the borrowers. There were also cases mentioned about serious physical threats from the lenders and the debt counselors emphasized that they sense the problem to be growing and more people reaching their breaking point.

FROM FRIENDS TO FINANCES: ANALYZING HIGH-RISK LOANS IN SOCIAL MEDIA

On the other hand, it was also described how the lenders on most part exercise at least some responsible lending practices and evaluate the borrowers before giving them loans. Despite majority of borrowers using the loans for making ends meet towards the end of the month and when they had been struck by an emergency, there were also borrowers who had sought for the Facebook loan solely for consumption, e.g. buying a new car or a crypto miner. Most of the borrowers described the communication to be polite and didn't report negative experiences. Still the majority of the borrowers didn't see themselves lending from those groups again.

The thesis sheds the first ray of light into the Facebook loan group operations in Estonia. It gives an overview from the borrower's perspective on why these groups are used, for what they are used and what loan conditions are common there. It also covers the general attitude towards the Facebook loan groups.

The rest of the paper is structured as follows. First, the literature review will give an overview on the background of alternative lending, its many forms and how it could be similar to the Facebook groups. Secondly, the methodology used will be discussed to explain in detail the process of the interviews and why it was done. Thirdly, the results will be covered, fourthly, the main results will be discussed more in detail and lastly the thesis will be concluded, and main outcomes highlighted.

2 Literature review

2.1 Lending

3.1.1. History

The history of lending reveals its deep-rooted connection to economic and social structures across civilizations. In ancient Sumer around 3500 BCE, diverse credit transactions were prevalent, involving commodities like silver, barley, and wool, often with interest terms established (Garfinkle, 2004). Dating back to 1780 BCE, the code of Hammurabi introduced regulations on interest rates, laying down penalties for usury, showcasing early legal frameworks for credit (Nagarajan, 2011). Anthropologist David Graeber challenges conventional economic narratives by suggesting that debt and credit predate money and barter (Graeber, 2011).

FROM FRIENDS TO FINANCES: ANALYZING HIGH-RISK LOANS IN SOCIAL MEDIA

Throughout medieval Europe, credit played a pivotal role in catering to diverse needs of individuals, businesses, and institutions, fostering economic activities and investments across social strata (Cassis et al., 2016, cited in Lorenzini et al., 2018). This era witnessed the emergence of various financial instruments like promissory notes, paper money, letters of credit, and cheques, contributing to the evolution of credit practices (Graeber, 2011). Subsequently, in later medieval and Tudor England, borrowing surged due to currency shortages, with loans sought for consumption or investment purposes, often with concealed interest charges due to religious prohibitions (McIntosh, 1988). The critique on usury has touched on the subject of the interest being unearned and exploitive, to name a few, which is still vocalised in modern day as well (Visser & MacIntosh, 1998). By the 16th century, borrowing, lending, and credit became intrinsic aspects of English society, intertwined with individuals' reputation and economic status (Muldrew, 1998).

In the 17th century, significant changes in banking practices emerged in Europe. London witnessed the rise of goldsmith-bankers who revolutionized lending by introducing transferable paper money, creating a system where deposited funds had dual ownership, a precursor to modern banking (Kim, 2011). Meanwhile, in rural Sweden during the 1840s, the banking market relied heavily on private promissory notes issued by wealthy individuals (Lindgren, 2017). Jumping forward ca 100 years, the post-World War II USA witnessed a rapid expansion and development of the consumer finance sector, driven by traditional financial institutions, government bodies, and informal networks, leading to increased consumer reliance on credit cards and loans (Ryan et al., 2011). This expansion, starting in the 1960s and 1970s, was propelled further by financial deregulation in the 1980s and the development of modern credit scoring systems (Ryan et al., 2011).

2.1.1 Consumer lending

When delving more deeply into the mechanisms of consumer lending and consumer credit nowadays, the term ought to be defined. The European Central Bank defines it as “Loans granted to households for personal use in the consumption of goods and services” (European Central Bank, 2024b). In Estonia, Finantsinspektsioon (Financial Supervision Authority) refers to consumer credit as loans or credit extended to individuals by financial institutions, such as banks and other licensed credit providers, typically secured by income, a co-signer's guarantee, or a deposit held by the bank and it encompasses various types of loans tailored to specific

FROM FRIENDS TO FINANCES: ANALYZING HIGH-RISK LOANS IN SOCIAL MEDIA

purposes, such as home improvement loans, auto loans, or travel loans (Finantsinspektsioon, 2019).

In addition to adhering to the maximum annual percentage rate set by regulations, consumer credit providers are required to furnish borrowers with a European Standardised Information Sheet before entering into an agreement. This document outlines details such as the loan amount, annual interest rate, total cost of credit, additional fees, penalties, and the duration of the contract. The standardized format of this information sheet facilitates easy comparison of different loan offers, aiding consumers in making informed decisions. (Finantsinspektsioon, 2019)

The modern landscape of lending and debt behavior reflects a complex interplay of social, economic, and individual factors. Consumer behavior literature emphasizes the influence of a consumer culture driven by desires for both hedonistic and utilitarian pursuits, contributing to the decision to take on credit and debt (O'Loughlin & Szmigin, 2006; Witt, 2014) in addition to mass media and technological advancements broadening people's perceptions of necessity, influencing spending behaviors and driving demand for credit (Cynamon & Fazzari, 2013; Dunkelberg, 1989). Additionally, rising costs of education, expenses related to starting a family, rising inflation and interest rates all contribute to increasing debt levels among households (Scott & Pressman, 2013). Particularly susceptible to this are young people with short work experience, low-wage earners and individuals with addictive behaviours, whom the rising living costs can lead to usurious lenders (Oksanen et al., 2015; Vella & Mintoff, 2023).

A survey conducted in the USA revealed that person's self-reported credit rating strongly correlates to the intent to take out payday and other short term high interest loans (Federal Reserve Board, 2023). Espenberg et al. (2021) also found that although people tend to report comparing and evaluating loans against responsible lending practices and costs, they actually still tend to default to their well-known provider due to familiarity or possible time savings. It has also been found that self-control and impulsive decision-making significantly influences borrowing behavior and indebtedness (Grohmann & Hamdan, 2021). For instance, individuals with low self-control are more prone to taking out unsecured personal loans, borrowing from family or friends, and using credit cards (Fernández-López et al., 2024).

Moreover, income disparities significantly influence borrowing behavior, particularly impacting lower-income households who often resort to short-term, high-cost loans,

FROM FRIENDS TO FINANCES: ANALYZING HIGH-RISK LOANS IN SOCIAL MEDIA

exacerbating their financial strain (Espenberg et al., 2021). This reliance is compounded by misleading loan presentations that obscure total credit costs, fostering a lack of awareness and leading to payment difficulties among consumers (Espenberg et al., 2021). Such short-term loans, typically taken to cover immediate and unexpected expenses, perpetuate a cycle of debt due to their exorbitant interest rates (Chen, 2020). Moreover, shame emerges as a significant factor driving individuals deeper into debt spirals, as fear of societal judgment and concern over creditworthiness prompt further borrowing to repay existing debts, while also inhibiting individuals from seeking assistance when debt becomes unmanageable (Lillqvist & Timonen, 2023).

The European Banking Authority highlights issues like poor credit assessment, lack of precontractual information, and high fees relating to consumer credit as the main present and future problems. Emerging, mainly online and non-regulated models like Buy-Now-Pay-Later, microcredit and peer-to-peer lending are gaining traction, posing risks of repayment difficulties and over-indebtedness (European Banking Authority, 2023). Based on the previous, the following research question is formed:

What is the attitude of lenders and counselors regarding Facebook loans?

When it comes to traditional lending (e.g. banks), the process for the borrowers is generally very similar. The banks call their consumer loans ‘small loans’, but description falls into the same bracket as the above-mentioned consumer loan. The borrower contacts the bank (in most cases, they fill out an electronic application on the banks’ website) and gives the bank access to their credit history to evaluate the credit score. If the credit score is deemed acceptable, the borrower will read and sign a loan agreement and then receive the loan. When looking at the bank’s websites for info about the loans, the smallest consumer loan in one bank was 200 euros, in many others the minimum was 300 and in some cases also up to 1000 euros, the maximum in most cases was 20000-25000 euros. Some banks also mentioned that the borrower must have a decent payment behaviour and credit background. Some banks also indicated the minimum income that a person needed to have to get the loan, the smallest needed income was 300 euros (same bank who had the minimum loan amount 200 euros), other banks whose minimum loan was 300 euros needed the borrowers’ income to be 400-600 euros. One bank, who’s minimum loan amount was 500 euros, required the lender to have a minimum of 250-euro income. Most banks offered 10 years as the maximum period, some offered 6-7 years. (Swedbank, 2024; Coop Pank, 2024; SEB, 2024; LHV, 2024; Holm Bank, 2024; Citadele pank, 2024.)

FROM FRIENDS TO FINANCES: ANALYZING HIGH-RISK LOANS IN SOCIAL MEDIA

When it comes to the other registered credit providers (non-banks), the process is very similar. The loan amounts and periods vary more in these companies. The minimum loan amount that was found when looking at the more well-known providers was 100 euros. Maximum period for the credit providers who were observed didn't exceed 5 years and that was the main difference that was noticed between banks and non-bank credit providers. Some providers indicated as one of their criteria that the borrowers couldn't have any payment default in the past, whereas some providers indicated that the borrower couldn't have any current payment default, opening the credit possibilities for a wider range of borrowers. (Modena, 2024; Credit24, 2024; Smsaha, 2024; Raha24, 2024; BestCredit, 2024)

Third well known option is the crowdlending or peer-to-peer (P2P) lending. In this case, the loan is intermediated by a site, but the loans are coming from private investors and the loans can be requested by companies, but also by individuals who need a small loan. There the process is quite different - the person wanting a loan fills out an application, waits to get approved (credit scoring is usually done by the P2P site) and can then put out a loan request. Then the site (when it is automated for the investor) or the individual investors can choose, which loans they want to fund and then the borrower can choose the best offer or the site has already done it, and a loan agreement can be signed by the borrower. The sites also promote themselves as an option for people who can't get loans from banks due to their low income or recent credit defaults. (Bondora, 2024; Moneyzen, 2024)

2.2 Alternative loan markets

For many people, traditional credit options offered by mainstream banks are not an option due to poor credit decisions in the past or insufficient credit history (Lamb, 2016), but also due to low income and low socioeconomic status (Federal Reserve Board, 2023; Vella & Mintoff, 2023). Since credit is still needed, the individuals have to seek loans elsewhere, from alternative sources. Non-bank or alternative credit markets can be defined differently, but in the context of this thesis, the broad lending landscape has been considered as four main categories - formal mainstream, formal fringe, social and usurious. For details see Figure 1.

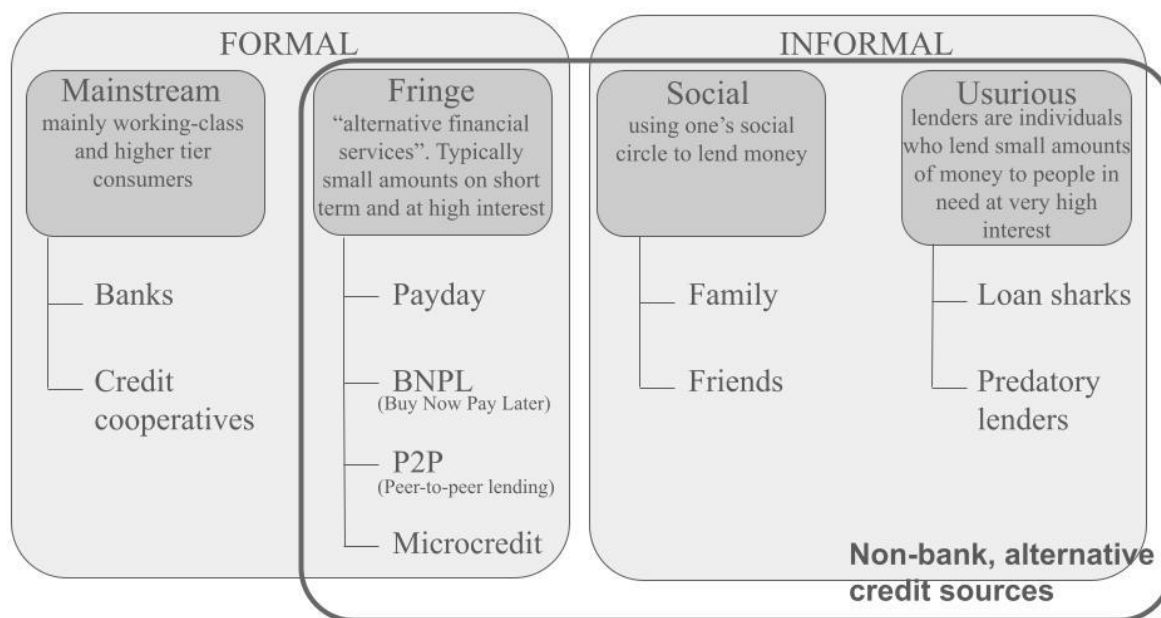


Figure 1. Distribution of loans into categories. Compiled by the author, based on Rona-Tas and Guseva (2018), Chaffee and Rapp (2012) and Spotton Visano (2008).

This thesis concentrates on non-bank lending, hence the first “formal mainstream” category will not be discussed and the first category being discussed will be fringe lending. Fringe or alternative lenders can be one-person businesses or large international enterprises and the loans are characterised by small amounts given for relatively short periods and high interest (Rona-Tas & Guseva, 2018). It is corroborated by the statistics - consumer average loan balances from banks are almost three times the amount than the average loan balances from alternative credit providers (Espenberg et al., 2021,). Meaning, that banks’ consumer loans are not typically few hundred euros and people who are struggling for few hundred euros are most probably not suitable for bank loans and seek these loans from fringe lenders.

Agarwal and Bos (2014) found in their research that most of the fringe market borrowers were not eligible for mainstream bank loans and had to turn to alternative fringe markets for credit. Fringe lending disproportionately affects lower-income households, amplifying their financial struggles, because even at modest levels, the fees associated with fringe banking can substantially erode the asset-building capacity of these households, far surpassing the costs incurred for example through credit card transactions (Carr & Schuetz, 2001). Karger (2004) highlights the predatory nature of fringe lending, likening it to illegal loan sharking due to exorbitant interest rates and fees, and despite operating legally, the fringe lending business can still increase financial vulnerability among low-income families and communities.

