

THE SOCIO-ECONOMIC IMPACT OF ONLINE LOANS ON LOW-INCOME COMMUNITIES IN MEDAN CITY

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ABSTRACT

This study aims to analyze the socioeconomic impact of online lending and identify factors that encourage low-income communities to use online loans in Medan City. The study employed a qualitative approach with purposive sampling. Data were collected through in-depth interviews, observations, and documentation of low-income communities using online lending services. Data were then analyzed descriptively through data reduction, data presentation, and conclusion drawing. The results indicate that online loans provide short-term benefits in the form of easy access to funds to meet urgent needs and help overcome limited access to formal financial institutions. However, in the long term, online loans have economic impacts in the form of increased debt burdens, high interest rates and additional fees, and reduced economic capacity. From a social perspective, the use of online loans triggers conflict within families, reduces the quality of social relationships, and causes psychological stress due to aggressive debt collection practices. The main factors driving people to use online loans include urgent economic needs, ease of application, simple requirements, low financial literacy, and environmental and lifestyle influences. It is concluded that although online loans can be a temporary financial solution, their use also has significant socioeconomic impacts, necessitating increased financial literacy and oversight of online loan providers to protect low-income communities.

Keywords: Online loans; Social impact; Economic impact; Low-income communities; Financial literacy.

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INTRODUCTION

The development of digital technology has driven a significant transformation in the financial services sector in Indonesia. One rapidly growing innovation is online lending services (financial technology lending), which make it easier for people to obtain funds quickly through digital platforms. Compared to conventional financial institutions, online loans offer a simpler application process, less stringent requirements, and faster disbursement of funds. According to Wahyudi (2019), the ease of procedures, speedy processing, and the lack of collateral required have made online loans increasingly popular, especially for those in urgent need of funds. This development has accelerated since the issuance of the Financial Services Authority Regulation concerning peer-to-peer lending. Sastradinata (2020) explains that the increasingly widespread development of information technology has accelerated the growth of digital financial services in Indonesia. However, Sastradinata (2020) emphasizes that this development is like "drinking honey and poison," because while providing easy access to financing, it also presents various risks for the public if not accompanied by adequate financial literacy.

The phenomenon of online lending has increased since the COVID-19 pandemic, which has led to a decline in people's incomes and increased economic needs. This situation has encouraged people, particularly low-income groups, to utilize online loans as a solution to meet urgent needs. Medan City is one of the areas experiencing an increase in online lending use because many people still have limited access to formal financial institutions. Behind this convenience, the use of online loans also has various social and economic consequences. High interest rates, lack of transparency in additional fees, and aggressive debt collection systems make it difficult for some people to meet their repayment obligations. Todaro and Smith (2020) state that poorly managed debt can hinder household asset accumulation and slow economic mobility. Furthermore, Mader (2018) explains that intensive digital debt collection systems can cause psychological stress, especially for those in vulnerable economic situations. Roy (2022) even notes that among the urban poor, a significant portion of household income is used to repay debt, reinforcing the cycle of poverty.

Based on Behavioral Economics Theory, a person's decision to use an online loan is not always based on rational considerations, but is also influenced by limited information, economic pressures, and low financial literacy. Similarly, Bateman (2023) asserts that financial literacy is a key instrument for reducing exploitative financial practices. Furthermore, the Financial Services Authority (OJK) (2021) emphasizes the importance of setting interest rates based on the principle of affordability to avoid burdening low-income communities. Several previous studies have shown that the use of online loans has complex impacts. Evalina Pakpahan (2024) found that loan frequency influences increased household expenditures. Fatmawati (2025) concluded that illegal online loans cause psychological stress and economic burden due to high interest rates. Research by Jolita Neus Dopin (2024) also showed that online loans do help meet urgent needs, but they also impact consumption patterns and disrupt financial stability. However, research specifically examining the social and economic impacts of online loan use on low-income communities in Medan City is still limited, requiring more in-depth research.

Based on this description, this study aims to analyze the social and economic impacts of online lending on low-income communities in Medan City and identify factors that encourage them to use online lending services. The results are expected to serve as a reference for developing scientific knowledge, improving public financial literacy, and providing the government with a basis for strengthening oversight of online lending providers to protect the public from the various negative impacts they may cause.