FROM FRIENDS TO FINANCES: ANALYZING HIGH-RISK LOANS IN SOCIAL MEDIA

Moreover, these fringe finance transactions fail to contribute to the development of a credit score, further hindering the low-income individuals' access to more affordable mainstream banking services, since fringe finance institutions don't offer long-term supportive services, such as savings accounts and credit-building options (Lamb, 2016). In many cases, fringe lending, but also informal lending goes hand in hand with predatory lending which means unfair, deceitful, or abusive loan terms, and predatory loans are usually aggressively advertised towards people with low incomes or lack of knowledge, encouraging people to take on loans they can't afford (Hayes, 2023).

Carr and Schuetz (2001) bring out three features, that separately or in combination define predatory lenders. Firstly, targeted marketing to vulnerable consumers, secondly unreasonable and exaggerated loan terms (e.g. excess collateral) and thirdly fraudulent behaviour, which further hurts the borrowers (e.g. hidden costs) (Carr and Schuetz, 2001). Based on the previous, the following research question is formed:

Why do people lend from Facebook groups?

2.2.1 Payday lending

From the formal fringe category, the payday lending will be discussed next. Payday loans are a type of loan that individuals take to survive the month until their next paycheck, when the loan has to be paid back from their regular income and the loans are usually rather small, up to a few hundred euros, short term, until the next payday, so usually up to a month, and high interest (Allcott et al., 2022). Interest is reported to be up to 300%-600% (Skiba, 2014).

The lenders are predominantly employed or with other forms of stable income, which may also be pensions or state aid (Lim et al., 2014). They usually have a low income and fewer assets than people without payday loans, payday loan customers also tend to be younger and less educated (Logan & Weller, 2009). Nuñez et al. (2016) found in a large survey based study in the US that most borrowers used online payday loans to cover daily expenses and for some it was caused by an unexpected event and that before turning to payday loans, borrowers had exhausted other sources of credit, like family and credit cards. On the other hand, a third of payday borrowers in the US are reported to use the loans for convenience, not for emergencies (Logan & Weller, 2009). Based on this, the following research question is formulated:

What are the purposes of Facebook loans?

FROM FRIENDS TO FINANCES: ANALYZING HIGH-RISK LOANS IN SOCIAL MEDIA

Payday loans are usually classified as formal, so-called fringe loans, where the type of loan is offered by regulated loan offices specialising in payday loans (Rona-Tas & Guseva, 2018). But the loan could also be identical in its core to the payday loan format, yet be informal, from family to individual lenders. Due to the high interest, short period and illegality of the business, informal, payday like loans are often referred to as usury or loan-sharking (Rona-Tas & Guseva, 2018).

There is a continuous discussion on whether payday loans are bad and should be banned or that they are a necessary source of cash for people in an urgent need and banning them would harm their welfare. The first opinion is supported by the argument, that people who take payday loans tend to lack the fundamental knowledge on how to manage their money and how interest works, they also tend to have poor spending habits or other compulsive control issues, which leads them to take the loans (Lang et al., 2022). In such case, the loan is just a small band aid for a big problem and the lender could benefit more from counseling for example. It could be said, that in a situation where the lender knows that the borrowers can't afford these loans, yet they advertise and give these loans to them, they are taking advantage of the borrower to make these borrowers a stable income to them due to rolling credit and loan spirals, where these borrowers find themselves (Mendenhall, 2007).

The other opinion is that when payday loans are banned, then people who really come across an urgent need for money and can't get the funds elsewhere are even more stripped of credit and excluded from the economy and social life (Allcott et al., 2022). It is also argued that the payday lenders don't target these low income vulnerable people, but they simply offer a service that there is a market for (Lowry, 2019).

2.2.2 Peer-to-peer lending

Another example of alternative or fringe loan is peer-to-peer lending or P2P for short. It has been defined as lending of money from one individual to another, leaving out the traditional bank or other similar institution (Kagan, 2024a). The core idea of P2P lending is to make the lending more efficient, allowing higher profits for lenders (compared to investing free money in savings accounts for example) and lower costs for borrowers (Luther, 2020). Although lending between individuals dates back to early Mesopotamia, peer-to-peer lending in today's terms is mostly understood as online lending sites, also referred to as P2P, social or crowd lending (Kagan, 2024a).

P2P loans are often seen as an important source of funding for households and social groups left out of the traditional bank loan market (de Roure et al., 2016), due to for example their income level (Xiang et al., 2024). Borrowers most often need the money for common necessities, like purchasing a car, fixing something in their home or funding a larger event, such as a trip or a wedding (Ofir & Tzang, 2022). The lenders on the other hand want to put their available funds to work and earn profits. The market or site then collects different fees from the lenders' and borrowers' transactions (Ofir & Tzang, 2022).

P2P online loan sites started emerging in Europe in 2005 and the premise was to allow better lending conditions for both the lender and the borrower (Chaffee & Rapp, 2012; Milne & Parboteeah, 2016) as well as to encompass more social value and responsibility than regular banking due to the loans being given from individual to individual and the usage of technological advantages allowing faster agreements and transactions than often in conventional banking, where old legacy systems exist (Milne & Parboteeah, 2016). P2P loans started as small and quick consumer loans but have also seen rapid increase in the mid 2010s into the mortgage and other larger loan market (PWC, 2015). With these bigger loans, in many P2P sites the smaller private investor has been overtaken by large funds and institutional investors (Luther, 2020). Naturally smaller investors are seeking other less coordinated outputs, which social media platforms can offer.

Peer-to-peer loans are nothing new, but the technological advances of the internet have allowed the P2P loan market to evolve and reach new spaces and even larger groups of people. Ofir and Tzang (2022) have categorized the P2P sites into three categories. The first is 'fixed rate model' where the site does the selection and categorization of the borrowers and lenders, based on their allocated risk (the borrower) and their chosen risk appetite (the lender), the interest rates are determined by the site (Ofir & Tzang, 2022). Second is the 'auction model' where the online site just verifies the borrower and then the borrower can post their loan request to which the lenders can answer and put forward their offers and the final decision of giving or taking the loan is in the hands of the individuals (Ofir & Tzang, 2022; de Roure et al., 2016). Third is 'specific mechanisms' which encompasses other possible rules and niches a site may have when categorizing their lenders and borrowers and the types of loans they host (Ofir & Tzang, 2022).

FROM FRIENDS TO FINANCES: ANALYZING HIGH-RISK LOANS IN SOCIAL MEDIA

If we were to compare Facebook group loans to P2P platforms, Facebook groups would fall under the auction model. The group usually demands a basic verification from the new members, in many cases it was the citing of the beginning of the Estonian hymn and then the borrowers can post their loan request to which the lenders can answer. What is different, is that lenders can also post their advertisements for which they have to pay a fee to the group host, and then the borrowers can comment under the post or just reach out to the lender.

Peer-to-peer lending in its core is the act of wanting to gain some profit on existing funds by some individuals and needing additional funds by other individuals. Facebook groups in that sense bring together those individuals and offer them a platform to ask and offer loans. Those individuals can then connect, when they feel like they have found a suitable lender or borrower, and continue discussing further details in the chat, that the platform also provides.

The interest rates in the P2P platform are seemingly higher than those of banks, average P2P interest was 12,75% in a German example (de Roure et al., 2016), but de Roure et al. (2016) has suggested that when analysed in the context of the risk from default, the interest rates of P2P sites and banks are comparable. The risk evaluation is often brought out as the advantage of P2P platforms due to the fintech advances (de Roure et al., 2016). Same can't be said about more primal informal lending markets, where lenders have very limited information about the borrowers, so they have to be diligent and rely on social status and reputation and it's common to start with small loans, which gradually get bigger as the trust increases (Aleem, 1990). Evaluating social credit is very pivotal in Facebook, where social network is the main capital and the credit data is not accessed from the direct source, like for example formal sites can employ.

2.2.3 Buy Now Pay Later

Next, the buy now pay later type of services will be discussed. Buy Now Pay Later or BNPL for short is a relatively recent fintech product for short-term credit, emerging from mid-2010s (Consumer Financial Protection Bureau, 2022). According to the Consumer Financial Protection Bureau (2022), BNPL arrangements typically involve splitting a retail transaction into four interest-free instalments, with a 25% down payment due at checkout and subsequent payments made every two weeks over a six-week period. Notably, the UK BNPL market has surpassed the payday loan market in lending volume, prompting regulatory scrutiny and discussions in the UK, EU, and US regarding potential regulations and despite being presented

FROM FRIENDS TO FINANCES: ANALYZING HIGH-RISK LOANS IN SOCIAL MEDIA

as a standalone credit product, consumers have the option to repay BNPL using a credit card, adding to the complexity of its regulatory landscape (Guttman-Kenney et al., 2023).

Buy Now Pay Later (BNPL) credit distinguishes itself from standard credit cards in several key ways: firstly, BNPL products function as instalment loans rather than revolving lines of credit, requiring a down payment at the time of purchase and adhering to a fixed repayment schedule. Secondly, these loans are typically offered through retailers and are specifically tied to the purchase of a particular product, providing consumers with financing options directly at the point of sale. Thirdly, BNPL companies often provide more lenient lending terms, including minimal or no credit checks, zero interest, minimal fees, and limited negative reporting to credit bureaus and BNPL providers generate revenue by charging merchants fees ranging from 5-8%, substantially higher than those of credit card companies. (Di Maggio et al., 2022)

While BNPL credit can help facilitate consumption smoothing in response to financial shocks, it may also lead to excessive spending driven by impatience or incomplete understanding of contract terms (Di Maggio et al., 2022). When credit is offered in seemingly so simple and cheap terms, it can be difficult resist and see the potential risks in hidden costs or even objectively decide whether the purchase is reasonable or not. In addition, The Consumer Financial Protection Bureau 2022 report also highlights three main risks for consumers. Firstly the BNPL product may pose challenges for borrowers due to unclear loan terms, difficulties in resolving disputes, and mandatory autopay for all payments (Consumer Financial Protection Bureau, 2022). Secondly BNPL lenders utilize consumer data for targeted marketing and product development, potentially compromising privacy, and autonomy, and increasing overextension risks (Consumer Financial Protection Bureau, 2022). Thirdly, the BNPL model may lead to overextension, posing risks such as loan stacking and sustained usage, potentially impacting consumers' ability to meet other financial obligations (Consumer Financial Protection Bureau, 2022). Further, a study in UK found, that consumers are using their credit cards to pay off interest-free BNPL purchases, especially younger individuals and those residing in economically deprived areas (Guttman-Kenney et al., 2023). This behaviour raises concerns about potential debt spirals, as BNPL debt with short repayment periods is transformed into credit card debt with higher interest rates and longer repayment terms. (Guttman-Kenney et al., 2023)

FROM FRIENDS TO FINANCES: ANALYZING HIGH-RISK LOANS IN SOCIAL MEDIA

2.2.4 Microfinance

Next, let's discuss microfinance. It's an alternative credit source for people who are excluded from traditional credit sources (e.g. low income), but which was born out of altruism, hence this credit source is mainly found from developing countries (Kagan, 2024b). In its essence it is an alternative non-bank credit provider, and the idea is to keep the interest reasonable to allow the borrower(s) to start accumulating savings and income from their small business (Kagan, 2024b). Microfinance in today's terms started in 1970 and was introduced in Bangladesh by Muhammad Yunus, who gave small (27\$) loans to local female artisans, so they would be able to get out of debt confinement with their suppliers and start asking fair prices for their crafts (Kagan, 2024b; Alam & Getubig, n.d.).

Microfinance is different from payday loans in many ways. Microfinance institutions offer these small loans to individuals or groups (which also employs joint liability) in order to establish or expand their small business (Spotton Visano, 2008). The goal is to give these people the means to become financially stable and independent and for that, the interest rates are reasonable to enable the borrower to gain independence and not get trapped in the loan spiral (Spotton Visano, 2008). In addition, many microfinance institutions (mostly in developing countries) offer additional services, like savings accounts, micro-insurance, and financial education (Kagan, 2024b).

Microcredit, often touted as a panacea for poverty alleviation, faces significant criticism regarding its long-term impact on borrowers' economic and social well-being. Feigenberg et al. (2010) suggest that while group lending models can mitigate default rates by leveraging existing social capital and fostering new social connections among borrowers, they may not necessarily translate into sustained poverty reduction. Banerjee et al. (2015) highlight that while microcredit may lead some borrowers to expand their businesses, it does not substantially improve overall welfare or facilitate an escape from poverty. Despite early access to microfinance, households do not experience significant increases in monthly consumption, and there is little evidence of positive effects on education, health, or women's empowerment (Banerjee et al., 2015). These findings underscore the limitations of microcredit in achieving broader social and economic development goals, raising questions about its efficacy as a poverty alleviation tool.

FROM FRIENDS TO FINANCES: ANALYZING HIGH-RISK LOANS IN SOCIAL MEDIA

2.2.5 Loan sharks and usury

Payday loan lenders and informal lenders have also been referred to in some cases as loan sharks, due to the high interest they charge, the illegality of their operations and threatening tactics they sometimes use (Mendenhall, 2007; Aleem, 1990). Loan sharks and usury have become very interrelated terms. Usury, historically defined as charging interest exceeding the principal amount of a loan, has evolved to encompass interest rates above legal or socially acceptable limits (Visser & MacIntosh, 1998). Philosophers, religious figures, and economists throughout history, from Aristotle to Karl Marx, have criticized usury for its implications on social justice, work ethic and economic stability (Vella & Mintoff, 2023). Modern consumer protection measures aim to prevent exploitation by ensuring fair lending practices, including reasonable pricing and caps on the cost of credit (Finantsinspektsioon, 2023).

People who usually turn to loan sharks don't have access to formal lending, mainly due to their financial or behavioural problems in the past, in addition to low incomes (Lang et al., 2022). Usurious lending has been found to exacerbate familial stress, fuel relationship breakdowns, and push borrowers into desperate measures which often leads to a snowball effect of accumulating debts, as borrowers may turn to additional loans from other predatory lenders in a futile attempt to repay the original debt (Vella & Mintoff, 2023).

Loan-sharks have historically been related to criminal gangs that would use physical violence on individuals who defaulted (Kaplan & Matteis, 1968). Later however, loan shark became the name for lenders, who's loans were usurious, and they were not necessarily related to violence (Aldohni, 2013). Therefore, loan-sharks can be divided into two broad subcategories - violent and non-violent. The former uses violence to get back their lent money and has been known through decades to be often related to mafia and other shady businesses (Mayer, 2012) and have traditionally been noted to be active in casinos and take advantage of people with gambling issues (Soudijn & Zhang, 2013). Violence can be both physical and psychological, and threats and intense pressuring can also be considered as violence (WHO, 2002). Karaivanov and Kessler (2016) also describe how social 'collateral' such as reputation and network is the main tool for informal lenders, as opposed to physical collateral (e.g. a car or property) in case of formal lending, to pressure their clients. Based on this, the following research question is formulated:

How are the loan conditions and interaction like in Facebook loan groups?

2.3 Country background

Estonia is a small country (1,3 mil residence) in the East-Europe region, being a member of the EU since 2004. Until 1991, Estonia was part of the Soviet Union, which implemented socialist and communist regimes. Due to this the consumer credit market was non-existent, the only option for that was informal lending. The ‘normal’ western banking system could start developing around the fall of the USSR and independence of the country and therefore the development of the credit systems, products and the concurrent regulations and financial literature has had to be fast, taking place during the last 30 years.

During 2015-2021 period, the amount of consumer loans doubled, and the balance of the loans was in stable uphill motion as well (Espenberg et al., 2021). During 2022-2023 the balance and amount of loans saw a slight decrease (Finantsinspektsioon, 2024a). The majority of loans are taken by the households with higher incomes, but a significant growth has occurred also in the households with low incomes - their credit need has increased 45% during 2019-2021 (Espenberg et al., 2021). An important indicator is also the cost of the consumer loans, and that is one of the highest in Europe. As of February 2024, the Euro area average consumption loan interest was 7,92% and in Estonia it was 13,72%, nearly double (European Central Bank, 2024a).

Despite the high interests, there has been a notable increase in consumer borrowing, with higher proportions of loans allocated to housing compared to other purposes (KPMG, 2016; Eesti Pank, 2023a). Notably, the ratio of housing loan payments to income is particularly high among households with lower incomes, suggesting vulnerability to economic shocks (Eesti Pank, 2023a). Compared to 2010, the number of enforcement proceedings decreased by the end of 2020; however, after 2020, there has been an increase in the number of enforcement proceedings (Espenberg et al., 2021). Although the number of debtors has increased in recent years, the amounts of outstanding loans that are unpaid by the due date have decreased, and the payment difficulties are mainly encountered by consumers with loans from non-bank lenders (Espenberg et al., 2021).

In the first half of 2018, the amount of consumer credit balance grew 17,5% for banks and 19% for licensed credit providers, and the amount of consumer loans in the first half of 2018 was ca 250 000 from banks and 420 000 from other licensed credit providers (Finantsinspektsioon, 2018). The growth has been steady for banks, since in the first half of 2023, the amount of

FROM FRIENDS TO FINANCES: ANALYZING HIGH-RISK LOANS IN SOCIAL MEDIA

loans from banks was ca 295 000, number of loans taken in that period was 162 760, in contrast from licensed credit providers the amount of loans was ca 282 000 and number of loans taken during the first half of 2023 was 165 922 (Finantsinspektsioon, 2024a; Finantsinspektsioon, 2024b). The non-bank lending sector has seen a drastic fall in the amount of loans during the 5-year period, possibly some of the loans have moved under the radar, to the non-regulated lenders.

It has been noted that although there has been a significant increase in the demand for loans by the households, the amount of restricted or underbanked households has not increased (Eesti Pank, 2023a). This is caused by the high demand for credit when the restrictions from the lender's side are one of the least strict in the EU (Eesti Pank, 2023a). The potential outcome of these lenient restrictions from the lenders' side is demonstrated by the following example. In Estonia, one of the most popular informal lending types were instant loans, their popularity highpoint being in the 2006-2007 period (Sein & Volens, 2014). These are a type of loan that are very easy to get, many of which are available via SMS if the person had previously registered at the creditor's platform (Badõkova, 2015). Most often characterised by short term, high interest, and short period from applying for it and receiving the credit (Riigikogu kantselei õigus- ja analüüsiosakond, 2013). These creditors were unregulated and due to that they failed to check the borrowers' ability to service the loan, charged very high interests and caused many borrowers to default and get in the debt spiral (Majandus- ja kommunikatsiooni ministerium, 2014, cited in Badõkova, 2015). This outcome forced the national institutions to act and from 2016, the instant loan credit providers are under the control of Finantsinspektsioon (Financial Supervision Authority) and they must obey to interest restrictions and other responsible lending regulations (Justiitsministerium, 2014).

In conclusion, Estonia's financial landscape has evolved rapidly over the past three decades since gaining independence from the Soviet Union. The transition from a non-existent consumer credit market to a dynamic and growing sector has been marked by significant shifts in borrowing patterns, with housing loans becoming increasingly prevalent. Despite the growth in borrowing, enforcement proceedings have decreased, yet payment difficulties persist among borrowers from non-bank lenders. Lenient restrictions from lenders have contributed to the popularity of informal lending, exemplified by the widespread use of instant loans in the past, leading to financial vulnerabilities for many borrowers. Since the control over fringe lenders

FROM FRIENDS TO FINANCES: ANALYZING HIGH-RISK LOANS IN SOCIAL MEDIA

has been reinforced, it may have built a road for the non-regulated lending options to become more popular.

3 Methodology

Lending and borrowing in Facebook groups has not been thoroughly studied and since this credit market is informal due to the parties being individuals, there is no data being collected by national institutions. To determine the best approach, previous studies were investigated (see overview Table 1). For example, Aleem (1990) studied an informal market in a rural area - interviews with the market participants allowed to gain deep insight and knowledge best available via interviews. As well as Vella and Mintoff (2023) who studied the effect of usury on the borrowers - since usury is illegal, the best way to collect data about it, is from the individuals who have firsthand contact with it. Wider credit market studies (Espenberg et al., 2021 and KPMG, 2016) have also utilized interviews to gain first hand insight and future expectations from the market participants, that historical data doesn't provide. Based on these previous practices, the fact that there is no data currently available and there has also been no specific research done regarding the Facebook loan market, the author decided that interviews are a suitable method.

Table 1. Previous studies taken as an example when choosing a method for the current study, Compiled by author.

Article	Author(s)	Method
Imperfect Information, Screening, and the Costs of Informal Lending: A Study of a Rural Credit Market in Pakistan, 1990	Irfan Aleem	14 interviews with informal lenders + interviews with borrowers
Eesti tarbijakrediidituru olemus rahvusvahelises võrdluses / Estonian consumer credit essence in international comparison, 2016	KPMG Baltics OÜ	7 interviews with credit providers representatives
Usury: Causes and Impact on Wellbeing, 2023	Mary Grace Vella & Yana Mintoff	Expert interviews with 12 stakeholders
Microcredit as a public health initiative? Exploring mechanisms and pathways to health and wellbeing, 2021	Fatma Ibrahim, Neil McHugh, Olga Biosca, Rachel Baker, Tim Laxton, Cam Donaldson	Interviews with 14 microcredit borrowers
Krediidituru uuring / (Estonian) Credit market study, 2021	Siim Espenberg, Kristjan Pulk, Leonore Riitsalu, Sabina	16 interviews with borrowers + 17 interviews with credit

FROM FRIENDS TO FINANCES: ANALYZING HIGH-RISK LOANS IN SOCIAL MEDIA

	Trankmann, Karolyn Krillo, Villu Kõve	providers
--	--	-----------

This thesis aims to combine two sources of information - the experts and the borrowers. The experts in this case were debt counselors who have worked with people with Facebook loans and know why they borrowed from there and what were the consequences. This allows to get more general and extensive knowledge about the borrowers from only one source. The other group - borrowers - had firsthand knowledge on why they wanted to borrow from Facebook, what they used the money on and what were the conditions and consequences of these loans.

3.1 Expert interviews

To gain more general insights into the world of Facebook group borrowing, expert interviews with debt counselors were conducted. Debt counselors offer a nationally regulated and enabled service for people with financial problems. Thanks to the counselors' experiences, it was possible to gain more generalized insights into the background and reasoning of multiple borrowers per one counselor. Then after the interviews, the experts were also asked to validate the interview questions for the borrowers. Since they work with the borrowers daily, their knowledge on how to approach them and how to formulate certain questions so they would be clear and understandable, was very valuable.

In Estonia, debt counselors are certified professionals and many of them can be found from the debt counselors' union site. At the time of the research, 14 organisations were part of the union. An invitation to take part in the interview was sent to all of them. Four counselors answered, that they do not have any or enough experiences with people borrowing in Facebook groups. Six counselors gave positive answers, and the interview was arranged with five of them. Four counselors did not answer the invitation at all.

Table 2. Debt counselors who took part in the expert interviews.

The interviewee	Experience as debt counselor	Area of work	Duration of the interview
Debt counselor 1	13 years	Pärnu	66 minutes
Debt counselor 2	2 years	Over Estonia	66 minutes
Debt counselor 3	14 years	Over Estonia	43 minutes
Debt counselor 4	14 years	Viljandi county	36 minutes

FROM FRIENDS TO FINANCES: ANALYZING HIGH-RISK LOANS IN SOCIAL MEDIA

Debt counselor 5	10 years	South-Estonia	67 minutes
------------------	----------	---------------	------------

The interview plan was based on the research questions and research done by Vella and Mintoff (2023) who interviewed social workers. The interview plan can be found from [Appendix A](#).

An interview was arranged with five of the counselors. Since two of them operated in the same centre, they offered to conduct the interview together. In total four different interviews with five counselors were conducted. The interviews took place via video call in Microsoft Teams environment, which was the preferred method due to its versatility. All participants agreed to the recording of the interviews. The interviews lasted on average 53 minutes.

The interview plan had to give insights into the operating mechanisms of the Facebook loan market, as well as the general purposes why people have borrowed from there and what have been the conditions and consequences. The purpose was also to understand how the people who deal with the consequences of this market view the whole system. The interview was semi-structured to allow additional ideas and to change the order of questions for more natural conversation when necessary.

The interviews were then transcribed, firstly with a software (Olev & Alumäe, 2022) and then a manual check was made. There were in total 40 pages of transcripts from the expert interviews. The interviews were then analysed by applying codes for the counselors' quotes and it was done using Atlas.ti software, taking an inductive approach due to the novelty of this data and goal of comparing the new data with the existing one. All codes were then divided into broader themes and categories. Below can be seen one example of applying a code on a quote (translated from Estonian), and from there the theme and category. The complete coding table can be found in the [Appendix C](#), where the codes have also been assigned colour codes reflecting how many times they were mentioned.

Table 3. Example of a quote from a interview, being coded and then assigned to a theme and category. Compiled by author.

Quote	Code	Theme	Category
<i>“They had taken three loans, total of 450 euros. They have paid back 10050 euros and the debt is still about 200 euros.”</i> (Debt counselor 4)	High interest	Main issues with Facebook group loans.	Characteristics of the Facebook loans.

3.2 Interviews with borrowers

Based on the research questions, three larger categories were identified as areas of interest, which were about the reason for turning to Facebook for loans, the purpose of the loans and the conditions of the loans in addition to the overall interaction between the lenders and borrowers. A fourth category – do the borrowers see themselves lending from Facebook in the future, was added to also have a forward-looking indication, since during the expert interviews with the debt counselors, their future perspective was drawn out and adding this category allowed to compare the two perspectives. The categories and the aim behind them can be found from [Annex E](#).

The interview plan was based on the established categories (see Table 4) and previous studies that had utilised interviews with borrowers regarding their lending habits and debt problems. The interview questions from previous studies that the borrowers interview questions were based on can be found from [Annex E](#). The questions were additionally previously validated with the debt counselors in order to make them as easy to understand for the borrowers as possible and as informative for the study as possible. The complete interview plan can be found in the [Annex B](#).

Interviews with borrowers had to give additional, firsthand knowledge on what drives them to borrow from Facebook, what have been the conditions and consequences. The borrowers for the interviews were found from the Facebook loan groups. Some of the groups were public and some needed to be joined into. Then the posts that indicated a loan request and comments under loan advertisements were searched to find people with public accounts. Since Facebook has allowed anonymous posting and commenting in groups, many people use it. When a person with a visible account was identified, a message was sent to them. The message covered the purpose of the study and an invitation to take part in the interview and to ask further questions about it. For the borrowers, possibilities for both a written and verbal interview were offered. Before the interview was conducted, a thorough written information on the purpose of the study and the data collection and usage was also sent to the interviewee for their full, informed consent (see [Annex B](#)).

It was very hard to find people for the interviews so it was decided to also offer a survey, where the people could answer the same interview questions, but completely anonymously. Since debt is typically associated with a lot of shame (Lillqvist & Timonen, 2023), people could feel uncomfortable discussing their borrowing and debt details with a stranger. The survey option

FROM FRIENDS TO FINANCES: ANALYZING HIGH-RISK LOANS IN SOCIAL MEDIA

allowed the possibility of more borrowers being willing to participate in the study but eliminated the possibility to ask specifying questions if needed. Together with the survey, 12 answers were gathered.

In total 125 people were contacted, they were found from four biggest Facebook loan groups, biggest of which has ca 14000 members, second largest has ca 10000, third had ca 3600 and fourth ca 2700 members, as of May 2024. Of these 125 people, a total of only 19 people replied at all. Three people declined of the interview and three people initially agreed to the interview but then stopped answering. One person agreed to the interview only in person but due to security concerns the offer was declined. In addition, 4 of the people who agreed to the interview, informed after the interview was agreed upon, that they have not actually borrowed from the Facebook group. Since they had had the intent to borrow from the group, but they were denied the loan or they refused the loan, their input was still valued, because they could give the info on why they wanted to borrow, why they didn't get the loan and how the communication looked like.

Of the interviews, 5 were via the survey format, 3 were via phone calls and 4 were in the messenger application. The phone interviews lasted approximately 15 minutes and the written interviews via messenger took the longest, in total more than a few hours. The verbal interviews were then transcribed, firstly with a software (Olev & Alumäe, 2022) and then a manual check was made. They were manually coded, and the coding table can be found from [Annex D](#).

3.3 Ethics

University of Tartu good research practice in the field of social sciences advisor and the university's ethics decision tree were consulted before starting with the interviews. It was important to be transparent when inviting people to participate in the interviews. An informative text about the study - the purpose, methodology, handling of data - was put together (see [Annex B](#)) and sent to each of the interviewees and a positive answer was received before conducting the interviews. Since no sensitive personal data was collected, the approval of the ethics committee was not required.

4 Results

From the 4 expert interviews, a total of 65 codes were established. The codes were organized into 10 themes and subsequently into 4 categories. From the 12 borrower interviews, 31 codes were established. These codes were appointed to an appropriate theme established from the expert interviews and in the borrower's interviews, 6 themes were tied to the codes. Most mentioned codes will be described further. All quotes used in this thesis are translated from Estonian.

The first category was “Prerequisites for the prosperity of these groups and root problems regarding the lending” and the first theme was “Reasons for borrowing from Facebook”. In all four expert interviews, it was stated that the borrowers who borrow from Facebook groups have no other places to borrow from anymore. The interviewees emphasized that people go to Facebook if they can't get loans even from the abovementioned fringe lenders or family and the last option is informal loans. In the borrower's interviews 9 out of 12 (75%) persons interviewed stated that they had no other places to borrow from, 4 out of 12 (33%) specified that formal lenders would not give them loans due to previous or ongoing payment defaults. 11 out of 12 (92%) stated, that before asking the loan from Facebook, they had also asked from other sources, like banks, fringe lenders and family.