RESEARCH METHODS

This study used a qualitative approach with descriptive research to analyze the social and economic impacts of online lending on low-income communities in Medan City. According to Sugiyono (2017), qualitative research aims to understand phenomena in their natural state, with the researcher as the primary instrument. The study was conducted in Medan City, North Sumatra Province, chosen due to its high use of online lending, particularly among communities with limited access to formal financial services. Research informants were selected using purposive sampling techniques. These included low-income residents residing in Medan City who had used online lending services, experienced the impacts of their use, and were willing to provide information as needed (Sugiyono, 2017). The research data consisted of primary and secondary data. Primary data was obtained through in-depth interviews and observation, while secondary data was obtained from books,

scientific journals, documents, and various related literature. Data collection techniques included interviews, observation, documentation, and literature review. Data analysis was conducted using qualitative descriptive methods, describing the data obtained to provide an overview of the social and economic impacts of online lending on low-income communities. Descriptive analysis is used to present data systematically without generalizing, as stated by Sugiyono (2017). To ensure data validity, the study employed source triangulation and technique triangulation, as stated by Sugiyono (2019), ensuring the data obtained is credible and accountable.

RESULTS AND DISCUSSION

Characteristics of Respondents Based on Gender

The following is data collection carried out via a Google Form questionnaire based on the gender of 16 respondents, the results obtained are as in the following diagram:

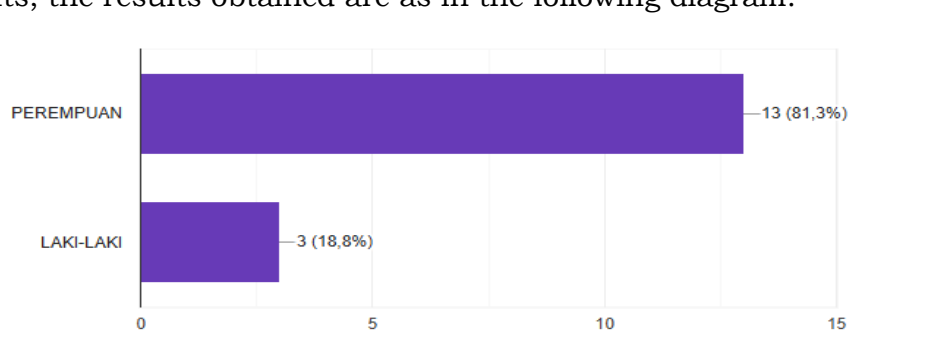


Figure 1. Graph of Respondent Characteristics Based on Gender

Based on the results of the questionnaire distributed to 16 respondents, data showed that the majority of respondents were women, amounting to 13 people, equivalent to 81.3% of the total. Meanwhile, only three men, or approximately 18.8%, were male. This quantitative composition demonstrates the dominant participation of women in completing the questionnaire.

Economic Impact of Online Loans

- Positive Impact:** Offers fast and easy access to funds without formal banking bureaucracy (disbursed within minutes using only an ID card and mobile phone), supports micro-scale productive economic activities (food business capital, mobile phone credit, online retail), and encourages digital financial inclusion for low-income (unbanked) communities.
- Negative Impact:** High daily interest charges (0.4–0.8% per day) and accumulated fines that can multiply the principal debt; creates a debt trap phenomenon where 70% of respondents engage in the practice of digging a hole to cover a hole; reduces household purchasing power due to the diversion of income allocation for installments; triggers the loss of productive/valuable assets due to being forced to sell for repayment; and lacks system transparency due to unilateral upfront deductions and unclear interest details.

Social Impact of Online Loan Use

- Positive Impact:** Increases temporary financial independence to meet emergency needs without relying on relatives/conventional loan sharks, and expands the community's digital social network literacy regarding the use of financial technology.
- Negative Impact:** Causes psychological distress and severe stress due to aggressive debt collection methods (intimidation, threats of data disclosure); triggers domestic/household conflict due to the loss of financial trust between partners; creates social stigma and a decline in self-image in the community; triggers legal violations in the form of misuse and distribution of users' personal data to mobile phone contact lists by illegal applications; and causes social isolation due to social withdrawal due to shame.