Another code from the expert interviews was that “loans from Facebook groups are too easily available” and it was mentioned in 3 out of 4 expert interviews. 4 out of 12 (33%) borrowers stated that it was easy to get a loan from Facebook groups and 5 (42%) borrowers stated that it is difficult. 2 (17%) borrowers stated that the reason they borrowed from Facebook was that it was easier than from formal places.

The second theme was “Borrowers' common denominators”. The purpose was to see whether the debt counselors have noticed a theme in their clients who have borrowed from Facebook. In 2 out of 4 (50%) interviews it was stated that borrowers from Facebook have low income.

The third theme was “Borrowers' reasoning / main issues for borrowers”. This theme had the most codes, 11 in total. Two codes “thoughtless borrowing” and “borrowers don't acknowledge/understand their actions” were mentioned in all 4 (100%) expert interviews. In the interviews, it was mentioned, how people who have ended up in the debt counselor's office

FROM FRIENDS TO FINANCES: ANALYZING HIGH-RISK LOANS IN SOCIAL MEDIA

have taken these loans just because they want something at that moment without thinking about how they will manage that loan later.

Codes that were mentioned in 3 out of 4 (75%) interviews were “Borrowers don't understand the loan's conditions” and “Borrowers don't read the agreement / they don't know the loan's conditions”. It was highlighted in the interviews that very often the borrowers don't even know the conditions of the loans when they receive them, either because they didn't read the agreement or because there was no agreement.

Another code that was used in 3 out of 4 (75%) expert interviews was that “Borrowers don't feel their responsibility”. It was mentioned in the expert interviews that the borrowers often believe that the consequences of defaulting on Facebook loans are milder or that there are no consequences. In reality, they are sued just the same and the money claimed, and bank accounts arrested.

Covering some problems about the borrowers managing their problems, the codes “Borrowers are not aware of the support systems” and “Borrowers are ashamed to admit their problems” were mentioned in 3 out of 4 (75%) expert interviews. These codes together emphasize and build a picture of a bigger problem. The counselors mentioned that many people don't know about debt counseling at all or don't know what this service is about.

In the borrower's interviews, 8 out of 12 (67%) said, that they would refuse a loan if its costs were too high. Also, 7 (58%) said that not getting the loan would have no impact for them and 4 (33%) said, that the loans are not important for them.

The fourth theme was “Lenders' motivation” and only two codes were identified. “Lenders are looking for a get-rich-quick scheme” and “Loan agreements are high quality (well-educated lenders)”. Both codes were mentioned in 2 out of 4 (50%) of the expert interviews.

The second category was “Characteristics of the Facebook loans”. **The first theme was “Loans purpose”.** There, two main codes stood out - “The borrowed money is just wasted” and “Loans are for surviving the month”. 2 (50%) of the counselors said that very often the borrowed money is used to buy non-essential things or spent in clubs. Another reason for these loans was also surviving the present moment, as stated in 2 (50%) interviews. 4 out of 12 (33%) borrowers said in the interviewees that the loans were for everyday expenses when they had run out of money. 3 out of 12 (25%) said that the Facebook loans were for emergencies, so in

FROM FRIENDS TO FINANCES: ANALYZING HIGH-RISK LOANS IN SOCIAL MEDIA

total 7 (58%) persons used the money to make ends meet. Another 3 (25%) said that the loan was needed for consumption, e.g. buying something.

It is interesting that 2 of those who said that the loans were for surviving the month also said that not getting the loan would not have any impact on them.

One borrower said that he used the loan for purchasing a car and the loan from Facebook was cheaper than a formal car loan from a fringe lender. The same lender had also used Facebook for a regular consumer loan. Another interviewee said that she was looking for a way to refinance her other loans. One interviewee wanted the loan because it was time-critical to buy a crypto miner that he had found for a good price.

The second theme was “Main issues with Facebook group loans”. The code “Irresponsible lending” was used in all 4 interviews. This code was identified on 16 different occasions and was the most highlighted topic in the interviews. All the debt counselors brought out that they see responsible lending violations in Facebook group loans. Indebted people are granted additional loans that they can’t reasonably pay back which traps them in the debt circle. The responsibility should also lay with the lenders, not only the borrowers.

The code “High interests” was also mentioned in all the expert interviews, in total 13 times. All the counselors brought up that the interest rates charged in the Facebook groups were very high. The examples of interest rates mentioned in both the expert and borrower interviews were analysed, and the interest rates ranged from 6% (the car loan mentioned above) up to 4000%. The average percentage was 1105% (n=11) and the mean was 625%. When the highest (4000%) and the lowest (6%) values were excluded, the average was 520% (ranging from 100% up to 1250%, n=8). The period ranged from 20 days up to 5 years (the car loan). The median was 60 days, and if 5 years was excluded, the median was 30 days. Some examples include a 500-euro loan for 20 days for which 1500 euros was to be returned or a 1000-euro loan for which 3000 was to be returned in 30 days.

It is further illustrated by the code “Easy to get into the loan spiral” which was mentioned in 2 out of 4 (50%) interviews. Since the interest is unmanageable for the borrower, they are forced to take on new loans, either to finance other loans or from the same lender, who agrees to give them additional loans and the sum that the lender expects back accumulates very fast.

The code “The agreements between grown people are very difficult to regulate and control” was mentioned in 3 out of 4 (75%) interviews regarding the main problems of this credit

FROM FRIENDS TO FINANCES: ANALYZING HIGH-RISK LOANS IN SOCIAL MEDIA

market. In addition, “No control over Facebook loan groups” was used in 2 out of 4 (50%) of the expert interviews. It was noted that since these are private persons not regulated credit providers, only the Law of Obligations Act applies to those agreements.

The third category was “Interaction between borrowers and lenders” and the first theme was “Communication between lenders and borrowers”. Both the code “polite communication” and “uncivil communication” were used only in 1 out of 4 (25%) interviews, although in separate ones. The borrowers were also asked to describe the communication with the lenders. 3 out of 12 (25%) interviewees said that the communication had been unpleasant in some way. 7 out of 12 (58%) interviewees said that the communication has been normal or polite.

The second theme in this category was “Threats and consequences”. The code “Threats” was mentioned in 3 out of 4 (75%) interviews. The counselors said that their clients have mentioned threats, some based on pressure but also physical threats. In 2 out of 4 (50%) interviews “Public shaming and heralding in dedicated Facebook groups” and “The borrower is sued for the debts” were mentioned. 8 out of 12 (67%) borrowers said that they have experienced no threats from the Facebook lenders, at the same time only 2 (17%) of the borrowers said that they had had payment problems, but had managed to ask for an extension, others reported no payment problems. 6 (50%) borrowers clearly stated that they had had no payment problems. When asked about potential outcomes of default, one borrower also mentioned the heralding/shaming group and that no further loans would be granted from the groups.

The last category was “Future restrictions and possibilities” and the first theme there was “Future outlook and past reasons”. The code “The problem is getting worse” was mentioned by all the counselors. All the counselors were experiencing an increase in clients having debts from Facebook groups. In 3 out of 4 (75%) interviews it was also mentioned that the covid pandemic had an important impact on people that led them into a debt spiral. Many people started with credit cards, moved onto fringe loans and ended up in Facebook groups.

When borrowers were asked about their future outlooks regarding lending from Facebook groups, 3 out of 11 (not 12, because one interviewee was not asked that question) (27%) said that they see themselves lending there again. One of them was the borrower who had chosen the car loan and showed a very calculated approach toward the Facebook loan market. 8 out of 11 (73%) stated that they do not see themselves borrowing from Facebook groups again.

FROM FRIENDS TO FINANCES: ANALYZING HIGH-RISK LOANS IN SOCIAL MEDIA

The second theme was “Possible measures”, where the code “Responsible lending” was mentioned by all the counselors (100%). It was said that there are a lot of responsible lending violations currently in these groups and that implementing these rules would help prevent usurious costs and unnecessary defaults. Since background checks of the borrowers and evaluating their credit scores, the borrowers were asked what information the lenders ask from them. 11 out of 12 (92%) borrowers said, that the borrowers asked for their 6 months bank statement, copy of the document and in many cases also proof of employment.

The codes “Legislative control/regulation” and “Legislative measures exist to which the lenders should obey” were mentioned in 2 out of 4 (50%) expert interviews, meaning that the lenders do break laws, but the borrowers are not aware, and the national institutions don’t oversee the Facebook market.

5 Discussion

Why do people lend from Facebook groups?

This question was covered in the interviews with the following questions’ category: „Why is the Facebook group loan market used?“ (for borrowers), „Why do you think these groups are popular?“, „What do you think are the reasons why people go to Facebook groups to look for a loan?“ (for experts).

Under the theme „Reasons for borrowing from Facebook“, it was stated by all the debt counselors and in 75% of the borrower interviews that they had no other place left to turn to. Due to their previous or ongoing defaults, formal creditors (instant loans and P2P providers included) would not lend to them. One borrower also mentioned that they had had a casino addiction and because of that even Facebook lenders had refused to lend him. This goes in hand with the results of Agarwal and Bos (2014) who found that most alternative finance users were not eligible for mainstream bank loans and Lang et al. (2022) found that borrowers in the illegal loan market were not eligible for formal loans. 92% of the borrowers stated that the Facebook loan was not their first, but they had previously lent from other sources. Nuñez et al. (2016) found that before turning to payday loans, borrowers had exhausted other sources of credit, like family and credit cards.

Another reason that was drawn out from the interviews was that people choose Facebook loans over formal loans due to their quickness and simplicity, even if they could borrow from

FROM FRIENDS TO FINANCES: ANALYZING HIGH-RISK LOANS IN SOCIAL MEDIA

alternative, potentially cheaper sources. In 75% of the expert interviews, the counselors mentioned that getting a loan from Facebook is (too) easy, which leads people to take the loans, even if they could manage without them. Third of the borrowers said that it was easy to get the Facebook loan, and the ease and time saving was the reason for taking the Facebook loan. It was also found by Logan and Weller (2009) that a third of the payday borrowers in the US took the loans out of convenience. Di Maggio et al. (2022) described very similar risks like excessive spending due to seemingly simple terms and low costs regarding BNPL credit, which in the long term would cause serious issues for the borrowers due to hidden costs or costs and terms that the borrower didn't read or understand. On the other hand, almost half of the borrowers found it difficult to get a loan from Facebook lenders, which suggests that either the expectations of the borrowers were different, or the lenders treated the borrowers differently based on their social media accounts for example or that the lenders whom the borrowers have been in contact with have very different standards.

Debt counselor 5: „They go to Facebook as the last option, so when they can't get the loan from any other place, don't get it from a bank, not from quick loan companies, from relatives, and then and only then they go to Facebook. And another reason is when the money is needed right now, today or tomorrow.“

The Facebook loan market seems to be quite universal when it comes to the purpose of the loans. For individuals with some payment defaults in the past, it functions as a reliable backup when their financial situation needs a lifeline. On the other hand, when the defaults are ongoing or the individual has some addiction problems, then even the Facebook lenders refuse to lend them money. Additionally, some people use the Facebook loan groups for consumer loans, to get their preferred amount with less fuss compared to banks for example. The time savings versus higher costs could in some cases be financially wise, for example in the case of one interviewee who wanted to buy a crypto miner as an investment. In conclusion, most people use Facebook loan groups as a last resort, when they can't get credit from other places, yet some borrowers also prefer the Facebook groups due to their simplicity.

What are the purposes of Facebook loans?

This question was covered in the interviews with the following questions: „What have you used the money borrowed from the FB group for? Is it different from your loans from other sources?“ (for borrowers), „During your career as a debt counselor, have you noticed changes in the way

FROM FRIENDS TO FINANCES: ANALYZING HIGH-RISK LOANS IN SOCIAL MEDIA

people borrow, including loan sources, amounts, reasons? Which changes?“, „What do you think are the reasons why people go to Facebook groups to look for a loan?“ (for experts).

From both the expert and borrower interviews, two main purposes for taking Facebook loans were drawn out and they were covered in the theme „Loans purpose“. Firstly, it stood out that the loans are taken to make ends meet. That was what the majority of borrowers (58%) brought out. That is in line with what is said to be the main purpose of payday loans. People take them before the next payday if they have run short on their income and need money for everyday items, like food or transport (Nuñez et al., 2016).

Debt counselor 1: „These loans are popular for the reason that when all other sources have dried out ... if we look, we see that some loans are 20 to 50 euros, right ... then ... we talk about people, who for some reason don't get the money from other places and who take those loans, to survive the next week.“

Another reason brought up was just consumption – it was represented lightly in the borrower interviews (25%), but debt counselors had seen that in many cases, it was mentioned in 50% of the expert interviews. People take Facebook loans for regular, unnecessary consumption, ‘wasting’ the borrowed money. Logan and Weller (2009) determined that in a third of the cases in the US, payday loans were used for convenience, not for emergencies.

When looking at the purpose of the loans, then the Facebook loan market offers credit to make ends meet until their next payday and in fewer cases it seems to function as a regular consumer loan for people to fund their purchases that are not strictly necessary.

What are the loan conditions and interactions like in Facebook loan groups?

This question was covered in the interviews with the following questions' category: „What are the conditions of the FB loans and how the borrowers perceive the loans?“ (for borrowers), „How would you describe the lending in the Facebook groups?“, „Do you think borrowers there understand the cost of their loans and is that important to them?“ (for experts).

Under the theme „Main issues with Facebook group loans“, high interest was brought up. From the examples that the debt counselors knew and what the borrowers talked about, the average interest rate was 520% and the median period was 30 days. These terms are similar to both payday loans (Skiba, 2014) and informal loans, which have both also been reported to be usurious due to the cost (Mendenhall, 2007; Lang et al., 2022). The counselors knew of the more extreme examples, e.g. a loan of 500 euros, for 20 days and the amount to be paid back

FROM FRIENDS TO FINANCES: ANALYZING HIGH-RISK LOANS IN SOCIAL MEDIA

was 1500 euros. This is hard to comprehend from the borrower's perspective and hard to justify from the lender's perspective.

Interviewee 8: „750 is requested back for a loan of 180 euros. How ethical is it to take such a large sum from a person in need? A person borrows through FB in the last resort. // private lenders are butchers.“

Under the theme „Possible measures“, responsible lending principles were mentioned. Regarding the background checks, 92% of the borrowers said that they had been asked for their bank statements, copies of ID-s, in many cases also proof of employment. This suggests that most of the lenders in the Facebook groups try to mitigate their risk by evaluating the potential borrowers against default and don't just automatically appoint extreme costs to all of the borrowers. Under the theme „Lenders' motivation“ in half of the expert interviews it was also mentioned that a lot of the lenders are looking for a high-profit investment opportunity, which could explain the high costs that some desperate borrowers are willing to pay. Although most of the lenders seem to do credit evaluation of the potential borrower, it certainly is not the case for all:

Debt counselor 3: “A person had no income, completely lived off of state aid, from that they paid the apartment rent and then they had a little bit of food money left. But they had no other income, so they thought 'no problem', they could live like that for a few months. That they'll take this extra loan. But then they discovered that the loans are easy to get, and they managed to borrow 4300 euros in half a year.”

Under the theme „Interaction between borrowers and lenders“ and „Threats and consequences“ 58% of the borrowers had had positive or neutral experiences with communicating with the lenders. 2/3 of the borrowers also stated to have experienced no threats, but only 2 of the borrowers stated that they had had any problem with paying back the loan. With this sample of interviewees, it doesn't give a clear picture of how the lenders operate in the case of defaults. From the debt counselors' experiences, the consequences of default can be for example very severe threats:

Debt counselor 3: „And finally she made a statement to the police because there were threats, there were threats to come to her door. To stand at the gate of the kindergarten when she goes to pick up the child.“

The threats of posting the defaulted borrowers publicly to heralding groups on Facebook were mentioned by all debt counselors and by one borrower. This is the most common and very

FROM FRIENDS TO FINANCES: ANALYZING HIGH-RISK LOANS IN SOCIAL MEDIA

effective threat because reputation and shame are very important factors for people, that can make them act in a way that is not best for them (Lillqvist & Timonen, 2023; Karaivanov & Kessler, 2016), e.g. take on additional loans rather than seek legal or social help.

In conclusion, the loan conditions tend to be harsh, since the interest rates are mostly 3 digits, and the period is short. The interaction between the lenders and borrowers differs a lot, but there certainly are lenders who use threats towards their borrowers who come across payment difficulties.

What is the attitude of lenders and counselors regarding Facebook loans?

This question was covered in the interviews with the following questions' category: „What are the conditions of the FB loans and how the borrowers perceive the loans?“ and „Future views from the FB loan group from the borrower's point of view.“ (for borrowers), „What is your opinion about Facebook lending groups“, „Do you see any threats in these groups? Which threats?“, „What do you think are the biggest problems with these Facebook groups?“ and „Do you think these groups should be limited and regulated, do you think it's possible?“ (for experts).

Under the theme „Main issues with Facebook group loans“ the debt counselors saw a big issue with the high costs of the loans. In half of the expert interviews, it was brought out how the cost is so high the borrowers can't pay back, which leads them to take on the next loan to pay back the last and that leads the borrowers in a debt spiral which in the best case scenario ends in debt counselor's office and the borrower gets some legal relief, in addition, to help in managing their finances in the future.

Debt counselor 1: „There are also many follow-on loans like I will take from you fifty, I have to pay back a hundred and fifty, and in fact I can't. Well, you give me another fifty. Next week or the week after that I'll pay you back three hundred, it goes by very quickly, there are quite a lot of such continuation loans, so the possibility of getting into a debt spiral or debt slavery is actually very high.“

Under the theme “Borrowers' reasoning / main issues for borrowers”, 75% of the counselors stated, that many times the reason why borrowers get in trouble or take the expensive loans in the first place, is that they don't understand the conditions or don't read them. So, the large sums demanded from them by the lender or by the court, come as a surprise. This is similar to the findings of Di Maggio et al. (2022) about BNPL platforms, where hidden costs or not

FROM FRIENDS TO FINANCES: ANALYZING HIGH-RISK LOANS IN SOCIAL MEDIA

understanding the terms pose a problem. Yet, 67% of the borrowers stated, that they base their loan decisions on the cost of the loan and compare different offers, refusing offers that are too high cost for them. 58% also stated, that if they couldn't get the loan, it would not have an impact on them. This is challenged by the findings of Espenberg et al. (2021) who found that although people report comparing and evaluating different loan offers, they still tend to default to their well-known credit sources.

Under the theme „Future outlook and past reasons“ all of the counselors expressed their concern that more and more people are finding their way to counseling because they have become indebted from Facebook group loans. In contrast, 73% of the borrowers said that they do not want to lend from Facebook again. This indicates that the borrowers have used the platform as a last resort and the experience has been negative, mainly due to the high cost and the possible consequence of being publicly shamed on Facebook.

From both the debt counselors as well as the borrower interviews, it seems that the borrowers tend to have a rather light approach to the Facebook loan market. Many borrowers ask for loans if they have financial difficulties, but also state that if they didn't get the loan, they would still be fine. This indicates that the borrowers could manage without the loans, but the loans probably make their life easier, saving them from additional cuts in their budget, selling something or finding additional income. The counselors are negatively minded towards the Facebook group loan market, because they see the consequences of these expensive loans from the borrowers who end up in counseling. They sense that the number of borrowers with Facebook loan problems who seek their help is constantly growing.

In conclusion, the borrowers indicate that the Facebook loans are not very important to them, and they would manage fine without them, also stating that they don't see themselves lending from there again. Debt counselors are very critical of the platform and the lenders, and they experience that more and more people get into trouble from these Facebook loans.

For the overview of the Facebook loan market positioning within alternative loan markets, see Figure 2.

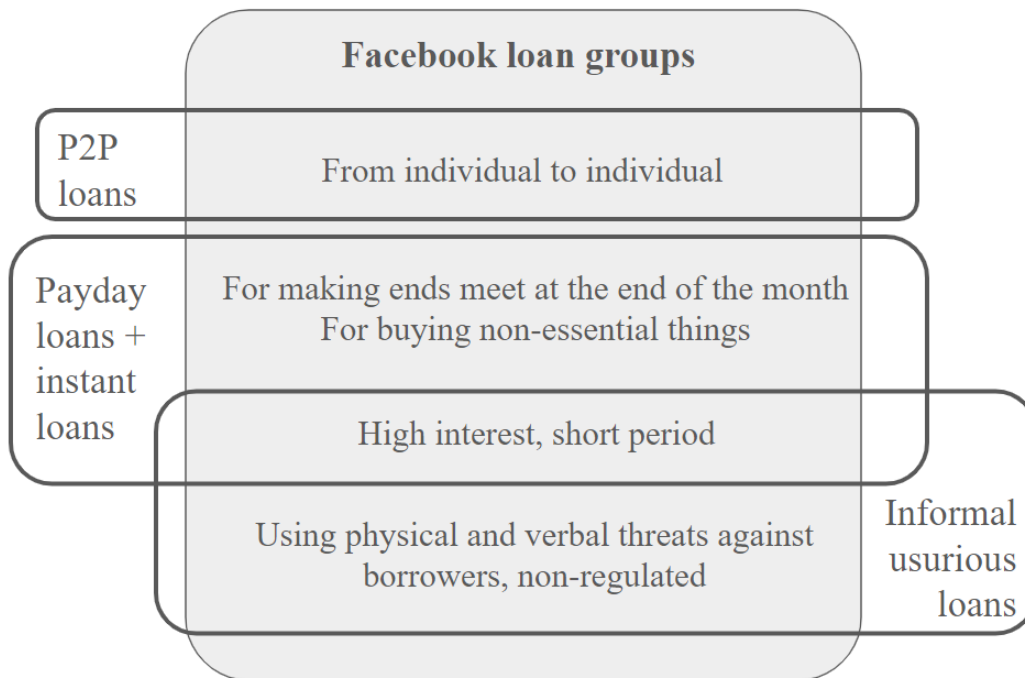


Figure 2. Facebook loan groups in the contexts of other alternative lending options. Composed by the author, using Kaplan & Matteis, 1968; Mendenhall, 2007; Kagan, 2024a; Allcott et al., 2022; Logan & Weller, 2009; Riigikogu kantselei õigus- ja analüüsiosakond, 2013.

6 Conclusion

The findings of this master's thesis give an overview of the main characteristics of the Facebook loan market. The information was gathered from interviews with debt counselors and borrowers and the findings from the interviews were compared with other alternative lending possibilities, like fringe lending and informal lending. This study found that Facebook loans have similar characteristics as many of the alternative credit sources, like payday loans and predatory informal loans.

This study found that in most cases, the borrowers go to the Facebook market as their last option. Most of the borrowers are not (anymore) eligible for formal loans, be it bank loans or even instant loans. Learning about the costs of many of these loans indicates that some of the lenders operate as predatory lenders and charge the borrowers excessive interest, the biggest example being 4000%. Debt counselors also knew numerous cases of serious threats towards the borrowers who were facing trouble paying back the loan, which indicates the existence of loan sharks in these groups. The most common punishment in the case of defaults in Facebook groups is public shaming groups, which force the borrower to get further loans to avoid being posted there. Still, there was evidence, that most of the lenders apply some responsible lending

FROM FRIENDS TO FINANCES: ANALYZING HIGH-RISK LOANS IN SOCIAL MEDIA

principles, like credit evaluation, before giving out a loan. For many borrowers, the choice to lend from Facebook was a calculated decision, based on ease of access, costs and quickness.

The main restriction concerning this thesis is the sample size of the interviews. The number of borrowers does not give the ability to make definite statements about the Facebook loan market or the borrowers. Moreover, the fact that some of the borrowers interviewed turned out to not have received any loans from Facebook, additionally lessens the sample size of the actual borrowers. Many of the borrowers were also rather tongue-tied, probably due to shame regarding debt or lack of trust, which made the gathering of useful information difficult.

Further studies could try to reach a wider array and sample size of the borrowers, as well as lenders, to make more fundamental statements about the loan market and lenders. The current thesis gives the first insight into the Facebook loan market characteristics, highlighting certain issues in it and possibly laying the basis for further discussion and research regarding Facebook lending. The results can also be a basis for national institutions to evaluate and analyse the potential risks the continuous lack of oversight in the Facebook loan groups can have.

7 Thanks

I want to thank the debt counselors who found the time from their important work to participate in the interviews. Their input was invaluable in the writing of this thesis. They also helped in perfecting the borrower interview plan to make it as efficient as possible.

Another huge 'thank you' goes out to the open-minded, helpful borrowers who agreed to share their experience for this thesis. Without their help, the thesis could not be constructed as it is today.

And lastly, I want to thank my supervisor Kristjan Pulk, firstly for the interesting idea and theme for the thesis, and secondly for being very supportive and always ready to discuss and give valuable feedback.

8 Annexes

8.1 Annex A. Expert interview plan

Expert interview plan

1. Permission to record
2. Introduction and warm-up
3. Interview:
 1. During your career as a debt counselor, have you noticed changes in the way people borrow, including loan sources, amounts, reasons? Which changes?
 2. What is your opinion about Facebook lending groups?
 3. How would you describe the lending in the Facebook groups?
 4. How would you characterize the loan seekers in these groups in general?
 5. Why do you think these groups are popular?
 6. What do you think are the reasons why people go to Facebook groups to look for a loan?
 7. Do you see any threats in these groups? Which threats?
 8. What do you think are the biggest problems with these facebook groups?
 9. Do you think these groups should be limited and regulated, do you think it's possible?
 10. Do you think borrowers there understand the cost of their loans and is that important to them?
 11. What support could the borrowers benefit from?
4. If the interviewee has time, validate the borrower's interview plan with them.

8.2 Annex B. Informed consent text and borrowers interview plan

Information for full consent:

The purpose of the research is to investigate why people turn to lenders operating in private loan groups on Facebook for a loan, which are the main advantages of private loans on Facebook, and what are the consequences for the borrower of taking such loans.

As part of the research, interviews are conducted with borrowers in the Facebook private loan group in the format preferred by the interviewee, either in writing via a communication application or email, or orally through a call. In the case of a written interview, a separate environment is allocated for the analysis of the interview content without the interviewee's name or other characteristics.

The oral interview is written directly in the interview notes without the person's name and other characteristics. If the interviewee agrees to record the interview, the interview recording will be transcribed without the interviewee's name and other characteristics, and the recording will be stored on the University of Tartu server for 3 years, after which it will be destroyed.

Since the data is stored and treated anonymously, the interviewee cannot later ask to have their interview removed. During the interview, the interviewee can at any moment ask to end the interview and not use it. The content and data of the interview are used only for research purposes.

FROM FRIENDS TO FINANCES: ANALYZING HIGH-RISK LOANS IN SOCIAL MEDIA

The interview plan:

Why is the Facebook group loan market used?	Before turning to the FB group, have you asked for a loan elsewhere, e.g. from official lenders or family or friends?
	For what reason did you decide to ask for a loan from the FB loan group?
	Based on what conditions do you decide in favour of one or another loan?
	How many times have you asked for a loan from the FB loan group? / How long have you been asking for a loan in the group?
	How easy do you think it is to get a loan from the FB group?
For what purpose is money borrowed from FB loan groups?	What have you used the money borrowed from the FB group for? Is it different from your loans from other sources?
What are the conditions of the FB loans and how the borrowers perceive the loans?	How important are loans from FB groups for you?
	How would not getting a loan from the FB group affect you?
	Could you give examples of some loan sizes and how much you had to pay back and how soon?
	What information do lenders generally require from you?
	Would you also decline the loan offer if the amount requested back would be too high? What would that amount be?
	How would you describe the interaction with lenders in FB loan groups?
	In what ways have you felt unpleasant pressure or threats from lenders in FB groups?
	Have you been late or in default with the loan? If so, what were the consequences? If not, what do you think could be the consequences?
Future views from the FB loan group from the borrower's point of view.	Would you see yourself borrowing from the FB group in the future? Why?