Loan Repayment Procedure

Technically, the repayment procedure is considered easy because it is facilitated by the application system through a virtual account (bank transfer, ATM, or retail outlet). However, the lack of an automatic debit system requires users to be highly disciplined in remembering due dates. Missed payments immediately trigger large daily fines and progressive interest accumulation, accompanied by intensive collection notifications.

Factors Influencing Online Loans

Respondents' decisions to use online lending services were dominated by urgent financial circumstances (force majeure), such as meeting electricity bills and children's education amid limited access to financial assistance from close relatives. The ease of administrative procedures and speed of disbursement of funds were the main determinants, leading users to forgo long-term risks (high interest rates and accumulated fines) in favor of solving immediate financial problems.

Impact of Online Loans on Low-Income Communities

The use of fintech lending has significant implications for the financial and psychosocial stability of low-income communities in Medan. Easy access to consumer features such as the Buy Now Pay Later (BNPL) method exploits people's spending habits. When payment defaults occur, illegal lenders often employ third-party services (debt collectors) who commit legal violations by illegally accessing personal data through the device's IMEI (such as photo galleries, social media accounts, emails, and phone contacts). Digital intimidation (cyberbullying) through the dissemination of personal data to the user's network of contacts is implemented to psychologically pressure victims to make immediate repayments. Sociologically, this practice damages social relationships, triggering anxiety, depression, and decreased work productivity. Economically, high interest accumulation (often exceeding 40% of the principal) and late fees (averaging IDR 50,000/day) are caused by low financial literacy among people who fail to pay attention to the legal terms and conditions of contracts. Uncertain tenor terms, manipulation of administrative fees, malfunctions in official application systems (such as those on the App Store/Play Store), and the threat of identity duplication for other applications further exacerbate the multi-dimensional losses experienced by customers.

Factors Driving Online Loan Use

The factors driving this exploitative online lending behavior are complex, involving the interaction of economic, social, and psychological variables:

- a. **Economic and Lifestyle Variables:** The gap between fixed income and the cost of living triggers the search for instant funds. However, the urban phenomenon in Medan City shows that even high-income individuals are trapped by online loans due to impulsive consumption and pressure to adopt a consumptive lifestyle (fashion trends, gadgets, and modern recreation) to meet social prestige standards.
- b. **Social Variables (Reference Groups):** In line with Griffin and Ebert's (2003) theory, reference groups (family, friends, coworkers) and social media exposure exert a strong normative influence. Testimonials of apparent success from close circles encourage others to replicate borrowing practices without calculating the risks.
- c. **Psychological Variables:** Borrowing decisions are influenced by motivational factors (real needs vs. symbolic needs/self-image), perception (the illusion of ease and speed of service), and impulsivity. The illusion of control makes borrowers feel capable of repaying their debts in the future, thus ignoring legal consequences, cumulative fines, and the threat of psychological terror from digital service providers.

CONCLUSIONS

Based on research involving 10–16 respondents from low-income communities in Medan City, the findings indicate that online loans have significant and complex socioeconomic impacts. Economically, online lending provides quick and convenient access to funds, particularly for individuals facing financial difficulties and urgent household expenses. However, this convenience often creates additional financial burdens, especially when borrowers encounter high interest rates, accumulated penalties, and hidden fees associated with illegal online lending services. These financial pressures reduce household purchasing power, limit productive consumption, increase the risk of default, and weaken overall economic stability. The findings also reveal that the primary factors encouraging low-income communities to use online loans include urgent financial needs, insufficient household income, simple application procedures, minimal administrative requirements, and rapid fund disbursement compared to conventional financial institutions. Furthermore, limited financial literacy, social influences, consumerist lifestyles, and easy access to digital lending platforms contribute to borrowing decisions without adequate consideration of long-term financial consequences. Overall, although online loans provide temporary financial assistance, their continued

use without proper financial management and awareness of associated risks increases economic vulnerability and threatens the financial well-being of low-income households in Medan City.

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