8.3 Annex C. Coding of the Expert interviews

	1-2	
	3-5	
	6-10	
	10+	
Prerequisites for the prosperity of these groups and root problems regarding the lending	Reasons for borrowing from Facebook	No other places to borrow from anymore
		Loans are too easily available
		Loans from Facebook are easier to hide from family
		Loans are urgent
	Borrowers common denominators	Borrowers have a low income
		Borrowers have low level of education
		Borrowers are of all age groups
		Borrowers are often young
		Borrowers are often unemployed
		Addiction problems
	Borrowers' reasoning / main issues for borrowers	Facebook loans are indicator of extreme financial problems
		Thoughtless borrowing
		Borrowers don't aknowledge/understand their actions
		Borrowers don't understand the loan's conditions
		Borrowers don't feel their responcebility
		Excessive consumption increases borrowing
		Borrowers are not aware of the support systems
		Borrowers believe, that there are no cosequences
		Information is often too difficult for borrowers to understand
		Borrowers are ashamed to admit their problems
		Deleting of conversation history
		Taking on new loans out of fear
		Getting into debt spiral is passed down through generations
Borrowers don't read the agreement / they don't know the loan's conditions		
Borrowers are too desperate to care for the interest		
Borrowers don't plan on paying the debts		
Borrowers are afraid to tell their family		
Lenders motivation	Lenders are looking for a get rich quick scheme	
	Loan agreements are high quality (well educated lenders)	

FROM FRIENDS TO FINANCES: ANALYZING HIGH-RISK LOANS IN SOCIAL MEDIA

Characteristics of the Facebook loans	Loans purpose	The borrowed money is just wasted
		Loans are for surviving the month
		Borrowers are in debt spiral and borrow to pay previous loans
	Main issues with Facebook group loans	Irresponsible lending
		High interests
		The agreements between grown people are very difficult to regulate and control
		No control over Facebook loan groups
		Easy to get into the loan spiral
		Lender is not drustworthy
		Borrowing from Facebook groups is prone to become a habit
		No loan agreements
		For regular loans often no agreement is made
		Parties can stay quite anonymous
Borrowed amounts grow very fast		
Interaction between borrowers and lenders	Communication between lenders and borrowers	Polite communication
		Uncivil communication
	Threats and consequences	Threats
		Public shaming and heralding in dedicated Facebook groups
		The borrower is sued for the debts
		Physical threats
		Verbal abuse
		Going to police
		Borrowers are afraid of the lenders
		Future restrictions and possibilities
Covid increased debt problems		
The beginning of Facebook loans popularity		
(Internet)casinos is a growing problem		
Possible measures	Responsible lending	
	Legislative measures exist to which the lenders should obey to	
	Tax office should look into the Facebook lenders	
	Propagating of financial education	
	Legislative control/regulation	
	Regulated creditors should be even more strict with their loans	
Finantsinspeksiioon should have control over the Facebook lenders		
Free debt counseling is not offered by all local jurisdictions - it should be		
A hot line should exist for primary support and information for people in debt		

FROM FRIENDS TO FINANCES: ANALYZING HIGH-RISK LOANS IN SOCIAL MEDIA

			Interview 1	Interview 2	Interview 3	Interview 4
Prerequisites for the prosperity of these groups and root problems regarding the lending	Reasons for borrowing from Facebook	No other places to borrow from anymore	2	1	7	2
		Loans are too easily available	4	1	3	0
		Loans from Facebook are easier to hide from family	1	0	0	0
		Loans are urgent	0	0	0	1
	Borrowers common denominators	Borrowers have a low income	1	1	0	0
		Borrowers have low level of education	0	0	0	2
		Borrowers are of all age groups	1	0	0	0
		Borrowers are often young	0	1	0	0
		Borrowers are often unemployed	0	1	0	0
		Addiction problems	0	0	1	0
		Facebook loans are indicator of extreme financial problems	0	0	1	0
	Borrowers' reasoning / main issues for borrowers	Thoughtless borrowing	5	1	6	1
		Borrowers don't acknowledge/understand their actions	2	3	3	1
		Borrowers don't understand the loan's conditions	2	3	1	0
		Borrowers don't feel their responsibility	1	3	2	0
		Excessive consumption increases borrowing	0	0	6	0
		Borrowers are not aware of the support systems	1	0	2	2
		Borrowers believe that there are no consequences	0	2	2	0
		Information is often too difficult for borrowers to understand	1	2	0	0

FROM FRIENDS TO FINANCES: ANALYZING HIGH-RISK LOANS IN SOCIAL MEDIA

		Borrowers are ashamed to admit their problems	0	1	1	1	
		Deleting of conversation history	3	0	0	0	
		Taking on new loans out of fear	0	0	1	2	
		Getting into debt spiral is passed down through generations	2	0	0	0	
		Borrowers don't read the agreement = Borrowers don't know the loan's conditions	1	1	1	0	
		Borrowers are too desperate to care for the interest	0	0	0	2	
		Borrowers don't plan on paying the debts	0	0	1	0	
		Borrowers are afraid to tell their family	0	0	0	1	
		Lenders motivation	Lenders are looking for a get rich quick scheme	0	0	3	1
			Loan agreements are high quality (well educated lenders)	2	1	0	0
Characteristics of the Facebook loans	Loans purpose	The borrowed money is just wasted	1	0	1	0	
		Loans are for surviving the month	0	1	1	0	
		Borrowers are in debt spiral and borrow to pay previous loans	0	1	0	0	
	Main issues with Facebook group loans	Irresponsible lending	7	1	6	2	
		High interests	6	2	2	3	
		The agreements between grown people are very difficult to regulate and control	2	2	2	0	
		No control over Facebook loan groups	0	3	2	0	
		Easy to get into the loan spiral	0	0	2	1	
		Lender is not trustworthy	1	0	0	0	
		Borrowing from Facebook groups is	0	1	0	0	

FROM FRIENDS TO FINANCES: ANALYZING HIGH-RISK LOANS IN SOCIAL MEDIA

		prone to become a habit				
		No loan agreements	1	0	0	0
		For regular loans often no agreement is made	0	1	0	0
		Parties can stay quite anonymous	0	0	1	0
		Borrowed amounts grow very fast	0	0	0	1
Interaction between borrowers and lenders	Communication between lenders and borrowers	Polite communication	1	0	0	0
		Uncivil communication	0	0	1	0
	Threats and consequences	Threats	3	1	2	0
		Public shaming and heralding in dedicated Facebook groups	0	0	4	1
		The borrower is sued for the debts	1	2	1	0
		Physical threats	1	0	0	0
		Verbal abuse	1	0	0	0
		Going to police	1	0	0	0
		Borrowers are afraid of the lenders	1	0	0	1
Future restrictions and possibilities	Future outlook and past reasons	The problem is getting worse	4	1	1	2
		Covid increased debt problems	1	1	0	1
		The beginning of Facebook loans popularity	1	0	0	0
		(Internet)casinos is a growing problem	1	0	0	0
	Possible measures	Responsible lending	1	1	1	1
		Legislative measures exist to which the lenders should obey to	0	0	2	1
		Tax office should look into the Facebook lenders	0	2	1	0
		Propagating of financial education	0	0	3	0
		Legislative control/regulation	1	0	0	1

FROM FRIENDS TO FINANCES: ANALYZING HIGH-RISK LOANS IN SOCIAL MEDIA

		Regulated creditors should be even more strict with their loans	0	0	2	0
		Finantsinspeksioon should have control over the Facebook lenders	0	0	1	0
		Free debt counselling is not offered by all local jurisdictions - it should be	0	0	0	1
		A hot line should exist for primary support and information for people in debt	0	0	0	1

8.4 Annex D. Coding of the borrower interviews

		Inter view 1	Inter view 2	Inter view 3	Inter view 4	Inter view 5	Inter view 6	Inter view 7	Inter view 8	Inter view 9	Inter view 10	Inter view 11	Inter view 12
Reasons for borrowing from Facebook	FB loan is not the borrower's first.	X	X	X	X	X	X	X	X		X	X	X
	FB loan was easier to get.			X							X		
	Previous payment defaults stop borrower from lending elsewhere.				X		X				X		X
	No other place to get the loan from anymore.	X	X		X	X	X	X	X			X	X
	Borrower had maxed out their loan limit.											X	
	The borrower had financial hardship.						X		X				X
	The loan was time critical.					X				X			
	Borrower is unemployed - other places don't grant them loans.								X				
Borrowers' reasoning	The loan is chosen based on the cost.		X	X		X	X	X	X		X		
	More than one loan.	X	X			X	X	X			X		

FROM FRIENDS TO FINANCES: ANALYZING HIGH-RISK LOANS IN SOCIAL MEDIA

	The loans are difficult to get.	X			X		X		X		X	
	The loans are easy to get.					X		X		X		X
Loans purpose	Loans are for everyday necessary expenses.	X				X	X		X			
	Loans are for consuming.						X		X	X		
	The loans are for emergencies.		X					X			X	
Borrowers' reasoning / main issues for borrowers	FB loans are not important.	X	X	X					X			
	FB loans are important.					X		X		X	X	
	Not getting the loan had a positive financial impact long term.											X
	Not getting the FB loan would have some impact on the borrower.					X		X		X	X	
	Not getting the FB loan would have no impact.	X	X	X	X		X		X	X		

FROM FRIENDS TO FINANCES: ANALYZING HIGH-RISK LOANS IN SOCIAL MEDIA

	Casino addiction in the past prevented from getting any loans.											X	
	The lenders request the bank statement (6 months) + document, proof of employment.	X	X	X	X	X	X	X		X	X	X	X
	The borrower would refuse a loan if it was too expensive.		X		X	X	X	X	X	X	X		
Communication between lenders and borrowers & Threats and consequences	The borrower had a negative experience when communicating with the lender(s).		X				X						X
	The communication with the lender has been polite or neutral.	X		X	X	X		X			X	X	
	The lender becomes pressuring when the deadline has come.	X											
	The borrower		X		X	X	X	X		X	X	X	

FROM FRIENDS TO FINANCES: ANALYZING HIGH-RISK LOANS IN SOCIAL MEDIA

	hasn't felt any pressure from the lender.												
	Asking for an extension was possible when paying back was not currently possible.	X					X						
	The borrower has had no issues with paying back the loan.		X	X	X	X		X			X		
Future outlook	The borrowers see themselves lending from FB if there should be a need.					X		X			X		
	The borrower doesn't want to borrow from FB in the future.	X	X	X	X		X		X			X	X

8.5 Annex E. The origin of the borrower interview questions

Main category	Related research question or hypothesis	Aim
Why do people use the Facebook group loan market?	Why do people lend from Facebook groups?	Getting an overview of what has led the borrowers to ask for loans from Facebook groups and are they showing signs of being in a debt spiral. Is the market prone to lead people into debt spiral.
Does the Facebook loan have other purposes than previous loans?	What are the purposes of Facebook loans?	Are Facebook loans purely for consumption or are the Facebook loans taken to finance previous loans.
What are the conditions of the FB loans and how the borrowers perceive the loans?	How is the loan conditions and interaction like in Facebook groups? What is the attitude of lenders and counselors regarding Facebook loans?	Are the borrowers there desperate - therefore vulnerable to predatory lending or the borrowers just use it because it is easy.
Future outlooks of the borrower in regards to lending from Facebook again.	What is the attitude of lenders and counselors regarding Facebook loans?	How do the borrowers view this market and their state of financial wellbeing?
Questions from previous studies		Adjusted questions for current study
What loans have you had during your life? (Espenberg et al., 2021) Any changes in borrowing behaviour over the past 12 months or so? Any informal borrowing e.g. from family/friends? (Finney & Davies, 2011)		Before turning to the FB group, have you asked for a loan elsewhere, e.g. from formal lenders or family or friends?
What caused the need for a loan? Would there have been any alternative? (Espenberg et al., 2021)		For what reason did you decide to ask for a loan from the FB loan group?
Who did you get the loan from (incl what made you decide who to borrow from)? (Espenberg et al., 2021) Did you acknowledge the risks involved in the economic steps you have taken prior to the debt problems? (Poppe, 2007)		Based on what conditions do you decide in favour of one or another loan?

FROM FRIENDS TO FINANCES: ANALYZING HIGH-RISK LOANS IN SOCIAL MEDIA

<p>When did you take out your first loan? (Espenberg et al., 2021) Applied for any additional credit in the last 12 months? (Finney & Davies, 2011)</p>	<p>How many times have you asked for a loan from the FB loan group? / How long have you been asking for a loan in the group?</p>
<p>How easy was it to get a loan? (Espenberg et al., 2021) Views about access to credit at the present time? (Finney & Davies, 2011)</p>	<p>How easy do you think it is to get a loan from the FB group?</p>
<p>What caused the need for a loan? (Espenberg et al., 2021) What is credit used for? (Finney & Davies, 2011)</p>	<p>What have you used the money borrowed from the FB group for? Is it different from your loans from other sources?</p>
<p>How did the debt problems affect your life style? (Poppe, 2007) If needed to cover a large unexpected expense, how would they find the money for this? (Finney & Davies, 2011)</p>	<p>How important are loans from FB groups for you? How would not getting a loan from the FB group affect you?</p>
<p>Aleem, 1990 Amount of monthly repayment? Views about cost of unsecured credit at the present time? (Finney & Davies, 2011)</p>	<p>Could you give examples of some loan sizes and how much you had to pay back and how soon?</p>
<p>Please tell us about your experience with a loan/lease/repayment when applying. How easy was it to get a loan? (Espenberg et al., 2021)</p>	<p>What information do lenders generally require from you?</p>
<p>Who did you get the loan from (incl what made you decide who to borrow from)? (Espenberg et al., 2021) Did you acknowledge the risks involved in the economic steps you have taken prior to the debt problems? (Poppe, 2007)</p>	<p>Would you also decline the loan offer if the amount requested back would be too high? What would that amount be?</p>
<p>Please tell us about your experience with a loan/lease/repayment when applying. (Espenberg et al., 2021)</p>	<p>How would you describe the interaction with lenders in FB loan groups?</p>
<p>Please tell us about your experience with a loan/lease/repayment when applying. (Espenberg et al., 2021) Do you think people in general look down on default-debtors? (Poppe, 2007)</p>	<p>In what ways have you felt unpleasant pressure or threats from lenders in FB groups?</p>
<p>How has the payment of the loan, installments, lease payments gone? Have there been situations where have you had</p>	<p>Have you been late or in default with the loan? If so, what were the consequences? If</p>

FROM FRIENDS TO FINANCES: ANALYZING HIGH-RISK LOANS IN SOCIAL MEDIA

<p>trouble returning them? (Espenberg et al., 2021) Do you think people in general look down on default-debtors? (Poppe, 2007) How easy/difficult to keep up with repayments? (Finney & Davies, 2011)</p>	<p>not, what do you think could be the consequences?</p>
<p>Are you planning to borrow again? (Espenberg et al., 2021) How do you see your future prospects? (Poppe, 2007) Views about likely credit use over the next 12 months or so? (Finney & Davies, 2011)</p>	<p>Would you see yourself borrowing from the FB group in the future? Why?</p>

9 References

- Agarwal, S., & Bos, M. (2019). Rationality in the Consumer Credit Market: Choosing between Alternative and Mainstream Credit. *Handbook of US Consumer Economics*, 121-139. <https://doi.org/10.1016/B978-0-12-813524-2.00005-6>
- Alam, N., & Getubig, M. (n.d.). *GUIDELINES FOR ESTABLISHING AND OPERATING GRAMEEN-STYLE MICROCREDIT PROGRAMS*. Grameen Trust and Grameen Foundation. Retrieved 15.04.2024, <https://grameenfoundation.org/documents/GrameenGuidelines.pdf>
- Aldohni, A. K. (2013). Loan Sharks v. Short-term Lenders: How Do the Law and Regulators Draw the Line? *Journal of Law and Society*, 40(3), 420-449. <https://www.jstor.org/stable/43862364>
- Aleem, I. (1990). Imperfect Information, Screening, and the Costs of Informal Lending: A Study of a Rural Credit Market in Pakistan. *The World Bank Economic Review*, 4(3), 329-349. <https://www.jstor.org/stable/3989880?seq=2>
- Allcott, H., Kim, J., Daubinsky, D., & Zinman, J. (2022). Are High-Interest Loans Predatory? Theory and Evidence from Payday Lending. *Review of Economic Studies*, 89, 1041-1084. <https://eds.p.ebscohost.com/eds/pdfviewer/pdfviewer?vid=0&sid=838b8f18-57fb-4246-aede-ea19135b9481%40redis>
- Badõkova, D. (2015). RAHA LAENUTEHINGUD VÄLJASPOOL PANGASÜSTEEMI EESTIS. *Sisekaiseakadeemia*. https://digiriitl.sisekaitse.ee/bitstream/handle/123456789/455/2015_Bad%C3%B5kov.a.pdf?sequence=1&isAllowed=y
- Banerjee, A., Duflo, E., Glennerster, R., & Kinnan, C. (2015). The Miracle of Microfinance? Evidence from a Randomized Evaluation. *American Economic Journal: Applied Economics*, 7(1), 22-53. <http://dx.doi.org/10.1257/app.20130533>
- BestCredit. (n.d.). *Väikelaen | Tagatiseta laen eraisikutele*. BestCredit. Retrieved 15.04.2024, from <https://www.bestcredit.ee/et/vaikelaen>
- Bondora. (n.d.). *Bondora*. Bondora. Retrieved 15.04.2024, from <https://www.bondora.ee/et/Home/Index/?noredirect=True>
- Brown, S., Taylor, K., & Price, S. W. (2005). Debt and distress: Evaluating the psychological cost of credit. *Journal of Economic Psychology*, 26(5), 642-663. <https://www.sciencedirect.com/science/article/pii/S0167487005000103>
- Carr, J. H., & Schuetz, J. (2001). Financial Services in Distressed Communities: Framing the Issue, Finding Solutions. *Progressive Policy Institute*. https://www.researchgate.net/profile/Jenny-Schuetz/publication/242273438_Framing_the_Issue_Finding_Solutions/links/56a0f63808aed9f4ef513932/Framing-the-Issue-Finding-Solutions.pdf
- Cassis, Y., De Luca, G., & Florio, M. (Eds.). (2016). *Infrastructure Finance in Europe: Insights Into the History of Water, Transport, and Telecommunications*. Oxford University Press.
- Chaffee, E. C., & Rapp, G. C. (2012). Regulating Online Peer-to-Peer Lending in the Aftermath of Dodd–Frank: In Search of an Evolving Regulatory Regime for an Evolving Industry. *Washington and Lee Law Review*, 69(2), 485. <https://scholarlycommons.law.wlu.edu/wlulr/vol69/iss2/4>
- Chen, V. (2020). ONLINE PAYDAY LENDERS: TRUSTED FRIENDS OR DEBT TRAPS? *UNSW Law Journal*, 43(2), 674-706. <https://www.unswlawjournal.unsw.edu.au/wp-content/uploads/2020/06/10-VIVIEN-CHEN.pdf>

FROM FRIENDS TO FINANCES: ANALYZING HIGH-RISK LOANS IN SOCIAL MEDIA

- Citadele pank. (n.d.). *Väikelaen summas 1000 – 20 000 eurot*. Citadele pank. Retrieved 15.04.2024, from <https://www.citadele.ee/et/private/consumer/>
- CONSUMER FINANCIAL PROTECTION BUREAU. (2022). *Buy Now, Pay Later: Market trends and consumer impacts*. CONSUMER FINANCIAL PROTECTION BUREAU. https://files.consumerfinance.gov/f/documents/cfpb_buy-now-pay-later-market-trends-consumer-impacts_report_2022-09.pdf
- Coop Pank. (n.d.). *Väikelaen - sobiv lahendus kulude katmiseks*. Coop Pank. Retrieved 15.04.2024, from <https://www.cooppank.ee/vaikelaen>
- Credit24. (n.d.). *Väikelaen*. Credit24. Retrieved 15.04.2024, from <https://credit24.ee/vaikelaen/>
- Cynamon, B. Z., & Fazzari, S. M. (2013). The end of the consumer age. *After the Great Recession: The Struggle for Economic Recovery and Growth*, 129-157. https://books.google.ee/books?hl=en&lr=&id=wrSRnqbjJNwC&oi=fnd&pg=PA129&dq=The+end+of+the+consumer+age+cynamon&ots=qDoEYKx3YG&sig=0YRHB Sf5KQbyJgHB6WOHm7I-dKM&redir_esc=y#v=onepage&q=The%20end%20of%20the%20consumer%20age%20cynamon&f=false
- de Bruijn, E.-J., & Antonides, G. (2020). Determinants of financial worry and rumination. *Journal of Economic Psychology*, 76. <https://www.sciencedirect.com/science/article/pii/S0167487019301679?via%3Dihub>
- de Roure, C., Pelizzon, L., & Tasca, P. (2016). How Does P2P Lending Fit Into the Consumer Credit Market? *Bundesbank Discussion Paper*, 30. <https://deliverypdf.ssrn.com/delivery.php?ID=492099070121005114118084098069068102064038020065064007072007043100062026063021105040127119111125048092090067005112122083024067018060064089071113006121089117003011087030126005104127113068079113022006084004002097&>
- Di Maggio, M., Williams, E., & Katz, J. (2022). BUY NOW, PAY LATER CREDIT: USER CHARACTERISTICS AND EFFECTS ON SPENDING PATTERNS. *NBER WORKING PAPER SERIES*, 30508. <http://www.nber.org/papers/w30508>
- Dunkelberg, W. C. (1989). Analyzing Consumer Spending and Debt. *Business Economics*, 24(3), 17-22. <https://www.jstor.org/stable/23485794>
- Durkin, T. A., Elliehausen, G., Staten, M. E., & Zywicki, T. J. (2014). *Consumer Credit and the American Economy*. Oxford University Press. https://books.google.ee/books?hl=en&lr=&id=p0NeBAAAQBAJ&oi=fnd&pg=PP1&dq=importance+of+consumer+credit&ots=a5wWC5-nbQ&sig=NLe2Ddq8kJTigTgi2BuAkVFGTjk&redir_esc=y#v=onepage&q=importance%20of%20consumer%20credit&f=false
- Eesti Pank. (2023a). *Eesti leibkondade varad ja kohustused: 2021. aasta uuringu tulemused*. Eesti Pank. Retrieved 23.04.2024, from https://haldus.eestipank.ee/sites/default/files/2023-05/ep_tm_1_2023.pdf
- Eesti Pank. (2023b). *Eraisikutele antud tarbimislaenude krediidi kulukuse määr*. Eesti Pank. Retrieved on 20.05.2024, from <https://statistika.eestipank.ee/#/et/p/147/r/2273/2102>
- Espenberg, S., Pulk, K., Riitsalu, L., Trankmann, S., Krillo, K., & Kõve, V. (2021). *Krediidituru uuring*. Rahandusministeerium. <https://www.fin.ee/media/5824/download>
- European Banking Authority. (2023). *EBA CONSUMER TRENDS REPORT 2022/23*. European Banking Authority. https://www.eba.europa.eu/sites/default/files/document_library/Publications/Reports/2023/1054879/Consumer%20Trends%20Report%202022-2023.pdf
- European Central Bank. (2024a). *Loans*. ECB Data Portal. Retrieved 23.04.2024, from

FROM FRIENDS TO FINANCES: ANALYZING HIGH-RISK LOANS IN SOCIAL MEDIA

- <https://data.ecb.europa.eu/main-figures/bank-interest-rates/loans>
European Central Bank. (2024b). *All glossary entries*. European Central Bank. Retrieved 07.04.2024, from <https://www.ecb.europa.eu/services/glossary/html/glossc.en.html>
- Federal Reserve Board. (2023). Economic Well-Being of U.S. Households in 2022. *Federal Reserve Board*. <https://www.federalreserve.gov/publications/files/2022-report-economic-well-being-us-households-202305.pdf>
- Feigenberg, B., Field, E. M., & Pande, R. (2010). BUILDING SOCIAL CAPITAL THROUGH MICROFINANCE. *NBER WORKING PAPER SERIES, 16018*. <http://www.nber.org/papers/w16018>
- Fernández-López, S., Castro-González, S., Rey-Ares, L., & Rodeiro-Pazos, D. (2024). Self-control and debt decisions relationship: evidence for different credit options. *Current Psychology, 43*, 340–357. <https://doi.org/10.1007/s12144-023-04251-7>
- Finantsinspektsioon. (15.11.2018). *Tarbimislaenude maht kasvas varasemast veelgi tempokamalt*. Finantsinspektsioon. Retrieved 07.04.2024, from <https://fi.ee/et/uudised/tarbimislaenude-maht-kasvas-varasemast-veelgi-tempokamalt>
- Finantsinspektsioon. (13.08.2019). *Tarbimiskrediit*. Minuraha. Retrieved 07.04.2024, from <https://www.minuraha.ee/et/tarbimiskrediit>
- Finantsinspektsioon. (11.04.2023). Märgukiri - Krediidi kulukuse määra ülempiiri järgimine lepingutes, millega võimaldatakse krediit korduvalt kasutusse võtta. *Finantsinspektsioon*. <https://www.fi.ee/sites/default/files/2023-04/Krediidi%20kulukuse%20m%C3%A4%C3%A4ra%20%C3%BClempiiri%20j%C3%A4rgimine%20lepingutes.pdf>
- Finantsinspektsioon. (01.03.2024a). *Krediidiandjate Eestis väljastatud tarbijakrediidi jääk (tuhat eurot)*. Finantsinspektsioon. Retrieved 15.05.2024, from <https://statistika.fi.ee/fistar/#/et/p/4270/r/4418/4147>
- Finantsinspektsioon. (01.03.2024b). *Krediidiandjate Eestis väljastatud tarbijakrediidi käive (tuhat eurot)*. Finantsinspektsioon. Retrieved 07.04.2024, from <https://statistika.fi.ee/fistar/#/et/p/4270/r/4322/4050>
- Finney, A. & Davies, S. (2011). Facing the Squeeze 2011 A qualitative study of household finances and access to credit. *Personal Finance Research Centre University of Bristol*. <https://www.bristol.ac.uk/media-library/sites/geography/migrated/documents/pfrc1110.pdf>
- Garfinkle, S. J. (2004). Shepherds, Merchants, and Credit: Some Observations on Lending Practices in Ur III Mesopotamia. *Journal of the Economic and Social History of the Orient, 47*(1), 1-30. <https://www.jstor.org/stable/25165020>
- Gloukoviezoff, G. (2007). From Financial Exclusion to Overindebtedness: the Paradox of Difficulties for People on Low Incomes? *New Frontiers in Banking Services, 213-245*. 10.1007/978-3-540-46498-3_6
- Graeber, D. (2011). *Debt: The First 5,000 Years*. Melville House. https://warwick.ac.uk/fac/arts/english/currentstudents/undergraduate/modules/fulllist/special/statesofdamage/syllabus201516/graeber-debt_the_first_5000_years.pdf
- Grohmann, A., & Hamdan, J. S. (2021). The Effect of Self-Control and Financial Literacy on Impulsive Borrowing: Experimental Evidence. *DIW Discussion Papers, 1950*. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3864924
- Guttman-Kenney, B., Firth, C., & Gathergood, J. (2023). Buy now, pay later (BNPL) ...on your credit card. *Journal of Behavioral and Experimental Finance, 37*. <https://doi.org/10.1016/j.jbef.2023.100788>
- Hayes, A. (23.05.2023). *Predatory Lending: How to Avoid, Examples and Protections*. Investopedia. Retrieved 16.04.2024, from https://www.investopedia.com/terms/p/predatory_lending.asp

FROM FRIENDS TO FINANCES: ANALYZING HIGH-RISK LOANS IN SOCIAL MEDIA

- Holm Bank. (n.d.). *Väikelaen Holm pangast - erinevateks plaanideks*. Holm Bank. Retrieved 15.04.2024, from <https://www.holmbank.ee/et/eraklient/laenuid/holm-vaikelaen>
- Justiitsministeerium. (10.12.2014). *Kiiralaenude sissenõudmiskulud saavad piirangud*. Justiitsministeerium. Retrieved 07.04.2024, from <https://www.just.ee/uudised/kiiralaenude-sissenoudmiskulud-saavad-piirangud>
- Kagan, J. (11.01.2024a). *What Is Peer-to-Peer (P2P) Lending? Definition and How It Works*. Investopedia. Retrieved 07.04.2024, from <https://www.investopedia.com/terms/p/peer-to-peer-lending.asp>
- Kagan, J. (25.02.2024b). *Microfinance Definition: Benefits, History, and How It Works*. Investopedia. Retrieved 11.04.2024, from <https://www.investopedia.com/terms/m/microfinance.asp>
- Kaplan, L. J., & Matteis, S. (1968). The Economics of Loansharking. *The American Journal of Economics and Sociology*, 27(3), 239-252. <https://www.jstor.org/stable/3485084>
- Karaivanov, A., & Kessler, A. (2016). A Friend in Need is a Friend Indeed? Theory and Evidence on the (Dis)Advantages of Informal Loans. *Simon Fraser University*. <https://www.sfu.ca/~akessler/wp/friends.pdf>
- Karger, H. J. (2004). Scamming the Poor - The Modern Fringe Economy. *The Social Policy Journal*, 3, 39-54. https://doi.org/10.1300/J185v03n01_04
- Kim, J. (2011). How modern banking originated: The London goldsmith-bankers' institutionalisation of trust. *Business History*, 53(6), 939-959. <http://dx.doi.org/10.1080/00076791.2011.578132>
- KPMG. (2016). Eesti tarbijakrediidituru olemus rahvusvahelises võrdluses. *Finance Estonia*. <https://financeestonia.ee/wp-content/uploads/2017/02/07.02.2017.pdf>
- Lamb, L. (2016). Financial exclusion and financial capabilities in Canada. *Journal of Financial Economic Policy*, 8(2), 212-227. 10.1108/JFEP-06-2015-0037
- Lang, K., Leong, K., Li, H., & Xu, H. (2022). Borrowing in an Illegal Market: Contracting with Loan Sharks. *The Review of Economics and Statistics*. https://doi.org/10.1162/rest_a_01246
- LHV. (n.d.). *Väikelaen*. LHV. Retrieved 15.04.2024, from <https://www.lhv.ee/et/vaikelaen>
- Li, J., Song, Q., Wu, Y., & Huang, B. (2021). The effects of online consumer credit on household consumption level and structure: Evidence from China. *The Journal of Consumer Affairs*, 55(4), 1614-1632. <https://doi.org/10.1111/joca.12390>
- Lillqvist, E., & Timonen, P. (2023). Cultural-affective process of market violence: Finnish instant loans in debtors' online narratives. *Consumption Markets & Culture*, 26(6), 403-422. 10.1080/10253866.2023.2224230
- Lim, Y., Bickham, T., Dinecola, C. M., Broussard, J., Weber, B. E., & Gregory, A. (2014). Payday Loan Use and Consumer Well-Being: What Consumers and Social Workers Need to Know About Payday Loans. *Journal of Poverty*, 18(4). <https://www.tandfonline.com/doi/full/10.1080/10875549.2014.951906>
- Lindgren, H. (2017). Parish banking in informal credit markets: the business of private lending in early nineteenth-century Sweden. *Financial History Review*, 24(1). <https://www.cambridge.org/core/journals/financial-history-review/article/parish-banking-in-informal-credit-markets-the-business-of-private-lending-in-early-nineteenthcentury-sweden/2F051A556FD7DA3FFBE06852A0F88B0D>
- Logan, A., & Weller, C. E. (2009). Who Borrows From Payday Lenders? An Analysis of Newly Available Data. *Center for American Progress*. https://www.researchgate.net/publication/240613381_Who_Borrows_From_Payday_Lenders_An_Analysis_of_Newly_Available_Data
- Lorenzini, M., Lorandini, C., & Coffman, D. (Eds.). (2018). *Financing in Europe: Evolution,*

FROM FRIENDS TO FINANCES: ANALYZING HIGH-RISK LOANS IN SOCIAL MEDIA

- Coexistence and Complementarity of Lending Practices from the Middle Ages to Modern Times*. Springer International Publishing.
https://books.google.ee/books?hl=en&lr=&id=kQhNDwAAQBAJ&oi=fnd&pg=PR7&dq=lending+middle+ages&ots=XWz3JGcQqK&sig=Yj9ngDRBz8h7EcMe6LXxJ4yJC6g&redir_esc=y#v=onepage&q=lending%20middle%20ages&f=false
- Lowry, T. D. (2019). Biting the (Loan) Sharks: Why the Truth in Lending Act Currently Fails in Its Goal to Promote Well-Informed Consumer Credit Decisions, and How Greater Allowance of Statutory Damages May Improve Its Effectiveness. *Iowa Law Review*, 105, 827.
https://heinonline.org/HOL/Page?collection=journals&handle=hein.journals/ilr105&id=846&men_tab=srchresults
- Luther, J. (2020). TWENTY-FIRST CENTURY FINANCIAL REGULATION: P2P LENDING, FINTECH, AND THE ARGUMENT FOR A SPECIAL PURPOSE FINTECH CHARTER APPROACH. *University of Pennsylvania Law Review*, 168(4), 1019. <https://www.jstor.org/stable/45467516>
- Majandus- ja kommunikatsiooni ministeerium. (2014). *Kiiralaenu turg- analüüs ja ettepanekud*.
- Mayer, R. (2012). Loan Sharks, Interest-Rate Caps, and Deregulation. *Regulation in the Fringe Economy Symposium*, 69(2), 807-848.
https://heinonline.org/HOL/Page?collection=journals&handle=hein.journals/waslee69&id=811&men_tab=srchresults
- McIntosh, M. K. (1988). Money Lending on the Periphery of London, 1300-1600. *Albion: A Quarterly Journal Concerned with British Studies*, 20(4), 557-571.
<https://doi.org/10.2307/4050197>
- Mendenhall, S. M. (2007). Payday Loans: The Effects of Predatory Lending on Society and the Need for More State and Federal Regulation. *Oklahoma City University Law Review*, 32(2), 299-332.
<https://heinonline.org/HOL/Page?handle=hein.journals/okcu32&div=18>
- Milne, A., & Parboteeah, P. (2016). The Business Models and Economics of Peer-to-Peer Lending. *European Credit Research Institute*.
https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2763682
- Modena. (n.d.). *Väikelaen*. Modena. Retrieved 15.04.2024, from <https://web.modena.ee/vaikelaen-modena/>
- Moneyzen. (n.d.). *Laenud ootamatute kulutuste katmiseks*. Moneyzen. Retrieved 15.04.2024, from <https://moneyzen.eu/laenud/>
- Muldrew, C. (1998). *The economy of obligation : the culture of credit and social relations in early modern England*. Palgrave Macmillan.
https://books.google.ee/books?hl=en&lr=&id=Lz2_DAAAQBAJ&oi=fnd&pg=PR11&ots=jDF5L0euXj&sig=aldA33m6YWU2oOv4yGKC3bz-Jh4&redir_esc=y#v=onepage&q&f=false
- Nagarajan, K. V. (2011). The Code of Hammurabi: An Economic Interpretation. *International Journal of Business and Social Science*, 2(8). <https://uruk-warka.dk/news/09-2014%20Specail/Hammurabi%20paper.pdf>
- Nuñez, S., Schaberg, K., Hendra, R., Servon, L., Addo, M., & Mapillero-Colomina, A. (2016). Online Payday and Installment Loans: Who Uses Them and Why? *MDRC*. https://mdrc.org/sites/default/files/online_payday_2016_FR.pdf
- Ofir, M., & Tzang, I. (2022). An Empirical View of Peer-to-Peer (P2P) Lending Platforms. *Berkeley Business Law Journal*, 19, 175.
https://heinonline.org/HOL/Page?collection=journals&handle=hein.journals/berkbuj19&id=182&men_tab=srchresults

FROM FRIENDS TO FINANCES: ANALYZING HIGH-RISK LOANS IN SOCIAL MEDIA

- Oksanen, A., Aaltonen, M., Rantala, K. (2015). Social Determinants of Debt Problems in a Nordic Welfare State: a Finnish Register-Based Study. *Journal of Consumer Policy*, 38(3), 229–246. <https://doi.org/10.1007/s10603-015-9294-4>
- O’Loughlin, D., & Szmigin, I. (2006). “I’ll always be in debt”: Irish and UK student behaviour in a credit led environment. *Journal of Consumer Marketing*, 23(6), 335-343. [10.1108/07363760610701878](https://doi.org/10.1108/07363760610701878)
- Olev, A., Alumäe, T. (2022). "Estonian Speech Recognition and Transcription Editing Service" *Baltic HLT*.
- Poppe, C. (2007). INTO THE DEBT QUAGMIRE How Defaulters cope with Severe Debt Problems. *University of Oslo*, 124. https://www.duo.uio.no/bitstream/handle/10852/15256/124_Poppe_trykkefil.pdf?sequence=1&isAllowed=y
- PWC. (2015). Peer pressure - How peer-to-peer lending platforms are transforming the consumer lending industry. *PWC - Consumer finance*. <https://www.pwc.com/us/en/consumer-finance/publications/assets/peer-to-peer-lending.pdf>
- Raha24. (n.d.). *Väikelaen*. Raha24. Retrieved 15.04.2024, from https://raha24.ee/et/laenuid/vaikelaen/?gad_source=1&gclid=CjwKCAjwoPOwBhAeEiwAJuXRh7rSgQ0WGJObhHkA0qJ3HV8F1NZkQJcxxK8RWeFRQ7i-EayzfcNa-BoCZDkQAvD_BwE
- Riigikogu kantselei õigus- ja analüüsiosakond. (2013). *Kiiralaenuid – olemus, probleemid ja reguleerimisvõimalused* (Vol. 21). https://www.riigikogu.ee/wpcms/wp-content/uploads/2015/01/Teemaleht_21_2013.pdf
- Rona-Tas, A., & Guseva, A. (2018). Consumer Credit in Comparative Perspective. *Annual Review of Sociology*, 44, 55-75. <https://www.jstor.org/stable/44863926?seq=7>
- Ryan, A., Trumbull, G., & Tufano, P. (2011). A Brief Postwar History of U.S. Consumer Finance. *Business History Review*, 85(3), 461-498. <https://doi.org/10.1017/S0007680511000778>
- Scott, R., & Pressman, S. (2013). Household debt and income distribution. *Journal of economic issues*, 47(2), 323-331. <https://www.jstor.org/stable/41999627>
- SEB. (n.d.). *Väikelaen*. SEB. Retrieved 15.04.2024, from <https://www.seb.ee/eraklient/laenuid/vaikelaen#oluline-teave>
- Sein, K., & Volens, U. (2014). Legal Problems and Regulations Related to Easy-Access Non-Secured Consumer Loans in Estonia. *Juridica International*, 22, 120-137. <https://heinonline.org/HOL/Page?handle=hein.journals/jurdint22&id=121&collection=journals&index=>
- Signal, L., Lanumata, T., & Bowers, S. (2012). Punching loan sharks on the nose: effective interventions to reduce financial hardship in New Zealand. *Health Promotion Journal of Australia*, 23(2), 108-111. <https://doi.org/10.1071/HE12108>
- Skiba, P. M. (2014). Regulation of Payday Loans: Misguided Regulation in the Fringe Economy Symposium. *Washington and Lee Law Review*, 69, 1021-1050. <https://heinonline.org/HOL/Page?handle=hein.journals/waslee69&id=1027&collection=journals&index=>
- Smsraha. (n.d.). *Tagatiseta väikelaen kuni 10000€*. Smsraha. Retrieved 15.04.2024, from <https://smsraha.ee/vaikelaen>
- Soudijn, M. R. J., & Zhang, S. X. (2013). Taking loan sharking into account: a case study of Chinese vest-pocket lenders in Holland. *Trends in Organized Crime*, 16, 13-30. <https://link.springer.com/article/10.1007/s12117-012-9155-3#Sec8>
- Spotton Visano, B. (2008). Different and Unequal: Payday Loans and Microcredit in Canada.

FROM FRIENDS TO FINANCES: ANALYZING HIGH-RISK LOANS IN SOCIAL MEDIA

- The Journal of Economic Asymmetries*, 5(1), 109-123.
<https://www.sciencedirect.com/science/article/pii/S1703494915303340>
- Swedbank. (n.d.). *Väikelaen*. Swedbank. Retrieved 15.04.2024, from
<https://swedbank.ee/private/credit/loans/newSmall?language=EST>
- Vause, E. (2017). A subject of interest: usurers on trial in early nineteenth-century France. *Financial History Review*, 24(1). <https://www.cambridge.org/core/journals/financial-history-review/article/subject-of-interest-usurers-on-trial-in-early-nineteenthcentury-france/E66559CAD37D4905DABF2EE3E482D0CF>
- Vella, M. G., & Mintoff, Y. (2023). Usury: Causes and Impact on Wellbeing. *Studies in Social Wellbeing*, 2(1), 7-19. <https://www.um.edu.mt/ssw>
- Visser, W. A. M., & MacIntosh, A. (1998). A short review of the historical critique of usury. *Accounting, Business and Financial History*, 8(2), 175-189.
<https://www.tandfonline.com/doi/epdf/10.1080/095852098330503?needAccess=true>
- WHO. (2002). *World report on violence and health*. World Health Organization.
https://iris.who.int/bitstream/handle/10665/42495/9241545615_eng.pdf?sequence=1&isAllowed=y
- Witt, E. (2014). Shackled human aspects of predatory money-lending: how vulnerability to loan sharks arises in the United Kingdom. *University of East London*.
https://web.archive.org/web/20210726213610id_/https://repository.uel.ac.uk/download/ef60607c176999f3503f60fd3392b37c818bbd87f54f0064e74207d8af1aa953/12116278/2021_PhD_Witt.pdf
- Xiang, Y., Fang, X., & Wang, Z. (2024). Disparity and discrimination in consumer credit markets: Evidence from online peer-to-peer lending. *Pacific-Basin Finance Journal*, (83). <https://pdf.sciencedirectassets.com/271698/1-s2.0-S0927538X23X00067/1-s2.0-S0927538X23003086/main.pdf?X-Amz-Security-Token=IQoJb3JpZ2luX2VjEDgaCXVzLWVhc3QtMSJHMEUCIEHgYWIFFQzZPH0ALQORg5XD4vKC9iGE8Xx%2BQBRa7sEWAiEA9lg6e3OHeaCw39xZMfLCaNb96if7ruT%2BlMAWw2rpi>
- Xiao, J. J., Yan, C., Bialowolski, P., & Porto, N. (2021). Consumer debt holding, income and happiness: evidence from China. *International Journal of Bank Marketing*, 39(5).
<https://www.emerald.com/insight/content/doi/10.1108/IJBM-08-2020-0422/full/html>

10 Resümee

“Sõprussuhetest finantsideni: kõrge riskiga sotsiaalmeedia laenude uurimine”

Facebooki laenugrupid on Eestis muutumas populaarseteks platvormideks, mis võimaldavad eraisikutel taotleda ja anda eralaene. Kuid selle mitteametliku laenuturu toimimise ja omaduste kohta on vähe uuritud. Käesolev lõputöö uurib Facebooki laenugruppe laenusaaajate ja võlanõustajate intervjuude kaudu, et kirjeldada selle laenuturu omadusi ja suhtumisi sellesse. Selgus, et need grupid on paljude laenusaaajate jaoks viimane saadaval olev laenu allikas, pakkudes neile laene ülikõrgete intressimääradega. Siiski valivad mõned inimesed Facebooki laenuturu ka ajasäästu ja lihtsama halduse tõttu. Üldiselt oli enamikul laenusaaajatel ja kõigil võlanõustajatel Facebooki laenugruppide suhtes negatiivne hoiak. Käesoleva lõputöö tulemused võivad anda aluse riiklikele institutsioonidele, et hinnata ja lahendada selle mitteametliku laenuturuga seotud riske.

FROM FRIENDS TO FINANCES: ANALYZING HIGH-RISK LOANS IN SOCIAL MEDIA

Lihtlitsents lõputöö reprodutseerimiseks ja üldsusele kättesaadavaks tegemiseks

Mina, Laura Inno (sünniaeg: 10.08.1999),

1. annan käesolevaga Tartu Ülikoolile tasuta loa (lihtlitsentsi) oma töö FROM FRIENDS TO FINANCES: ANALYZING HIGH-RISK LOANS IN SOCIAL MEDIA, mille juhendaja oli Kristjan Pulk,

1.1. reprodutseerimiseks säilitamise eesmärgiga, sealhulgas lisada digitaalarhiivi DSpace kuni autoriõiguse kehtivuse lõppemiseni ja

1.2. teha avalikkusele kättesaadavaks Tartu Ülikooli veebikeskkonna, sealhulgas digitaalarhiivi DSpace kaudu, kuni autoriõiguse kehtivusaja lõpuni,

2. Olen teadlik asjaolust, et need õigused jäävad alles ka autorile.

3. Kinnitan, et lihtlitsentsi andmisega ei riku ma teiste isikute intellektuaalomandi ega isikuandmete kaitse õigusaktidest tulenevaid õigusi.

Tartu, 21.05.2024